

Notice of Meeting

AUDIT AND STANDARDS COMMITTEE

Tuesday, 30 January 2024 - 7:00 pm
Council Chamber, Town Hall, Barking

Members: Cllr Princess Bright (Chair); Cllr Mohammed Khan (Deputy Chair); Cllr Dorothy Akwaboah, Cllr Josie Channer, Cllr Rocky Gill, Cllr Margaret Mullane, Cllr Adegboyega Oluwole and Cllr Muazzam Sandhu.

Independent Member (for audit matters only): Stephen Warren

By Invitation: Steve Blandon, Michael Asare Bediako and David Eagles (BDO)
Paul Dossett and Ibukun O Oluwasegun (Grant Thornton)

Date of publication: 22 January 2024

Fiona Taylor
Chief Executive

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AGENDA

- 1. Apologies for Absence**
- 2. Declarations of Interest**
- 3. Minutes - To confirm as correct the minutes of the meetings held on 4 October 2023 (Pages 3 - 11)**
- 4. Complaints Update (Pages 13 - 15)**
- 5. Council's Accounts Audit Update - 2019/20 - 2022/23**

Report to follow

6. Update from BDO on external audit delivery of Council Accounts 2019/20 - 2022/23

Report to follow

7. LBBD Audit Progress and Sector Update and Preventing Failures in Local Government- Grant Thornton, External Auditors (Pages 17 - 55)

8. Corporate Risk Management Report (Pages 57 - 62)

9. Internal Annual Audit Report 2022/23 (Pages 63 - 83)

10. Internal Audit Q3 (2023/24) Update (Pages 85 - 95)

11. Counter Fraud Q3 (2023/24) Update (Pages 97 - 104)

12. Work Programme 2023/24 (Page 105)

13. Any other public items which the Chair decides are urgent

14. 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.***

15. 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

- Residents are supported during the current Cost-of-Living Crisis;
- Residents are safe, protected, and supported at their most vulnerable;
- Residents live healthier, happier, independent lives for longer;
- Residents prosper from good education, skills development, and secure employment;
- Residents benefit from inclusive growth and regeneration;
- Residents live in, and play their part in creating, safer, cleaner, and greener neighbourhoods;
- Residents live in good housing and avoid becoming homeless.

To support the delivery of these priorities, the Council will:

- Work in partnership;
- Engage and facilitate co-production;
- Be evidence-led and data driven;
- Focus on prevention and early intervention;
- Provide value for money;
- Be strengths-based;
- Strengthen risk management and compliance;
- Adopt a “Health in all policies” approach.

The Council has also established the following three objectives that will underpin its approach to equality, diversity, equity and inclusion:

- Addressing structural inequality: activity aimed at addressing inequalities related to the wider determinants of health and wellbeing, including unemployment, debt, and safety;
- Providing leadership in the community: activity related to community leadership, including faith, cohesion and integration; building awareness within the community throughout programme of equalities events;
- Fair and transparent services: activity aimed at addressing workforce issues related to leadership, recruitment, retention, and staff experience; organisational policies and processes including use of Equality Impact Assessments, commissioning practices and approach to social value.

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Wednesday, 4 October 2023
(7:00 - 9:17 pm)

Present: Cllr Princess Bright (Chair), Cllr Mohammed Khan (Deputy Chair), Cllr Dorothy Akwaboah, Cllr Josie Channer, Cllr Rocky Gill, Cllr Adegboyega Oluwole and Cllr Muazzam Sandhu.

Apologies: Cllr Margaret Mullane, Stephen Warren and Tom Mulloy

8. Declarations of Interest

There were no declarations of interest.

9. Minutes (28 June 2023)

The minutes of the meeting held on 28 June 2023 were confirmed as correct.

10. Complaints Update

The Committee received and noted the Monitoring Officer's complaints update report.

11. Council's Accounts Audit Update - 2019/20, Subsidiaries' accounts audit - 2022/23 and Progress on Accounts Closure - 2022/23

The Section 151 Officer (S151) updated the Committee on the position relating to progress with the external audit of the Council's Accounts for 2019/20, the subsidiaries' 2022/23 Accounts together with the latest information regarding the 2022/23 Council's Accounts.

BDO had received all the necessary information by the end of July 2023 to allow them to complete their fieldwork for the 2019/20 accounts within the first week of their renewed audit visit (w/c 4 September 2023) which included responses to outstanding PPE queries and detailed working papers to address the national issue of Infrastructure Assets. Unfortunately, the audit did not resume on that date due to BDO prioritising its NHS audit overruns to those of the Council. Following a Teams meeting with BDO representatives there were no finalised plans agreed at that time as to when the audit of the 2019/20 Accounts would resume. Accordingly, BDO intended to address the matter in their update report (*see minute 12 below*).

Turning to the subsidiaries it was noted that they were required to have their accounts signed off and filed with Companies House by 31 December 2023. Assuming this deadline was met officers were intending to report to Committee on the final and audited outturn for each subsidiary early in the New Year.

Moving forward the draft Statement of Council Accounts 2022/23 had been completed with the Group Accounts to be completed as soon as the audits of the subsidiaries as reported above were concluded.

The S151 Officer reported that the DLUHC were working with the National Audit Organisation (NAO) to propose a workable solution to help reduce the backlog of outstanding audits across the country up until 2022/23 and to enable auditors to move onto auditing the most up to date financial information. How that will work in practice had yet to be confirmed by Government. The S151 Officer would like the 2019/20 accounts to be signed off before the implementation of the backstop solution as the audit of these accounts was substantially complete and therefore an audit opinion could be issued in the normal way. As the audit work had been completed the Council would be required to pay substantial fees and it would not represent value-for-money for the local taxpayer for this process to be set aside by a new arrangement which would result in a qualified audit opinion in some way.

In response to Members questions the S151 Officer explained the reasoning behind completing the 2022/23 Accounts ahead of the completion & findings from the auditing of the 2019/20 accounts. In short there were two stages of the accounts, the first being the publication of the draft accounts followed by the external audit. The problem lied with the auditing of accounts which had been subject to significant delays over the past years, and which had been well documented at this Committee. The 2022/23 accounts had been ready to publish for some time, but a decision was taken not to publish them as it was not known whether the findings from the 2019/20 audit would impact them.

The S151 Officer also provided more detail and an understanding of the government backlog solution which BDO would talk about in their update report.

Despite the explanations and reasons provided about the delays with the Accounts the Committee put on record its concerns about the delays in completing the audits, a situation which in their view was totally unacceptable. Putting the costs to one side, it left Members with little confidence that matters would be resolved anytime soon.

The Committee **NOTED** the report.

12. Update on External Audit Delivery

The BDO representative updated the Committee on the status of the 2019/20 audit of the Council's Accounts and proposals regarding the delivery of the audits of the Statement of Accounts for the 2020/21, 2021/22 and 2022/23 financial years.

By way of background the BDO representative recalled previous progress reports brought before the Committee since March 2022 in respect of the various stages of the 2019/20 audit. Although the Council published its draft Accounts for 2019/20 in August 2020, these could not be progressed by BDO as there were a significant number of outstanding issues as detailed in the report as well as the absence of complete and accurate Group Accounts and supporting working papers for audit purposes. Alongside these issues there were resourcing challenges for BDO (unplanned long-term sickness and staff resignations) which had contributed to the delay in progressing the audit, and which had previously been reported to Members as well as discussed separately with the Chair, the Independent Member and the then Section 151 Officer and Chief Accounting Officer (CAO).

On a positive note, a new Audit Manager had been appointed who would be assigned the Council's audits.

In October 2022 BDO reported that the combination of the above factors had caused delays in progressing the audit over that summer, in addition to which they highlighted a technical matter that had been identified that affected nationally all local authorities with material infrastructure assets on the balance sheet, of which LBBD was one. This matter required engagement of audit suppliers, NAO, CIPFA, local authorities and the Financial Reporting Advisory Board to determine an accounting solution for local authorities to implement.

BDO's revised timeline for completing the audit was set as March 2023. However, as CIPFA did not announce the details of the infrastructure accounting solution until January this year, and as this required additional work that would materially affect the audit, that deadline could not be achieved. BDO provided an update report to the last meeting in June which confirmed that whilst the audit was progressing several key matters were still outstanding as detailed in the report as presented.

On the basis that the Council's draft infrastructure assets working papers were received before September (duly received in July) the update report proposed that that the audit would re-commence in September, be finalised in October, reported to management in November with final audit results presented to the Committee in January 2024.

Since the last meeting BDO had met with officers to discuss the working papers, their audit approach and experiences from work done in other local authorities in this area. Additional delays in completing other NHS audits had reduced the capacity of BDO to oversee the recommencement of the Council audit in September. A subsequent meeting with the current S151 Officer was held to discuss the situation and the position was that although it was not possible to confirm the full picture of the rescheduled audit programme, the BDO representative was able to confirm that the infrastructure assets audit had started this week, and that the senior audit team review would re-commence at the beginning of November 2023. The BDO representative committed to sharing a fully revised timetable for audit completion as soon as it was available.

BDO recognised and supported the S151 Officer desire to complete the 2019/20 audit as soon as possible and certainly ahead of any date fixed for the backstop solution. In that respect the BDO referenced the DLUHC outline proposals on the backlog solution as appended to the report, and specifically the yet to be confirmed date of 31 December 2023 to complete audits prior to and including 2019/20, as well as subsequent dates for the 2020/21, 2021/22 and 2022/23 audits. If, however for whatever reason, the December date (if and when confirmed) was not met, then BDO would have to consider an interim solution such as issuing a qualified audit opinion. Assuming however the 31 December deadline was achieved, then based on the Council's meeting timetable, an extraordinary meeting of the Committee would need to be arranged to sign off the accounts on a date to be confirmed.

The S151 Officer clarified that when she came into post in July it was clear to her that the audit work associated with the accounts needed to be signed off before the CAO left the organisation on 19 October (having secured a new position in another authority). She met with BDO at the beginning of August and made it clear that when the auditors confirmed that the recommencement of the audit work would not start on 4 September as previously agreed, she stated that this was both disappointing and unacceptable, and that given her fiduciary duty to local Council tax payers to provide value for money, she required the audit completed and signed off before the expiration of the backstop date so as to avoid receiving a qualified opinion and inevitably incurring additional audit costs. This was placed in writing to BDO on 8 September.

In response to the report Members asked the date when the Council's Accounts were last fully audited. The BDO representative confirmed that it would have been the 2018/19 accounts which were signed off and reported in 2020. That meant the Council's finances had not been audited properly for more than 5 years, which was very concerning given the significant changes that had taken place in the Council in the intervening period. To that extent it was difficult to know whether the Council's finances were in a good place at this time, and to that extent Members had little confidence in the whole process, with the blame being seen as equally shared between Council officers and the external auditors.

Given the absence of the CAO who had been unable to attend the meeting and seeing the S151 Officer was relatively new, she did accept there was blame on both sides, however when it came to when and what information was provided to BDO, matters were not necessarily as straight forward as may have come across to Members in the report, particular when read in isolation. With the support of the Chair the S151 Officer proposed that although it would not alter the facts, for their information she would prepare and circulate to all Members of the Committee a detailed briefing note on the chronological order of events reported this evening and at previous meetings so that Members could have a greater understanding of the reasons for the delays.

The S151 Officer agreed that the Council absolutely needed the external audit to be completed in a timely basis, and certainly ahead of any new arrangements to deal with the backlog, not least because if any errors were identified and if they materially impacted on the General Fund, that could result in an adjustment and charge against this year's Accounts, something she would not want to occur given the Council's challenging financial position. That said until the audit was completed it would be unwise to speculate about how this year's budgets might be impacted and how any deficit would be funded.

The BDO added that in their experience most outstanding issues arising from previous account audits would not have a 'bottom line affect for future years General Fund budgets. Reference was also made to the audit fee and additional charges. This matter would be addressed in the subsequent report (*see minute 13 below*).

Notwithstanding the comments of the S151 Officer about shared responsibility for the delays, the report of BDO indicated that there had been significant fallings in the Council through delays in providing information, material misstatements, non-compliance with codes of practice as well as significant deficiencies in the

Council's internal control environment. These matters required an explanation. In addition, the Council did not appear to have staff stability in the Finance team to respond and provide information to BDO in a timely fashion. With the possible 31 December 2023 backstop deadline looming, what confidence could the Committee have that the audit would be completed and signed off by that date?

The S151 Officer clarified that she had not suggested that anything BDO had stated in their update report was factually incorrect. It was more about where the Council were today in seeking to close off the 2019/20 accounts, and things that were not in the report which had already been discussed informally between officers and BDO. In respect to staffing an interim appointment to replace the CAO had already happened and handover arrangements were in place to ensure as smooth a transition as possible. The person taking over had a wealth of local authority finance experience. That said given the tight deadlines and so as to complete and sign off the audit, would require BDO to respond in a timely fashion as to the further information they required during the period before the CAO leaves.

The BDO representative concurred that they were committed to resolving this matter as soon as possible and were working to get all outstanding queries over to the Council in the coming weeks and the necessary fieldwork completed before the CAO leaves the Council. BDO recognised the timeframes were extremely tight and with Xmas leave etc it would be very challenging, but she reassured the Members that like the Council, they were committed to complete and sign off the accounts by the backstop date.

The Chair asked as for the rationale for prioritising the NHS audits over local authority audits? The BDO representative described it as rather than prioritising, the decision was taken by the BDO Executive to continue to deliver the programmed NHS audits until a finish. The view taken was the more audits left incomplete the greater the risk of spreading resources too thinly and then ultimately in general not completing audits well, and on time. Also, generally the NHS audits were less complex than local authority audits, so it made sense to complete them sooner rather than later.

As to the appointment of a new Audit Manager to complete the audit of the 2018/19 Accounts, the Chair enquired as to whether they were fully aware and onboard regarding the issue of the backstop date and the pressures and deadlines they would be expected to work to achieve hopefully a successful outcome? The BDO representative explained that the new member of staff was not new to BDO but new to the team, who collectively would be fully briefed regarding the backstop and the implications and imperatives etc.

The Chair requested that in working to the 31 December deadline it would be helpful if BDO could produce a revised plan setting out the days/ key milestones to share with herself and the S151 Officer so that it could be used to hold both BDO and officers to account. She also requested the S151 Officer to set up a bi-weekly call with herself and BDO to monitor progress. The BDO representative was happy to produce such a schedule with real time updates to be shared with the Committee.

Concluding the item, the S151 Officer made the comment that the audit backlog was a nationwide problem brought about through predominately a shortage of external auditors in the public sector, and a lot of audit firms including BDO had now gone global to attract more resources to support the sector.

The Committee **NOTED** the report.

13. 2018/19 Audit Fees

The BDO representative reported that their Audit 2018/19 completion report presented to this Committee in September 2020 highlighted that the quality of the draft accounts and documentation presented for audit had been poor, particularly in respect of group consolidation which was complex and had been completed by the Council for the first time that year. Subsequently the then Finance Director and Section 151 Officer had presented a report to this Committee in May 2021 on a joint 'lessons learned' review to understand why the 2018/19 audit had been significantly delayed.

As a consequence of this, further audit work was required which resulted in additional audit fee implications for the Council . Following the completion of the audit, the matter was discussed with the former Section 151 Officer who agreed the imposition of an additional fee in July 2023 of £301,990, over and above the scale fee of £127,801, which had been paid, as set by Public Sector Audit Appointments Ltd (PSAA)

It was noted that PSAA were contractually responsible for appointing external auditors to local authorities, and under the terms of those appointments they set the scale of fees and additionally required that proposals to vary set scale fees were submitted to them for approval for independent assessment as part of due diligence. As part of that process the additional fees were required to be initially discussed at a granular level with the Section 151 Officer prior to being presented to Members.

Appendix 1 to the covering report summarised the breakdown of the additional fee made up of £262,313, representing the substantial additional scope of audit procedures and increase in associated managers and partners time, together with the sum of £39,677 representing the audit work connected with the group accounts, which as reported had not been reflected in the original scale fee. BDO confirmed that until the additional fee was approved by PSAA an invoice would not be raised.

Opening up to discussion a number of questions/points of clarification were sought. Firstly, BDO clarified that whilst there had been detailed conversations with officers over a long period about the additional work undertaken on the audit, and that rather than hold up the completion of the audit, it was recognised that it had not been possible at that stage to quantify the further costs, other than for both BDO and Council officers to accept that additional fees would be incurred, something that had been flagged up in previous reports to Members.

The Chair emphasised the importance of accountability and transparency regarding fees. Consequently, whilst acknowledging the point made about the fees being independently assessed and recognising that element relating to the group accounts was understandable, given they had not previously arisen in this Council, she was concerned that the report did not provide sufficient information/details for Members to justify the remaining element of the additional fee, namely the £262,313.

In response the BDO representative stated that in addition to the points made in the Executive summary as to the key issues reported for 2018/19 it was worth highlighting that given the significant issues that had arisen concerning material misstatements, internal control deficiencies and Prior Period Adjustments (PPA's), it was necessary to engage the most senior people in the team to review those areas and engage high level technical consultants too. The implications being that their time was far more expensive and not anticipated when the scale fee had been set.

In those circumstances the Chair asked what the implications would be if Members were not prepared to accept the level of additional fee being sought? The BDO representative replied that in accordance with the agreed process although they would still make their submission, the Council would be in its rights to make through this Committee, its own representations to PSAA, who in turn would likely contact the Council to discuss the matter. Ultimately as the arbiter in these matters it was for the PSAA to form a view and make a final decision which would be binding on all parties.

Members echoed the Chair's views that given the role of the Committee in this matter it would have been helpful for BDO to provide a more detailed breakdown of the additional spend, given the large sum involved in the context of the Council's finances at this difficult and challenging time. This was acknowledged and agreed by the BDO representative.

The 2018/19 accounts were as things stood the last time the Council's full accounts had been audited and signed off. The adjusted and unadjusted errors highlighted in the report were highly significant such as the in-year dedicated schools' budget being double accounted, corrections of both over receipting of purchase orders, non-compliance with the Code of Accounting Practices in respect of asset classification as well as the reclassification of historical spend. In those circumstances what confidence could Members take that the accounts for 2019/20 and future accounts would not experience similar discrepancies and problems?

The BDO representative responded that their report findings and PPA's were all corrected in the 2018/19 statements and where these impacted the balance sheet the closing balances from that period were rolled forward into the 2019/20 accounts now being audited; and importantly these would have been corrected. In addition, the revised 2018/19 accounts which were now signed off, had what was known as a 'third balance sheet', where the prior period figures had been corrected with details of what those PPA's were, and where they impacted the accounts. Reassuringly with the exception of asset clarification, which BDO would flag up as a risk in future audits, there appeared not to be a repeat of the issues highlighted from the 2018/19 audit.

BDO repeated the view that the Committee was justified and entitled to express a view to the PSAA on the appropriateness of the additional fee level, irrespective of the professional opinion of the Section 151 Officer, as the PSAA would carry out its own detailed due diligence to test the validity of the claim.

The Committee expressed the view that given that BDO had been in discussions with officers for a considerable time as to the additional work they had been required to undertake with the audit, surely the additional costs should not have come as a complete surprise and to that extent should have been anticipated and budgeted for? Also why was it only now that Members were being made aware of the situation?

The S151 Officer did not disagree with the views expressed by Members but having only been in post for a short while, she found it difficult to comment, but did observe that on the basis that the formal notification from BDO as to the final costs was not until July this year, this meeting was the first opportunity to make Members aware. As for the additional costs, as far as she was aware they had not been budgeted for, and would have to be found, a situation which was not acceptable. She would confirm that position in writing.

Moving forward an independent person had already been commissioned to Q&A later year's accounts, from which the S151 Officer was able to confirm BDO's comments that the previous issues that had arisen from the 2018/19 audit had not seemingly been repeated in the 2019/20 accounts, with the one outstanding issue concerning asset clarification to be resolved once and for all. She reassured the Committee that her team were committed to ensuring the past problems were not repeated. That said officers and BDO did acknowledge that for the work on the 2019/20 audit a further smaller additional fee would be generated. The S151 Officer assured the Committee that she would look to report back to a future meeting with an estimate of the costs and budget for them accordingly. Furthermore, BDO agreed to provide initial details and estimates as soon as possible and before the departure of the current CAO to enable him to validate the additional work carried out. The BDO representative added that at this time until more was known as to the Government's backstop solution to the audit backlogs as detailed in the previous minute, it was not possible to anticipate how the external audit of accounts in 2020/21 and onwards would proceed.

The Committee **NOTED** the report.

14. Internal Audit Performance - External Quality Assessment

The Head of Assurance (HoA) reported that in accordance with the Public Sector Internal Audit Standard 1312, each audit service was required to undergo an external assessment at least once every five years by a qualified independent assessor.

Consequently, the London Borough of Hackney's Corporate Head of Audit, Anti-Fraud and Risk Management undertook the assessment which in an appended report concluded that the Council's Internal audit service 'generally conforms' to the Standards, the top of a three-point scale, being the highest grading achievable.

The report detailed the one (of 144) area of partial conformance and made seven low priority recommendations for remedial action as detailed, and which the HoA accepted.

The HoA went through the summary of the assessment in Appendix A and the 7-point action plan detailed in Appendix B. The Chair highlighted as a point of information that it would be helpful for Members when reviewing progress at future meetings, if the HoA included prospective dates/ timelines for addressing the independent assessor's recommendations set out in the action plan.

The Committee also sought and received an explanation as to the reasons for the one partial conformance which related to internal auditors declaring interests in accordance with organisational requirements. Additionally, the HoA elaborated on finding 3 of the action plan concerning the lack of formal records of staff training. He confirmed that this concerned recording external training rather than organisation training which was fully documented.

The Committee **NOTED** the report.

15. Review of Key Counter Fraud Policies & Strategy 2023

The Head of Assurance (HoA) updated the Committee. The Council took a strong stance against fraud and, as part of its strategy, all Counter Fraud policies were reviewed annually to take account of any change in working systems within the Council as well as legislation. All changes made had been subject to consultation with Legal, HR, staff networks and Trade Unions

The papers in the agenda mistakenly omitted the tracked changes which would have enabled the Committee to see where amendments had been made.

In order not to delay the publication of the policies and strategy on the Council Intranet and so as to allow them to be promoted to and, where applicable, applied by the Council's partners such as council owned companies, contractors and schools,

The Committee **APPROVED** the changes as set out in the appendices to the report, subject to receiving and reviewing/commenting on track changed versions outside of the meeting.

16. Work Programme 2023/24

The Committee noted the work programme.

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AUDIT AND STANDARDS COMMITTEE

30 January 2024

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| Title: Complaints Update | |
| Report of the Monitoring Officer | |
| Open Report | For Information |
| Wards Affected: None | Key Decision: No |
| Report Author: Dr Paul Feild Principal Standards & Governance Lawyer | Contact Details: Tel: 0208 227 2638 E-mail: paul.feild@lbbd.gov.uk |
| Accountable Director: Deirdre Collins Head of Legal Services and Monitoring Officer | |
| Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive | |
| Summary: This report is to provide the Committee with an update of complaints against Members of the Council, their status, outcome and actions taken as set out in Appendix A. On 1 July 2012 the Assembly adopted, as required by the Localism Act 2011, a new local Code of Conduct and Complaint Procedure. 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. | |
| 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. Options Appraisal

1.1 This report is for information only.

2. Consultation

2.1 This report is for information only.

3. Financial Implications

3.1 There are no financial implications associated with this report.

4. Legal Implications

Implications completed by: *Dr Paul Field, Principal Standards & Governance Lawyer*

- 4.1 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.
- 4.2 This report furthers those objectives by providing timely updates to the Audit and Standards Committee with regard to the operation of the Code of Conduct.

Background Papers Used in the Preparation of the Report:

- The Council Constitution

List of appendices: Appendix A – Schedule of Complaints received.

Member Complaints – Monitoring Officer Rolling Record – January 2024

| Ref: | Receipt of Complaint | Member(s) | Complainant | Nature of Complaint | Investigation | Standards Hearing | Outcome | Status (Open/closed) |
|---------|----------------------|-------------|-------------|--|------------------------|-------------------|--|----------------------|
| MC 6/22 | Oct 2022 | Two Members | Officer | Indicative matter of breach of the Code of Conduct | Fact finding Completed | No | Monitoring Officer considered that the circumstance of the matter is that it should not proceed further and recommendations were made. | Open |

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AUDIT AND STANDARDS COMMITTEE**30 JANUARY 2024**

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| Title: Grant Thornton's Audit Progress report and Sector update | |
| Report of the Interim Chief Accountant | |
| Open Report | For Information |
| Wards Affected: All | Key Decision: No |
| Report Author: Yinka Ehinfun (Interim Chief Accountant) | Contact Details: E-mail: Yinka.Ehinfun@lbbd.gov.uk |
| Accountable Director: Nish Popat Interim Deputy S151 Officer, Resources | |
| Accountable Executive Team Director: Jo Moore, Interim Strategic Director, Resources | |
| <p>Summary</p> <p>Grant Thornton LLP has been appointed as the Council's external auditors for the next five years beginning from the 2023-24 financial year.</p> <p>This report presents Grant Thornton's report set out in Appendix A outlining their audit plan and approach for delivering their responsibilities as the Council's external auditors for the 2023/24 financial year.</p> <p>Grant Thornton has also prepared a second report set out in Appendix B on "Preventing Failure in Local Government" to further highlight the challenges in the sector and how the Council can overcome them and prevent failure.</p> <p>Representatives of Grant Thornton will be at the meeting to present both reports and respond to Member questions.</p> | |
| <p>Recommendation(s)</p> <p>The Audit and Standards Committee is recommended to note the content of this report.</p> | |
| <p>Reason(s)</p> <p>As prescribed in The Accounts and Audit (England) Regulations 2015, 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 In accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations), on 22 September 2021 the Public Sector Audit Appointments (PSAA) formally invited all eligible bodies to become opted-in authorities for the five consecutive financial years commencing 1 April 2023 which covers the audit years 2023/2024 to 2027/2028.
- 1.2 The PSAA Board approved the appointment of external auditors from 2023/24, following consultation with audited bodies, at its meeting on 16 December 2022. It was decided that Grant Thornton LLP will be the council's external auditors for the next five years from the 2023/24 financial year.

2. Audit timescales for 2023/24

- 2.1 There have been discussions with officers in terms of delivery timescales for the 2023/24 financial year and work has commenced to deliver the information requested for audit planning by the Council.
- 2.2 The external auditor had planned to bring to the Audit and Standards Committee meeting in March a detailed audit plan, setting out their proposed approach, in order to give an opinion on the Authority's 2023/24 financial statements.
- 2.3 The planned dates to finalise the audit are yet to be determined predominantly as a result of the issues in the sector relating to the audit backlog and the proposed new arrangements for dealing with that backlog which will include a backstop date. This will be the date by which backlog accounts, if not signed, will be dealt with under a new arrangement, yet to be formally announced. Grant Thornton will discuss this matter in presenting their report (Appendix A) and provide the latest position to the Committee.
- 2.4 The 2023/24 Audit scale fees have been published by PSAA and for the LB Barking & Dagenham audit, the fee will be £434,860 and £75,287 for the Pension Fund. This is a 240% increase on the 2018/19 to 2022/23 scale fees for the Council's Audit and a 366% increase for the Pension Fund Audit. The Council have accrued the additional costs for the 2023/24 financial year and have included a growth provision in budget for the 2024/25 financial year.

3. Preventing Failure in Local Government

- 3.1 Grant Thornton has also prepared a second report on "Preventing Failure in Local Government" (Appendix B) to further highlight the challenges in the sector and how the Council can overcome them and prevent failure.

4. Options Appraisal

- 4.1 The audit of the Council's Statement of Accounts follows a prescribed process and, as such, there are no other options to appraise.

5. Consultation

- 5.1 The audit of the Council's Statement of Accounts follows a prescribed process and, as such, does not require consultation.

6. Financial Implications

Implications completed by: Nish Popat – Deputy S151 Officer

- 6.1 Grant Thornton have been allocated as the Council's External Auditors for financial year 2023/24 and for a further 4 years. The appointment and selection were carried out on a national basis by the Public Sector Audit Appointments (PSAA). The Council cannot influence the choice of external audit opinion.
- 6.2 The total base fees for the 2023/24 is £434,860 for the Council's audit and £75,287 for the Pension Fund Audit. This represents an increase of 240% compared to 2022/23 for the Council's Audit, where the base audit fee was £127,801 and a

366% increase for the Pension Fund Audit, where the base fee for 2022/23 was £16,170.

6.3 The additional fees have been forecasted in the 2023/24 budget monitor report as at Period 8 and represents a c£230k overspend against the budget set.

7. Legal Implications

Implications completed by: Dr Paul Field - Principal Standards & Governance Solicitor.

7.1 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. An essential component of sound administration is a sound audit function.

7.2 The Local Audit and Accountability Act 2014, established a new audit regime. Local Authorities must appoint a local auditor which in carrying out its' role must be satisfied that the authority has:

- Made proper arrangements for securing economy, efficiency and effectiveness in its use of resources,
- In its accounts comply with the requirements of the enactments that apply to them, and
- Observed proper practices in the preparation of the statement of accounts; and that the statement presents a true and fair view.

7.3 This is supported by the 2020 Code of Audit Practice published by the National Audit Office. Auditors now need to report significant weaknesses in arrangements when they identify them and make recommendations for improvement. A document called the Auditors Annual Report will cover arrangements for financial sustainability, governance and improving value for money.

7.4 Audited bodies are required to publish the Auditors Annual Report on their Website.

8. Other Implications

8.1 **Risk Management** - The risk management implications and mitigating factors are clearly set out in the appendices to this report.

List of appendices:

- **Appendix A** – LBBD Audit Progress report – January 2024
- **Appendix B** – GT report – Preventing Failure in Local Government.

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London Borough of Barking and Dagenham

Audit progress report and sector updates

January 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Headlines

National context

Audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \[grantthornton.co.uk\]](#). Further details can be found on the 'Sector update' section of this report. Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

Audit backstop

DLUHC are about to launch a consultation which we expect them to announce that all audit years from 31/3/2023 and earlier will be "backstopped" if not completed by 30 September 2024. This will mean additional procedures on opening balances will need to be completed. The scope of this work has yet to be determined in terms of the 2023/24 audit, we intend to commence our planning work this quarter and our final accounts work from July 1st onwards. Our plan is for all our audits nationally to be delivered by 31 December 2024. We are committed to 31 December 2024 audit sign off. The only change to this would be if the backstop moved back further and the previous auditor had not signed off those years by 31 December 2024. In that scenario-we would completed the fieldwork by 31 December 2024 and sign off once backstop arrangements were completed

Increase in Local authority failures

There have been several recent local authority failures in the UK, which have highlighted issues with governance, accountability, and financial management. These failures have raised serious concerns about the ability of local authorities to effectively manage their responsibilities and deliver services to their communities. They have also highlighted the need for greater transparency, accountability, and oversight in the management of public funds and the provision of public services. We have written a governance report on how local authority failures can be prevented. Please see [How can further local authority failures be prevented? | Grant Thornton](#)

Headlines (cont.)

Local context

Audit scale fees

PSAA have published their scale fees for 23/24 [2023/24 auditor appointments and audit fee scale – PSAA](#).

For LB&D these fees are £434,860 for the Council audit and £75,287 for the Pension Fund. These fees are derived from the procurement exercise carried out by PSAA in 2022. The 2023/24 fees mark a major increase compared to the 18/19 contract scale fees. The fee increase is based on the impact of additional workload driven by accounting and auditing standards and the costs of employment in a difficult market for all accountancy firms. However these fees are based on work delivered. We would need to sign the audit opinion and produce the auditors annual report to collect the full fee.

Audit timescales for 2023/24

We are in discussions with officers in terms of the delivery timescales for the 2023/24 financial year, however page 6 of this report sets out our draft expectation of the audit deliverables for the year.

Meetings with key members of staff

Since our appointment as auditors of the council, we have met with Finance Officers regularly as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in October to discuss the Authority's strategic priorities and plans.

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Accounts Workshop in January and February 2024, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables – Council and Pension Fund

Below are some of the audit deliverables planned for 2023/24.

| 2023/24 Deliverables | Planned Date* | Status |
|--|---------------|-------------|
| <p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Authority's 2023/24 financial statements.</p> | March 2024* | Not yet due |
| <p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit and Standards Committee.</p> | TBD* | Not yet due |
| <p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p> | TBD* | Not yet due |
| <p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p> | TBD* | Not yet due |

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period. However our expectations is to complete all necessary work by 31/12/2024

Audit related Deliverables

Below are some of the audit related deliverables planned for 2023/24.

| 2023/24 Audit related deliverables | Planned date* | Status |
|--|---------------|-------------|
| <p data-bbox="120 533 692 563">Teachers Pensions Scheme – certification</p> <p data-bbox="120 580 1525 644">This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p> | TBD* | Not yet due |
| <p data-bbox="120 681 658 711">Housing Benefit Subsidy – certification</p> <p data-bbox="120 718 1480 793">This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p> | TBD* | Not yet due |
| <p data-bbox="120 813 792 844">Pooling of housing capital receipts - certification</p> <p data-bbox="120 857 1525 925">This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.</p> | TBD* | Not yet due |

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

an agreed approach to dealing with the backlog of local government audits

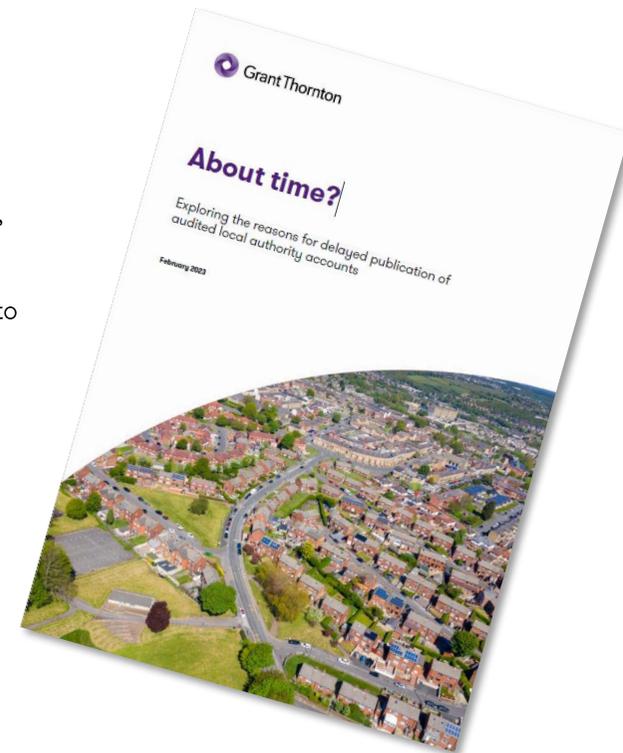
Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton](#)



Current local audit deadline ‘unachievable’- Grant Thornton (Oct 23)

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

“Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies,” the firm said.

In certain instances, audits are open as far back as 2017-18.

“Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

“This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable.”



Current local audit deadline ‘unachievable’- Grant Thornton(cont.)

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show “significant failures in financial reporting and an unwillingness to improve”.

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

“Unfortunately, the quality of too many financial statements and working papers are not adequate,” Grant Thornton said.

“Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.”

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/



DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines **for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.**

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/



Call for sanctions for late accounts amid fears of ‘more Wokings - public accounts committee (PAC)

The Commons’ public accounts committee (PAC) published a report, Timeliness of local auditor reporting, which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.



Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

<https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/>

The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read the full report here

<https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/>



LGPS valuation gives ‘cause for optimism’ – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia’s invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a [report](#).

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: “Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

“While the good news is welcome, the hard work doesn’t stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025.”

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased “across the board” in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

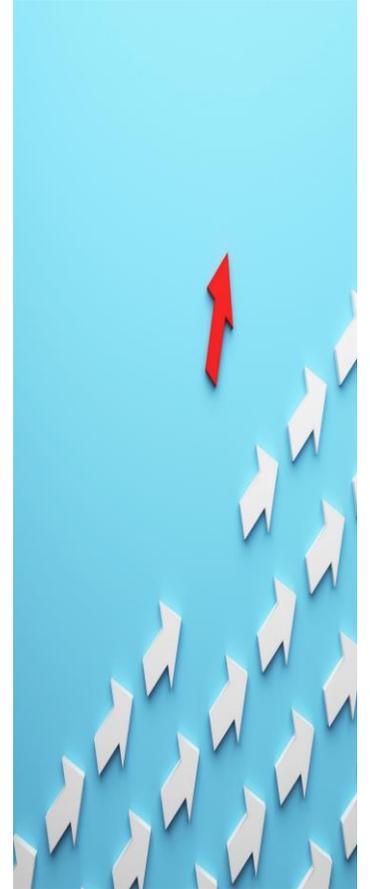
Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

“This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a ‘deficit working group’ and the significant market events that the LGPS has had to navigate in recent years.”

“Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade.”

Read the full report here

[LGPS 2022 Valuation - the big picture.pdf \[hymans.co.uk\]](#)



Sustainability reporting in the public sector - CIPFA

CIPFA said, 'Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.'

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development, said CIPFA.

CIPFA report states, 'the answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.'

Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read the full report from CIPFA here

[Sustainability Reporting \[cipfa.org\]](https://www.cipfa.org)



SEND deficits kept off budgets for another three years (Added March 2023)

The government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12th December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before the announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".



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Report: preventing failure in local government





Paul Dossett
Head of Local Government

Foreword

We are delighted to have worked in partnership with Lawyers in Local Government, the Association of Local Authority Treasurers Societies, SOLACE and CIPFA to produce this paper on preventing failure in local government. It is important to recognise that current failures are often the result of past mistakes. We should commend, rather than criticise, members and statutory officers who have inherited the consequences of historic failures for their efforts to mitigate the impact on their council and community by restoring sound financial management and good governance. We all know that local government does a great job for most residents and other stakeholders most of the time. However a decade of austerity, wider downward trends in political governance, the demands for instant results in a 24 hour society have led to failure in the full range of local authority bodies. These failures are not inevitable and the system of checks and balances which exist (in theory at least) should have caught most of the high profile recent failures. At the heart of this system is the golden triangle of Head of Paid Service, Monitoring Officer and Section 151 Officer. Proper exercise of their statutory functions by these officers should keep all councils safe. Our report explores how that might happen. We plan to publish a second report in early 2024 with further consideration of actions councils can take to prevent failure, including case studies.



1 Introduction

Most local authorities are well led and managed and balance their books, even in these challenging times, but the catastrophic failure of a local authority is no longer the rare event that it once was. While Grant Thornton's experience of Value for Money audits shows that the circumstances of each council that has experienced significant financial, governance and service delivery problems are unique, there are many common causes, symptoms and consequences of failure that can be observed across all types of council across England. In this paper, we explore the lessons we have learned about the causes of failure in local government, and why the many safeguards, designed to prevent councils making bad decisions that waste public money and undermine trust in local government, have not operated effectively. We also examine who has both the power and the ability to act and what steps they can take to reduce the risk of failures in the future.

There are a large number and variety of sources of evidence about the factors which have led to failure, including auditors' Public Interest Reports, Non-Statutory Reviews, Best Value Inspection Reports commissioned by DLUHC and Ofsted Inspection Reports. Causes include, poor decisions, often accompanied by a lack of transparency, risky investments made without the necessary commercial skills and knowledge, lack of an effective top team, over-reliance on interims in key roles and the failure of members to ask the right questions. Each instance of failure has been examined and the individual causes analysed in the context of each failing council. However, to get a better understanding of the complexity of the causes of failure, we also need to explore the wider environment of the local government sector and the many organisations which operate in that sphere.

Earlier in the year we shared our preliminary analysis of the common causes of failure with a group of Section 151 Officers and Monitoring Officers and representatives of bodies including, the Society of Local Authority Chief Executives (SOLACE), Lawyers in Local Government (LLG), the Association of Local Authority Treasurer Societies (ALATS) and the Chartered Institute of Public Finance and Accountancy (CIPFA). Their reflections on the vital and complementary roles that Section 151 Officers and Monitoring Officers play, as part of the 'golden triangle' of statutory officers with chief executives, in supporting good governance and preventing failure, have helped to strengthen our understanding of the opportunities which are available now to all the key players in the sector to prevent or mitigate the impact of failure. We offer some prescriptions for remedies to support better health, not yet another post-mortem.



2 How can we prevent failure?

A clear understanding of the common causes of failures provides useful intelligence for other local authorities, local government bodies and for central government, and is a vital first step in preventing future failures.

Every local authority must get the basics of good governance right, including robust structures, effective systems and positive and appropriate behaviours. The Nolan Principles of Selflessness, Honesty and Integrity, Objectivity, Accountability, Openness, Respect for Others, a Duty to Uphold the Law, Stewardship and Leadership, provide essential guidance on appropriate behaviours. Leadership of local authorities is shared between leading politicians and senior officers. They need to apply the Nolan Principles to establish mutual expectations and underpin strong relationships and good communications between senior officers and executive members. Members should balance their political ambitions with their legal and moral duties to their council and communities. Members and senior officers always need to be able to ask difficult questions and challenge each other. When those relationships become dysfunctional, constructive challenge and collective problem-solving become impossible and governance and financial failures may follow.

The three senior statutory roles, the Chief Executive Officer (CEO), Finance Director (Section 151 officer) and Monitoring Officer (MO), have between them complementary legal powers and duties which help to support good governance. The background to these three roles is set out in the Appendix. A strong senior management team, which is transparent and accountable, mutually supportive and challenging and is respected by the council's executive members, provides important safeguards against poor decision making. It is important that all the statutory officers and other members of the senior leadership team have a good understanding of the legal powers and constraints on local government as well as the fundamentals of local government finance, to fulfill their shared responsibilities. Discussion, challenge and ownership of the Council's financial strategy and performance are crucial and sometimes undervalued aspects of the shared endeavour of strategic leadership. Collective engagement in this task, balanced with appropriate respect for the professional and statutory roles of each member of the team is vital.

Local government finance is very complex and some decisions such as the necessary level of financial reserves and the ratio between income and borrowing require both expert advice from officers and external advisors, but also active engagement with members. It is not good enough for members to shrug and say 'we followed the advice of our officers'. Although members are not elected for their expertise but to represent their communities, it's reasonable to expect them to understand the risks associated with key investment decisions and the options that have been considered, and where this is not clear, to seek appropriate clarifications from senior officers. They should beware of optimism bias and avoid focusing too much on the potential benefits of projects and investments and not enough on the accompanying risks.

The extreme nature of some recent failures may create a risk of complacency in other councils, and a sense 'it couldn't happen here'. However, many failures have developed incrementally over several years, rather than being the immediate result of a few recent, ill-advised decisions creating the need for remedial actions, such as issuing a s114 or s5 notice to address the consequences of the mistakes of previous incumbents. Experience of failures indicates it could happen anywhere. Many local authorities are only two or three poor decisions away from a serious risk of failure. Some local authorities do share learning from failures elsewhere with their officers and members, to raise awareness of the risks they also face and all would be wise to do the same.



3 Understanding the causes of failure

3.1 Internal and external factors

Internal and external factors have played a part in each recent significant failure. Internal factors include poorly designed structures and weak systems of management and control, compounded in some cases by bad behaviour on the part of either officers, executive members, or both. That may take the form of bullying. Bullying can be defined as offensive and intimidating, behaviour which is an abuse of power, but bad behaviour may also be more subtle but no less damaging. For example, refusing to listen to alternative views and marginalising dissenters, command and control' cultures undermine personal and professional effectiveness but weak, 'laissez faire' cultures can do as much harm, by allowing poorly informed decision making.

External factors are those beyond the control of local government, such as reductions in central government's financial support and inflation which have a very significant impact on its ability to manage risks.

Internal factors

- Structures** **Use of council owned companies** and joint ventures may increase the risk of a lack of transparency and conflicts of interest.
- If s.151 officers and Monitoring Officers** are not on the senior management team their ability to advise and warn effectively is significantly reduced.
- Over-reliance on interim statutory officers** undermines effective leadership and management and results in gaps in corporate memory. It is hard for interim post-holders to fully understand the complex history of risky decision making. Interims and those acting up in statutory roles may find it difficult to develop close and trusting working relationships with their statutory officer colleagues and this can make it harder for them to challenge decisions. They may also be perceived as lacking the necessary gravitas or status to be as effective in their roles as a permanent post holder.
- Combined Authorities** bring benefits and risks. The risks are added complexity, diversion of leadership attention from local authorities and the challenges faced by those directly elected mayors who lack knowledge of how local government works and who are not inexperienced politicians.

External factors

- Central government's responsibilities** for working with local government on finance, governance and service delivery are spread across various departments including DLUHC, HMT, DfE, DfT, DCMS and DHSC. There is a risk of the government not having a clear line of sight of risks relating to individual councils and the sector as a whole. The introduction of the Office for Local Government may help.
- The constant churn** of ministers and civil servants prevents the establishment of effective long-term working relationships with local government and leads to a lack of knowledge and understanding of the complexity of local government services and finances, which impairs central government's ability to provide timely support and adapt policy to changing needs.

Internal factors

External factors

Systems

Weak risk management, financial management and performance management result in poor decision making and incremental failure.

A failure of members to fulfill their constitutional legal and ethical responsibilities in Full Council, the Executive or committees, if the council has adopted the committee system model, Overview and Scrutiny Committees and Audit Committees, results in an inability to recognise the risk of failure and take remedial action.

A failure of Internal Audit to focus on areas of greatest risk results in an inability to recognise the early signs of failure and act in time.

Weak Treasury Management can compound other financial management problems and lead to an inability to deliver a balanced budget.

A lack of commercial expertise on the part of both members and officers and reluctance to seek external, independent advice and undertake appropriate due diligence, which may lead to decisions being made because of misplaced optimism, rather than hard facts.

Funding reductions have created serious financial pressures, particularly for councils with statutory responsibilities for social care. Rising staffing costs, inflation and the impact of the pandemic have compounded the financial impact of central government funding reductions. This has driven some councils towards risky investments to try and raise new sources of income to help bridge the funding gap.

Competition between councils for additional funding for specific projects, for example, the Towns' Fund, uses resources and diverts leadership energy and resources, which are often wasted.

The Public Works Loan Board should consider the controls in place for lending to councils, so that borrowing levels and the ability for councils to repay borrowing are scrutinised and monitored.

Resource constraints on internal and external auditors and other regulators may hinder their ability to address issues in a timely manner, to complete financial statement opinions and value for money audits rigorously and to recognise and report promptly on early warning signs of failure, leading to a lack of vital information and/or false assurance.

LGA Corporate Peer Challenges may sometimes miss warning signs and make over-generous assessments of capacity and performance, based on the council's plans or good intentions, leading to a risk of false assurance based on the council's plans for good intentions rather than their true position, leading to a risk of false assurance.

Behaviours

Weak leadership disempowers both members and officers. A toxic culture makes it harder for them to speak up about the consequences of risky decisions. Conversely, strong but unaccountable leadership which is intolerant of challenge can also lead to inappropriate risk-taking.

Poor relationships between members and senior officers undermine communications and collective leadership.

Optimism bias and wilful ignorance, on the part of some members and officers has enabled poor decision making and risk management. Some have failed to ask critical questions and have accepted financial information in an incomprehensible format.

Statutory Officers' professional and legal responsibilities have not been adequately fulfilled. They may have failed to provide accessible information for members or challenge poor and even ultra vires decision making.

Decisions made behind closed doors have prevented proper scrutiny.

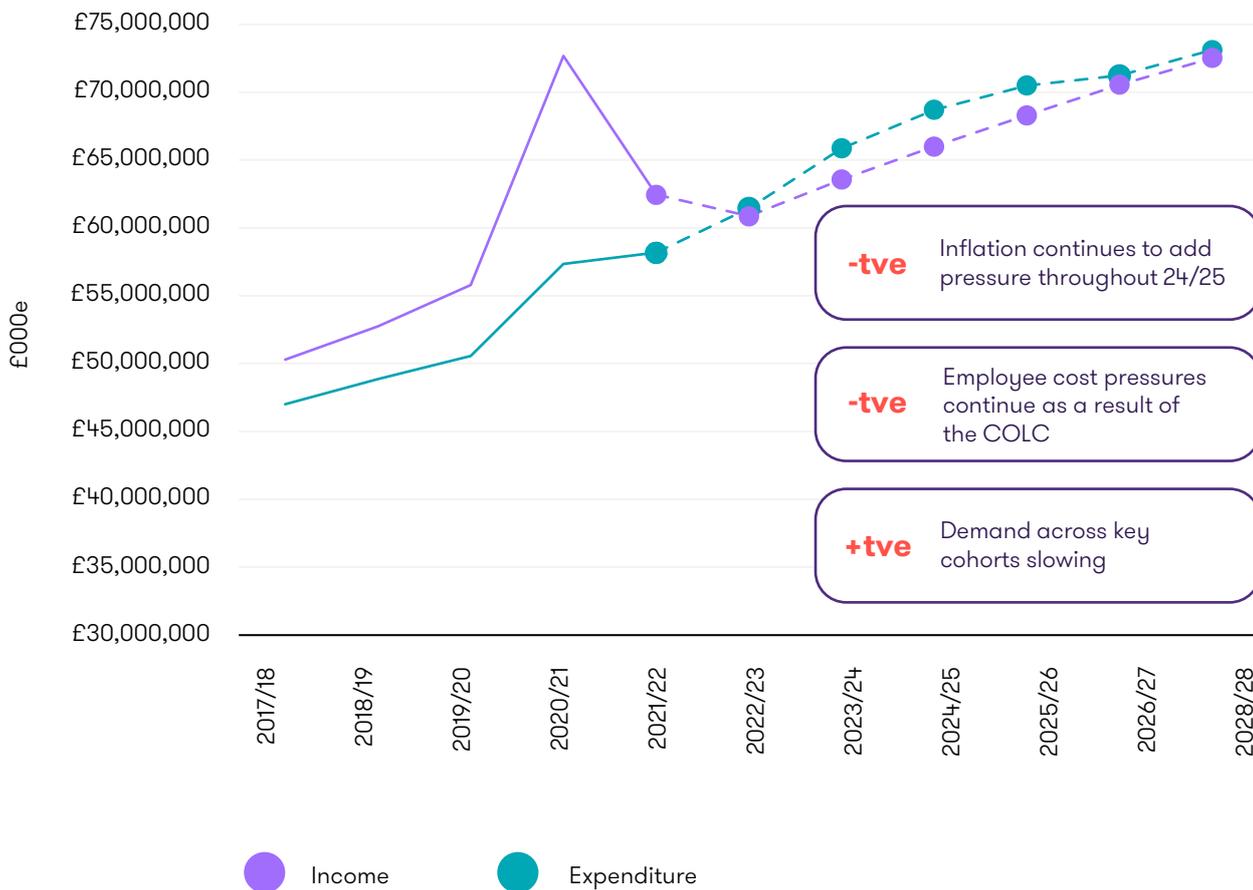
A lack of commercial skills has led some councils into risky ventures which they then could not manage effectively.

Lack of a consistent voice, across the different sector bodies and professional bodies, has made it harder for local government to be heard and understood.

3.2 Financial pressures

Financial pressures have been experienced by all councils but the impact and their responses to those pressures have varied. Councils in more disadvantaged areas are likely to have residents with higher levels of need and fewer sources of income from, for example, commercial rents, parking fees and the Community Infrastructure Levy, than more prosperous areas. That compounds the effects of reductions in central government funding, as does an outdated funding formula. However, it's clear that not all councils have responded to these financial pressures in the same way. Some have focused on transforming their organisations, removing layers of management and redesigning their services, including supporting more self-service. These changes have not been easy for officers or members. The loss of experienced, valued staff, the need to adopt new ways of working and reductions in discretionary services which contribute so much to the well-being of communities have been very painful for everyone, including residents. To make difficult decisions, councils need members and senior officers with a shared vision, clarity of purpose, strong governance, supportive leadership and the ability to engage with their local communities to reduce the impact of change on the most vulnerable. The following graph forecasts a sector wide funding gap in 2024/25 of £2.7bn, reducing to £0.6bn by 27/28.

Financial foresight projection: income v expenditure



Historical discrepancies in income and expenditure stem from the asynchronous recording and reporting of grant income and related expenditures in the local authority Revenue Outturn (RO) forms, influenced by timing differences, varied reporting standards, specific grant conditions, data revisions, and inconsistent administrative practices.

4 Opportunities to prevent failure

Local government, central government, regulatory bodies, professional bodies and advocacy organisations have, between them, significant powers, duties and opportunities and opportunities to prevent local government failure. Each of those powers, duties and opportunities to intervene provides a unique link in the chain of safeguards which protect the interests of citizens and the stewardship of public money, but the work of each organisation is often not coordinated with, or even visible to, others in the chain. Each political, regulatory, professional and advocacy body operates in its own sphere with only limited shared learning from individual and collective failures. A chain is only as strong as its weakest link and there is evidence in each case of serious financial and governance failure that one or more links in the chain has been weak or altogether broken.

The Local Audit and Accountability Act 2014 created a complex web of responsibilities for the local audit system previously exercised by the Audit Commission. As part of a revised focus on creating a single point of leadership The Financial Reporting Council has been appointed shadow systems leader for local audit and this may help to improve knowledge sharing.

DLUHC are currently consulting on detailed plans to end the backlog of audits (over 900 in September 2023) by introducing proscribed deadlines for closing late audits, which if not completed by that date would be disclaimed.

| Roles and functions | Powers and duties | Opportunities to prevent failure |
|----------------------------|---|---|
| Individual councils | | |
| Full Council | Full Council is responsible for agreeing the Council's constitution and setting the overarching policy framework within which the Council operates and ensuring appropriate safeguards for good governance and decision making are in place. It makes or validates every major policy and financial decision. Full Council can intervene to prevent the Executive making decisions which do not comply with the constitution or the Council's policy framework. | <p>Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well.</p> <p>They should demonstrate courtesy and respect towards each other and officers.</p> <p>Ensure all members are well informed and undertake all the necessary regular training and development.</p> <p>Ensure Auditor's Annual Reports are presented to Full Council.</p> <p>Avoid making important key decisions as 'urgent'. Allow enough time for in-depth discussion and for members to understand complex information and consider all the possible consequences of their decisions, including the risk of unintended consequences.</p> <p>Ensure that commercial confidentiality does not prevent members being fully informed about financial decisions.</p> |
| Executive | Executive (Cabinet) members are appointed by the Leader or directly elected Mayor. They are responsible individually, through their portfolios, and collectively for the effective political leadership of the council. | The Leader or directly elected Mayor should appoint executive members who have the capacity, competence and commitment to fulfill senior political roles. Each executive member should be aware of their responsibilities towards the whole council and the communities they serve and be prepared to question officers and challenge each other. |

Overview and Scrutiny Committee

OSCs should act as an objective, critical friend to the Council and take a non-party political approach to scrutinising decisions taken or yet to be taken. Their focus should be on improvement in whatever issue or decisions they scrutinise and on what matters to their communities. They can ‘call in’ and review decisions made by the Executive and Full Council, either before or after they are taken. Their reports may be made to the Executive or to Full Council.

The role and functions of OSCs should be properly respected by the Executive and Full Council. They should have a Forward Plan to ensure they focus on key strategic issues and sufficient resources and officer support to carry out their functions. They should have sufficient capacity and resources to ‘call in’ and review decisions in a timely and effective way and a non-partisan focus. OSC members should receive specific training. OSCs should have independent members, as well as councillors, both to demonstrate transparency and to enable the Council to benefit from the expertise and experience of its residents. OSC’s recommendations should be acted upon by the Executive, unless there are very compelling reasons not to do so and those reasons should be published with the OSC reports.

Audit Committee

The purpose of the Audit Committee is to provide independent assurance to the Council that risks are being managed and internal controls are preventing waste of resources and fraud. The Audit Committee receives the Annual Governance Statement, from the Monitoring Officer, setting out the all the policies and procedures which the Council has in place to ensure a consistently high standard of governance across the whole organisation. Internal and External audit report to the Audit Committee.

The Audit Committee should focus on risk management alone and not have multiple functions. The Audit Committee should have an independent chair and at least one other independent member. Audit Committee members should receive specialist training and sufficient officer support to enable them to fulfill their functions. Audit Committees should ensure the Annual Audit Plan for Internal Audit focuses on major strategic and other critical issues, rather than low risk, low impact areas of operations. Audit Committees should challenge Internal Audit when important audits are deferred without good reason. Audit Committees should be curious and ask the right questions.

Chief Executive Officer

The Chief Executive sets the tone for the council as whole by providing visible, accessible and supportive leadership and ensuring effective governance. They have the legal power to define the structure and functions of the council. It is their job to bring together all the expertise of statutory officers to create a ‘golden triangle’ of competence and professionalism to support good decision making. They manage the often contested leadership space between members and officers. It is their job to speak truth to power They also support and enable other professionally and technically qualified officers to contribute to the effective management of the Council and delivery of services.

Chief Executive's need to pay attention to their own development needs, particularly in challenging times and during major change, such as a change of administration, and seek mentoring or coaching support.

They need to have a well-developed understanding of legal and financial management issues.

They need to encourage openness and challenge within the council, including by strengthening their whistleblowing policy and providing effective support to whistleblowers.

Finance Director (s151)

CIPFA sets out the duties of Finance Directors, to be professionally qualified and suitably experienced, to be an active member of the leadership team, influencing major decisions and ensuring they are risk assessed and aligned with the council's strategies. They also need to ensure good financial management to safeguard public money and provide an effective finance function to support the council as whole.

S151 officers should be part of the 'golden triangle' with Chief Executive's and Monitoring Officer's and they should be active leaders for the organisation, not just providing a specialist finance function.

Undertaking continuing professional development will help s151 officers both to develop their skills and to develop supportive professional networks.

S151 officers should be ready to seek independent, external advice, when necessary, particularly if the Council is considering making significant investments or engaging in commercial activity.

It is important to seek informal peer support and mentoring or coaching, particularly when relationships with other officers and members are strained.

Monitoring Officer

The powers of the Monitoring Officer are set out under s5 of Local Government and Housing Act 1989.

They should ensure the council acts within its constitution, fulfils its statutory obligations, and applies its codes of conduct.

They should also investigate and report anything which is potentially illegal or constitutes misconduct or maladministration.

The Monitoring Officer is a vital member of the senior leadership team, providing legal advice to Chief Executive and FD and contributing to collective leadership of the council.

Monitoring Officers should be part of the 'golden triangle' and active organisational leaders, not just specialist advisors.

Monitoring Officers should ideally be qualified as a solicitor or barrister and non-qualified Monitoring Officers should be supported by their councils to qualify.

Continuing professional development is vital to maintain expertise and enable the development of supportive professional networks.

Monitoring Officer's should seek independent, external advice when necessary.

It is important to seek informal peer support and mentoring or coaching.

Internal Audit

Internal audit is an independent, objective assurance and consulting activity, designed to add value and improve the organisation's operations. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance protocols

The annual internal audit plan should focus on key risks. Planned audits should be completed in a timely way. Reporting to the Audit Committee should be clear and prompt and recommended remedial actions should be followed up as quickly as possible. Councils should ensure that their internal audit function is adequately resourced and internal auditors suitably qualified.

External bodies

National Audit Office (NAO)

The NAO specifies the Code of Audit Practice for Local Auditors under which financial and value for money audits are undertaken and the Code is updated every five years.

The NAO undertakes audits of government departments on policy areas relating to local government.

The NAO should conclude their review of the effectiveness of the Code in the light of recent failures and strengthen the Code as necessary.

External Audit

Under the Code of Audit Practice for Local Auditors, in addition to the annual cycle of financial and value for money audits, auditors can also investigate matters about which they have concerns and report back promptly to the council with recommendations for improvement. Auditors can issue

Public Interest Reports, Statutory Recommendations and Advisory Notices to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Key recommendations are made under the NAO Code of Audit Practice which requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Council.

Improvement recommendations are designed to improve the arrangements in place at the Council.

External Auditors should complete audits in a timely way. They should take a robust approach to identifying poor practice and risks and make appropriately challenging recommendations for improvement.

Where external auditors identify issues of concern in the current audit year they should investigate and report promptly, rather than waiting for the end of the audit year. Audit firms should ensure that their staff are sufficiently qualified and experienced to identify the early warning signs of possible financial and/or governance failure.

The Local Government Association

The LGA is a membership body, to which the vast majority of councils belong. The LGA acts as a key advocate for local government with central government and across the political parties. LGA also exists to improve and support local government, taking a sector-led approach.

The LGA should continue to work with political parties to create an expectation that all members will be supported through training and development to hold themselves to the highest standards in public life.

The LGA should continue to balance their advocacy role with that of a critical friend, perhaps considering the creation of a new division for sector led improvement separate from the rest of the organisation, which distinguishes between its roles as a supporter of improvement and advocacy.

The LGA should build on recent changes to the corporate peer challenge process (for example, councils now publish the feedback report and an action plan). A potential further change would be requiring progress on the action plan to be reported to full council.

Chartered Institute of Public Finance Accounting

CIPFA is a membership and standards-setting body which, together with LASAAC, develops the Code of Practice on Local Authority Accounting for the UK.

CIPFA also provides training and professional development. It has a Practice Oversight Panel, and, through its disciplinary schemes, it can discipline a s151 officer who has not maintained the high standards set by CIPFA.

CIPFA should consider whether its practice oversight activity should include retrospective consideration of failures by individual s151 Officers where these come to light after the individual has vacated his/her role, and possible sanctions.

Not all s151 officers are CIPFA members, so there is a gap in regulation which could be filled if all s151 officers were asked to formally confirm their commitment to CIPFA standards.

Roles and functions**Powers and duties****Opportunities to prevent failure**

SOLACE

SOLACE is a professional membership body, not a regulatory one. Membership is not necessary for the appointment of a chief executive. It provides valuable training, networking and development opportunities for officers, including aspiring and current chief executives, which build knowledge and capacity.

SOLACE should offer accredited training for Chief Executive's, which councils could then specify as an 'essential' criterion when appointing chief executives.

SOLACE should consider introducing mechanisms to remove accreditation where there have been significant failures on the part of individuals.

CIPFA, Solace, and Lawyers in Local Government

Each professional membership body has a separate purpose to service the specific needs of its own members.

The three organisations, together with Treasurer Societies and ALATS, should develop a shared set of standards and expectations to underpin the collective leadership of Chief Executives, s151 officers and Monitoring Officers. Training for aspiring Chief Executives, s151 officers and Monitoring Officers, is essential to ensure a pipeline of well-informed and collaborative statutory officers for the future.

These bodies should ensure arrangements are in place for effective training and CPD for individuals in the three statutory officer roles, and work together effectively and understand the statutory purpose of each role.

DLUHC

DLUHC and HMT together with DfE, DHSC, DfT and DCMS control or influence most local government functions, through funding, policy, and legislation. We have the most centrally controlled system of local government in western Europe.

Central government should implement the recommendations of the Redmond Review on external audit.

DLUHC and HMT, together with CIPFA complete the consultation on the calculation of the Minimum Revenue Provision, to ensure a consistent approach which reduces the risks of members agreeing to unaffordable borrowing.

If central government developed a longer-term system for mainstream local government funding which provided a stable financial framework and enabled longer term planning, it would reduce the risk of councils embarking on risky ventures to bridge the ever-growing funding gap.

The modernisation of resource allocation and the reduction of competition between councils for multiple funding pots would help reduce the risk of financial and service failures.

DLUHC should also consider reinstating the now eroded legal protections for statutory officers when they use their powers and fulfill their duties to protect the interests of the council.

HMT - PWLB

The PWLB, via the Debt Management Office, an arm's Length body of HMT, lends money to councils for capital projects. The PWLB relies on the certification by s151 officers that the loan meets their criteria. They have continued to lend to councils who have already accumulated high levels of debt. Some loans have been used to generate revenue, which is against their lending rules

The PWLB should continue its current work to strengthen its approach to due diligence to reduce the risk of councils borrowing more than they can afford to repay, against capital assets with inflated values.

The PWLB should continue to not agree to any further loans when they have concerns that a council is using the loan for yield or for revolving loans to companies to cover a revenue deficit. PWLB should consider a loan ceiling for individual councils beyond which the PWLB should not make further loans without consideration of an independently produced business case and risk assessment.

5 What now needs to change to prevent failure in the future?

Local government operates in an extremely complex system and is, paradoxically, both over-centralised and under-supported. Local authorities are sovereign bodies, but their powers are far outweighed by the constraints under which they operate and the weight of their responsibilities. Local government's legal framework is enshrined in statutes and regulations dating from 1972 and is not longer fit for purpose in the current environment. The legal protections which previously protected statutory officers and enabled them to fulfill their legal duties without fear of negative personal consequences have been eroded.

Reductions in funding have led a to significant loss of organisational capacity to respond to ever-growing threats and challenges. It is to the credit of most local authorities that they have managed to avoid serious financial and governance failures despite the financial pressures they face. It is important that the failure of individual councils does not undermine the strong case for greater devolution of powers and resources to a local level and to local communities. However, the proliferation of failures raises the possibility of a more strongly regulated local government sector, the recent introduction of the Office of Local Government (Oflog) which plans to create an early warning system for councils and is a sign of this direction of travel.

A common feature of failures is that those responsible for failing to adhere to rules, failing to be open and transparent, taking decisions without the appropriate expertise or advice, and taking ill-advised risks, have frequently moved-on before the consequences become apparent leaving a difficult legacy for their successors who then inherit intractable financial and governance problems. This applies to politicians as well as officers. Whilst politicians may find that electoral success is elusive after a very public failure, officers are professionals who may well move on to operate in another public service role. In the worst cases of failure, where appropriate standards of professional conduct have not been met, it is arguable that there should be enhanced mechanisms in place to hold those who have moved on to account for their behaviour to help prevent any repeat of failure.

Everyone whose expertise, powers and duties form part of the chain of safeguards should consider what they need to do to strengthen their ability to prevent failure. It is important that this is done collectively, as well as individually. That requires strong collective leadership to recast the relationships between central and local government and all the organisations which form part of the local government family. That is a daunting task, but the consequences of failing to tackle it will be further failure and a consequent focus on regulatory provisions.

The challenge for all those in the local government system is to make the best possible use of their powers and duties to prevent failure by

- Understanding and learning from past failures
- Understanding and mitigating the risks of failure
- Working collaboratively across professions, hierarchies and organisational boundaries to support good governance and robust financial management.

Appendix: Statutory Officers

Local authorities have a duty to appoint a number of senior officers to statutory roles. This report mentions the “triumvirite” of Head of Paid Service, Section 151 Officer and Monitoring Officer. Further detail on these is set out below.

Local authorities have other statutory officer roles, including Director of Children’s Services (DCS) and a Director of Adult Social Services (DASS) which are not the focus of this report.

Section 151 Officer

Section 151 (s151) of the 1972 Local Government Act requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

The S151 Officer must be a CCAB¹ qualified accountant. Their main statutory roles are:

- Ensuring the council sets a balanced budget each year. Legislation describes when a budget is considered not to balance:
 - Where increased uncertainty leads to budget overspends of a level which reduces reserves to unacceptably low levels
 - Where an authority demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors
 - S151s must interpret this based on the circumstance of their own organisation and should continually monitor income and expenditure in-year.
- Report any unlawful financial activity involving the authority (past, present or proposed)

The S151 Officer also has a number of statutory powers in order to allow this role to be carried out, including issuing a S114 Notice (see further detail below).

Councils will decide which officer has the S151 responsibility and they are not always a member of the senior leadership team. The role titles can include Director of Finance, Borough Treasurer, Director of Corporate Services, Director of Resources, Head of Finance, Chief Operating Officer, Chief Finance Officer, and Executive Director of Resources.

Councils also need to identify a Deputy S151 Officer.

Section 114 Notice

Section 114 of the Local Government Finance Act 1988 requires the S151 Officer, in consultation with the council’s Monitoring Officer, to report to all the authority’s members if they believe the council is unable to set or maintain a balanced budget. It is often described as a local authority declaring itself bankrupt.

Such a notice is only given in the gravest of circumstances.

It is most likely to be required in a situation in which reserves have become depleted and it is forecast that the council will not have the resources to meet its expenditure in a particular financial year.

A full council meeting must then take place within 21 days to consider the notice.

A S114 Notice results in significant spending restrictions, including that no new agreements involving spending can be entered into.

¹ Consultative Committee of Accountancy Bodies (CCAB) is an umbrella group of chartered professional bodies of British qualified chartered accountants: ICAEW, CIPFA, ACCA, ICAS and CAI.

Head of Paid Service

Section 4 of the Local Government & Housing Act 1989 provides that it is the duty of every local authority to designate one of their officers as its Head of Paid Service.

It is the duty of the Head of Paid Service where he or she considers it appropriate to do so, to prepare a report to the authority setting out their proposals as to:

- the manner in which the discharge by the authority of their different functions is co-ordinated;
- the number and grades of staff required by the authority for the discharge of their functions;
- the organisation of the authority's staff;
- the appointment and proper management of the authority's staff.

Regulations made under the Local Government Act 2000 reinforce these duties by making the appointment of staff below chief officer level the exclusive function of the Head of Paid Service or someone nominated by him or her.

The Head of Paid Service is normally the Chief Executive Officer.

Monitoring Officer

The legal basis for the post relates to section 5 of the Local Government & Housing Act 1989, as amended by schedule 5, paragraph 24 of the Local Government Act 2000.

The monitoring officer has three main roles:

- to report on matters he or she believes are, or are likely to be, illegal or amount to maladministration;
- to be responsible for matters relating to the conduct of councillors and officers; and
- to be responsible for the operation of the council's constitution.

The role can be held by the Head of Legal Services but Monitoring Officers do not have to be qualified lawyers.

Section 5 Notice

It is the role of the Monitoring Officer to report on matters they believe to be illegal or amount to maladministration, to be responsible for matters relating to the conduct of councillors and officers and, to be responsible for the operation of the council's constitution.

A Section 5 Notice is the means by which a Monitoring Officer reports such concerns, under their responsibilities as set out in the Local Government and Housing Act 1989.

Before issuing a Section 5 Notice the Monitoring Officer should consult with the s151 Officer and Head of Paid Service.

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AUDIT & STANDARDS COMMITTEE

January 2024

| | |
|---|---|
| Title: Corporate Risk Register Update | |
| Open Report | For Discussion & Noting |
| Wards Affected: None | Key Decision: No |
| Report Author: Christopher Martin, Head of Assurance | Contact Details: Tel: (020) 8227 2174 E-mail: Christopher.Martin@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Jo Moore, Strategic Director, Finance & Investments | |
| Summary: This report provides an update on the Corporate Risk Register. | |
| Recommendation: Audit & Standards Committee is asked to note the contents of the report. | |

1 Background

- 1.1. It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant strategic and operational risks to the Council. This should include the proactive participation of all those associated with planning and delivering services.
- 1.2. Risk management is concerned with evaluating the measures in place, and the actions needed, to identify and control risks effectively. The objectives are to secure the Council's assets and to ensure the Council's continued financial and organisational wellbeing.
- 1.3. Risk offers both significant potential positive and negative impacts on delivery and reputation and it therefore follows that a key organisational challenge facing the Council is embedding risk as part of the organisation's decision-making process both in day-to-day operational situations and at the strategic level.

2. Risk Management

- 2.1. The LBBB Risk Management vision is that the Council will have a robust system of risk management in place to identify, assess and manage the key risks in the Borough that may prevent it achieving the priorities identified in the Corporate Plan. Effective risk management is a key management tool for LBBB that is used to understand and optimise the benefits it can generate from calculated risk taking, as well as helping to avoid and manage unwanted surprises.
- 2.2. This report provides an update on how strategic risk continues to be monitored and managed. Details of the process are set out in the LBBB Risk Management Approach which was approved by Cabinet on 17th September 2019.
- 2.3. The Council's approach to corporate risk management is to embed risk ownership across the organisation so that it is the responsibility of all managers and teams to manage risk. The Council's Head of Assurance is responsible for Risk Management strategy, advice and support but is not responsible for managing risks outside of his direct service remit.

- 2.4. Directors and Heads of Service ensure that risks within their area are recorded and managed appropriately, in line with the risk management framework. The Assurance Board regularly review and monitor the approach to risk management.
- 2.5. Risk Registers will form part of the service plans and are designed to be dynamic documents, being updated regularly. The Corporate Risk Register covers risks which affect our ability to achieve long-term Council objectives. Risks can be escalated from service risks up to the Assurance Board for inclusion in the Corporate Risk Register or moved down as required.

3. Corporate Risks

- 3.1. The Head of Assurance led a Risk Management Workshop with the Council’s Executive Team in September 2022 to fundamentally review the strategic corporate risks that may prevent LBBB from achieving our objectives. This latest review has been undertaken by Strategic Directors themselves as per the Risk Management Strategy, with some changes to risk wording having been identified and changes to the levels of risk reported.
- 3.2. There were 13 Corporate Risks at the last review and a proposed 12 this time. There has been one proposal to have a risk removed from the Corporate Risk Register (CR.3 – Significant Incident in the Community) as the organisation and our partners are now better equipped to deal with any incident than previously.
- 3.3. There have been no suggestions of additional risks that may warrant addition to the register but wording has changed for CR.2 (Financial Management), CR.6 (Investment Decisions) and CR.7 (Economic Downturn).
- 3.4. Each Risk Owner has reviewed their wording for accuracy and relevance and assessed their risk for the following:
 - Gross Risk (the impact and likelihood of the risk with no controls in place);
 - Net Risk (the impact and likelihood of the risk with current controls in place); and
 - Target Risk (the impact and likelihood of the risk, once all further actions have been implemented).
- 3.5. There are 13 Corporate Risks with results as follows:

CR.1 Population Change (Sal Asghar – Director of Strategy) An inability to understand how the population of Barking and Dagenham is changing and developing, could mean LBBB does not having the required social infrastructure to meet the needs of its community, resulting in unsatisfied residents and reputational damage.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.2 Financial Management (Jo Moore – Interim Strategic Director, Finance & Investment) Inaccurate forecasting and a failure to identify financial risk may lead to an inability to operate within in-year budget and balance future budgets, resulting in an inability.

Net Risk Direction of Travel: risk level increased

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.3 Significant Incident in the Community (Fiona Taylor – Chief Executive) A significant incident in the local community, may lead to significant disruption and impact on Council services and property, leading to financial and reputational loss – PROPOSED REMOVAL.

Net Risk Direction of Travel: risk level reduced

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.4 Safeguarding Failures (Elaine Allegretti – Strategic Director, Children & Adults) - Inappropriate application of protocol and procedures, could result in death or serious injury of a child or vulnerable adult, resulting in loss of public faith, reputational damage, high financial costs and challenge and scrutiny from governing bodies.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.5 Civil Society (Rhodri Rowlands - Director of Community, Participation and Prevention) An unsupported Civil Society may mean the Authority is unable to sufficiently reduce demand for its own services, leading to dissatisfied residents, increased costs and ultimately a failure to meet performance targets.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.6 Investment Decisions (Jo Moore – Interim Strategic Director, Finance & Investment) Changes in interest rates and construction costs could lead to sound investment decisions becoming unviable through factors beyond the Council’s control, resulting in both financial and reputational damage to the Council, in addition to affecting the progress of developments to the council’s physical infrastructure.

Net Risk Direction of Travel: risk level increased

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.7 Economic Downturn (Jo Moore – Interim Strategic Director, Finance & Investment) A large shock to the UK economy or a significant economic downturn could impact the Authority’s ability to obtain the ambitious financial returns it requires from its companies, reduce income from other sources leading to constraints on its available funding and having an adverse cost impact the pension fund.

Net Risk Direction of Travel: risk level increased

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.8 Contract Management (James Coulstock – Interim Strategic Director, Inclusive Growth) - The lack of the right resources and skills in the Authority to manage its major contracts may mean that the contracts do not deliver on the agreed objectives, leading to a failure to deliver services to residents and significant financial loss.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.9 Information Security (Jo Moore – Interim Strategic Director, Finance & Investment) A data handling error by a member of staff or a contractor, could lead to the exposure of a substantial amount of residents’ information to unauthorised individuals, resulting in significant reputational damage, investigations by the ICO and other bodies and potential fines.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.10 Recruitment & Retention of Staff (Fiona Taylor – Chief Executive) Conditions in the labour market may make it difficult to recruit and retain suitable experienced staff across all levels of the organisation. This could potentially lead to impacts on service delivery, statutory responsibilities, financial costs if roles have to be covered by interims and could lead to a significant loss of knowledge within the Authority.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.11 Vision & Cultural Change (Fiona Taylor – Chief Executive) LBBB leadership not clearly articulating and communicating the Council’s new Corporate Plan and vision to staff may lead to confusion amongst officers and partners resulting in the Council being unable to deliver on its priorities.

Net Risk Direction of Travel: no change

| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.12 Cyber Security Compromise (Jo Moore – Interim Strategic Director, Finance & Investment) A successful cyber security attack on the Council’s systems could disrupt the Council’s ability to deliver its service commitments and result in a large-scale data loss, breach or compromise with significant financial consequences.

Net Risk Direction of Travel: no change

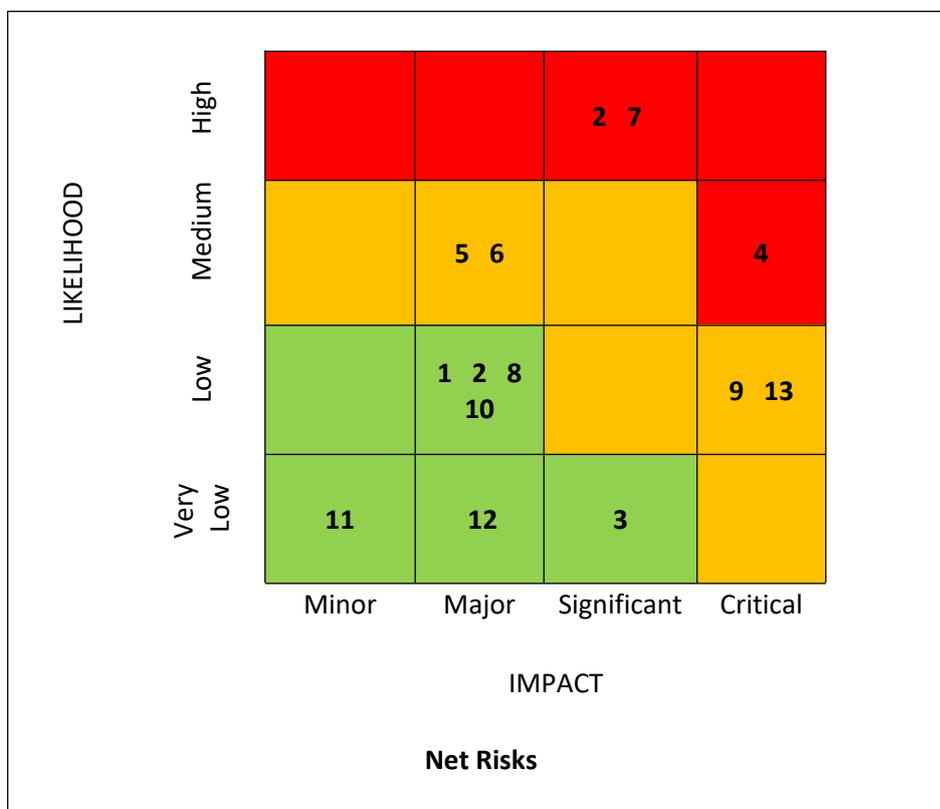
| | | |
|-------------------|-----------------|--------------------|
| Gross Risk | Net Risk | Target Risk |
|-------------------|-----------------|--------------------|

CR.13 Statutory Health and Safety Requirements (Leona Menville – Strategic Director, My Place) - Failure to comply with all relevant statutory health and safety requirements could lead to unsafe living conditions for tenants, resulting in potential injury or death – AWAITING UPDATE.

Net Risk Direction of Travel: risk level reduced



3.6. The Net Risk for each of the 13 corporate risks (i.e. the impact and likelihood of the risk with current controls in place) has been plotted on the matrix below for identification of their relative current concern:



4. Financial Implications

Implications completed by: Nish Popat, Deputy S151 Officer

- 4.1. Risk Management is an integral part of good management and should be embedded in the day-to-day work of all Council officers and managers and delivered within existing resources. In addition, there are specific fully funded posts within the Finance service that support this work. There are no further financial implications arising from this report.
- 4.2. All costs are covered by existing budgets and there are no additional costs.

5. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

- 5.1. To reiterate the main body text of this report, risk management is a key role for the organisation across the board for Members, Chief Officers and the teams. As an example, local authorities have a specific leadership role to plan for, be prepared and able to take action to respond to an emergency under the Civil Contingencies Act 2004.
- 5.2. Furthermore, if a risk is identified and reasonable measures are not taken to mitigate its likelihood of occurrence and if it is preventable, such as for example a tree on the highway was dangerously leaning over, the Council should take action and cut it down before it causes harm. To fail to do so could lead to legal liability to pay compensation for negligence and the reputational damage in not having taken steps to reduce the risk of occurrence and the magnitude of an event. To carry out risk assessments and to devise and implement risk occurrences, elimination and mitigation is therefore a core activity for management.

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

7. Appendices:

None

AUDIT & STANDARDS COMMITTEE
January 2024

| | |
|--|--|
| Title: Internal Audit Annual Report 2022/23 | |
| Report of the Strategic Director, Finance and Investments | |
| Open Report | For Information |
| Wards Affected: None | Key Decision: No |
| Report Author: Christopher Martin, Head of Assurance | Contact Details: Tel: 020 8227 2174 E-mail: Christopher.Martin@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Jo Moore - Strategic Director, Finance and Investments | |
| Summary | |
| <p>This report outlines the Internal Audit work carried out for the year ended 31 March 2023.</p> <p>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”.</p> | |
| 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 2022/23

- 1.1 This report outlines the Internal Audit work carried out for the year ended 31 March 2023.
- 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 work was complete at the time of publishing 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: Nish Popat, Deputy S151 Officer

- 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.
- 3.2 Should there be any new financial impact such as need for additional funding to implement the recommendations, proper delegations to seek approval will need to be followed in line with the Council’s constitution.

4 Other Implications

- 4.1 **Risk Management** – Internal Audit activity is risk-based and therefore supports effective risk management across the Council.
- 4.2 No other implications to report

Public Background Papers Used in the Preparation of the Report:

- None

List of appendices:

- Appendix 1: Internal Audit Annual Report 2022/23

Appendix 1: Internal Audit Annual Report 2022/23

Contents:

1. Introduction
2. Head of Internal Audit Opinion
3. The 2022/23 Internal Audit service
4. 2022/23 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 has carried out for the year ended 31 March 2023.

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 2022/23 Internal Audit Plan, approved by the Audit and Standards Committee, included 46 audits, consisting of 35 risk and compliance audits, 10 school audits and a project to follow-up prior year work in schools. 45 audits were delivered, consisting of 35 risk and compliance audits, 9 audits of schools 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.

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 2022/23 Internal Audit service

The in-house team consisted of four substantive posts - an Audit Manager, two Principal Auditors and an Apprentice Auditor. One of the Principal Auditor roles remained vacant throughout the year despite efforts to recruit. 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 2022/23 by Mazars through the Council's contract with LB Croydon (the 'Apex' framework) and PwC via the contract with LB Barnet (the 'CCAS' framework).

Internal Audit has remained independent of the business in 2022/23. As detailed in the Internal Audit Strategy, additional safeguards have been put in place over areas for which the Head of Assurance is operationally responsible.

4. 2022/23 Internal Audit work conducted

The approved 2022/23 internal audit plan consisted of:

- 35 risk and compliance internal audits.
- 10 audits of schools.
- 1 follow-up project of prior year work in schools.

Four risk and compliance audits were added to the plan in the year as follows:

- Mayor's Charity Account – added in Q1 for an independent examination of the accounts.
- Subletting Leaseholders – added in Q1 because of a prior year 'No Assurance' opinion.
- Supporting Families Programme – added in Q2 because of a potential change to the claim process and risk profile.
- Cyber Essential Plus – added in Q2 because of a revision to the government compliance benchmark.

The following five risk and compliance audits were deferred or cancelled as follows:

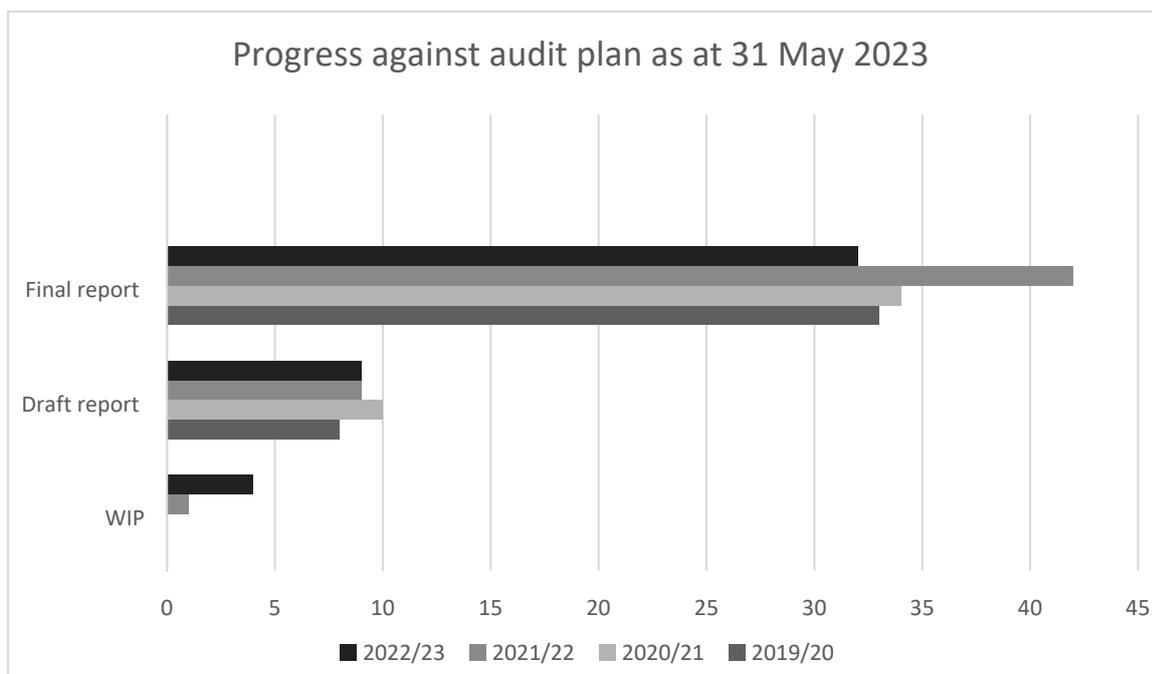
- Server Virtualisation and Management – deleted in Q2 because the Council's reliance on virtual machines (and therefore associated risk) had reduced.
- St Vincent's Catholic Primary School – deleted in Q3 because the school ceased to be maintained by the local authority.
- Housing Rent Setting Review – deferred to 23/24 in Q3 because of partner capacity.
- Housing Health & Safety – deferred to 23/24 in Q4 following discussion with the Regulator of Social Housing.
- Regulatory Services – deferred in to 23/24 in Q4 because of reorganisation.

5. Progress against audit plan

Of the resultant 45 audits (35 risk and compliance and 10 audits of schools), as at 31 March 2023, 22 were at final report and 9 at draft report stage with the remainder still work in progress. The total of 69% at report stage fell short of the target of 80%.

During April and May 2022, further progress was made in finalising draft reports meaning that, as at 31 May 2022, 32 were at final report, 9 at draft report stage and 4 work in progress. This fell short the target of 100% to have reported by this date due to the late stage of the year when significant additional pieces of work were required to be undertaken in-house.

| Progress Status | 2022/23 31 May 2023 | | 2021/22 31 May 2022 | | 2020/21 31 May 2021 | | 2019/20 31 May 2010 | |
|-----------------|------------------------|-----|------------------------|-----|------------------------|-----|------------------------|-----|
| | | | | | | | | |
| Final Report | 32 | 71% | 42 | 81% | 34 | 77% | 33 | 80% |
| Draft Report | 9 | 20% | 9 | 17% | 10 | 23% | 8 | 20% |
| WIP | 4 | 9% | 1 | 2% | 0 | 0% | 0 | 0% |
| TOTAL | 45 | | 52 | | 44 | | 41 | |



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.

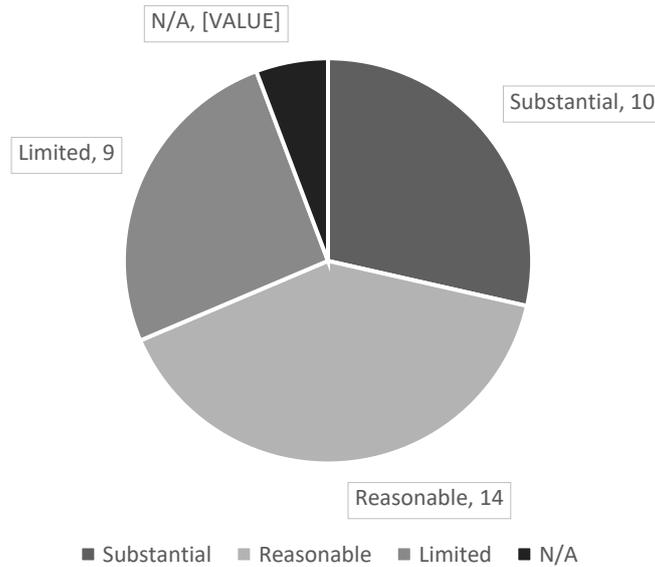
Definitions of the ratings can be found at Appendix 3.

The table below sets out the results of our 35 risk and compliance 2022/23 internal audits:

| Audit | Opinion | Number of Findings | | | |
|---|----------------------|--------------------|------|--------|-----|
| | | Critical | High | Medium | Low |
| Accounts Receivable | Limited Assurance | 0 | 1 | 1 | 1 |
| Capital Programme / Budgeting | Limited Assurance | 0 | 0 | 3 | 1 |
| Accounts Payable | Limited Assurance | 0 | 3 | 0 | 1 |
| Be First - Reside - My Place Relationship | Limited Assurance | 0 | 1 | 4 | 0 |
| Leasehold Management - Service Charges | Limited Assurance | 0 | 2 | 3 | 0 |
| Right to Buy Valuations | Limited Assurance | 0 | 1 | 2 | 0 |
| Payroll & Expenses | Limited Assurance | 0 | 2 | 2 | 1 |
| Cyber Essentials Plus | Limited Assurance | 0 | 2 | 7 | 2 |
| Enforcement Bailiff System Implementation | Limited Assurance | 0 | 1 | 11 | 0 |
| Licencing | Reasonable Assurance | 0 | 0 | 1 | 0 |
| Homelessness | Reasonable Assurance | 0 | 0 | 3 | 0 |
| Pension Fund Investments | Reasonable Assurance | 0 | 0 | 1 | 1 |
| Electoral Program | Reasonable Assurance | 0 | 0 | 1 | 1 |
| Waste Collections - Trade Waste | Reasonable Assurance | 0 | 0 | 2 | 0 |
| Housing Register & Allocation Review | Reasonable Assurance | 0 | 0 | 2 | 2 |
| Geographical Information System Review | Reasonable Assurance | 0 | 0 | 6 | 0 |
| Waste Management - Staff Health & Safety | Reasonable Assurance | 0 | 0 | 3 | 1 |
| Frizlands Workshop: Heavy Vehicles & Drivers Safety | Reasonable Assurance | 0 | 0 | 3 | 2 |
| Direct Payments | Reasonable Assurance | 0 | 0 | 4 | 0 |

| | | | | | |
|---|-----------------------|----------|-----------|-----------|-----------|
| Passenger Transport – SEN | Reasonable Assurance | 0 | 0 | 2 | 2 |
| Sickness & Absence Management | Reasonable Assurance | 0 | 0 | 1 | 0 |
| Housing Voids Management | Reasonable Assurance | 0 | 0 | 5 | 0 |
| Subletting Leaseholders | Reasonable Assurance | 0 | 0 | 2 | 0 |
| Trading Standards | Substantial Assurance | 0 | 0 | 1 | 2 |
| Mayor's Charity Account | Substantial Assurance | 0 | 0 | 0 | 0 |
| Planning for School Places | Substantial Assurance | 0 | 0 | 1 | 0 |
| Supporting Families Programme | Substantial Assurance | 0 | 0 | 0 | 0 |
| Special Education Needs & Disability - Future Service Needs | Substantial Assurance | 0 | 0 | 0 | 0 |
| Early Help KPI Monitoring & Reporting | Substantial Assurance | 0 | 0 | 0 | 0 |
| Adult Care Deferred Payments | Substantial Assurance | 0 | 0 | 1 | 1 |
| General Ledger & Budgetary Control | Substantial Assurance | 0 | 0 | 3 | 3 |
| ERP Post Implementation Review | Substantial Assurance | 0 | 0 | 2 | 1 |
| Right To Work | Substantial Assurance | 0 | 0 | 0 | 0 |
| LAC Savings Accounts | N/A | 0 | 0 | 0 | 0 |
| Domestic Violence Service - Housing Allocations | N/A | 0 | 0 | 0 | 0 |
| | | | | | |
| Total | | 0 | 13 | 77 | 22 |

2022/23 risk and compliance audits - report classifications



We issued nine Limited Assurance opinions in the year as follows:

| Title | Summary of findings and current progress to address reported high-risk findings |
|---|--|
| <p>Accounts Receivable</p> <p>The objective of this audit is to evaluate the design and test the operating effectiveness of key controls in place for the Accounts Receivable process relevant to the potential risks.</p> | <p>Limited Assurance</p> <p>This review identified that while debtors are monitored on an on-going basis by the General Income team, not all debts have historically been effectively chased and this has led to a build-up of aged debt. There is an automated solution which is ready to be deployed that will assist in chasing debtors but this cannot be used until the back log of aged debt has been eliminated as some of this debt may not be appropriate for automated chasing.</p> <p>There is currently a plan in place to write off some of the aged debt and reduce the volume on the debtors list. However, until this is complete there is limited chasing of debts further increasing the build-up of aged debt.</p> <p>We identified one high risk finding:</p> <ul style="list-style-type: none"> Debt collection – identify an action plan to get automated debt chasing switched on as soon as possible. This should include a review of whether its current method of manually chasing all debts before automation is feasible or if bulk write off or transfers of debts are needed. <p><i>Agreed action completed.</i></p> |
| <p>Accounts Payable</p> <p>The objective of this audit was to evaluate the control design and test the</p> | <p>Limited Assurance</p> <p>New supplier requests should be made by the services and approved by the budget holder who should verify the details of the supplier to ensure it is valid and accurate. Testing identified that during our audit period May 2022 to February 2023 there was a lack of controls in place around</p> |

| | |
|---|--|
| <p>operating effectiveness of key controls in place relating to the Accounts Payable process.</p> | <p>the approval of new suppliers. This is because the budget holder approval step has not been configured into the e5 system. Instead, the requests are submitted directly to the Accounts Payable team to approve and set-up. The AP team are currently approving but have no knowledge of the supplier or if the details supplied are appropriate. We also note that due to migration errors arising after the implementation of e5, a large number of suppliers were not successfully migrated into e5 from Oracle, therefore they had to be manually added onto the e5 system. 12 of 25 new suppliers tested had not been processed in accordance with policies and procedures.</p> <p>Requests for supplier amendments are made via an 'Amendment to Supplier/Payee Payment Details' form, which is completed and signed off by the requestor and emailed to the Accounts Payable team alongside supporting documentation to validate the change.</p> <p>The form and supporting documentation are reviewed by the AP team and the change is actioned or rejected as appropriate. We requested a report from e5 of all changes to supplier standing data but were unable to obtain an appropriate report for sampling. This meant that we were unable to sample test changes to standing data including changes to bank details. Management confirmed that there is no exception reporting on changes to supplier standing data or any form of periodic monitoring of changes.</p> <p>All Purchase Orders need approval in line with the Council's financial regulations to ensure that they are appropriate purchases for the Council to be making. This is done through e5 with the system recording the identity of the approver. A data led review of the approvers for all purchase orders identified that 3 Purchase Orders (totalling £12,018) had been approved by the 'e5 Master Approver' generic account. It was not possible as a result to identify who this approver was and the appropriateness of this approval. Access to this generic account is not restricted to a single person. Purchase Order cost code mapping is carried out by Finance. The generic coding is flagged by Procurement who then map the code to the appropriate budget holder but this cannot be applied retrospectively, so Procurement have gained permission to authorise.</p> <p>We identified 3 high risk actions:</p> <ul style="list-style-type: none"> • New suppliers - update e5 to ensure that budget holders are part of the workflow for new suppliers and in the interim period ensure that all set-ups are supported by appropriate documentation. • Exception reporting - engage with e5 to develop a report that allows identification of changes to standing data. Conduct spot checks of changes. • Generic accounts - ensure generic accounts are deactivated. <p><i>Implementation of agreed actions will be tested during the 2023/24 audit in Q4.</i></p> |
| <p>Capital Programme / Budgeting</p> <p>The objective of this audit was to evaluate the controls design and test the</p> | <p>Limited Assurance</p> <p>The Council has a Capital Programme in place with a value of just under £400million in FY2023. The main part of this relates to the large investment the Council is making in new homes, as part of the Council's Investment Strategy but also includes some other expenditure to support council operations such as new schools. This review identified</p> |

| | |
|---|---|
| <p>operating effectiveness of key controls in place for the Capital Budgeting programme relevant to the potential risks for each scope area.</p> | <p>that while there is a clear governance structure in place to oversee the delivery of the Council's Capital programme through an Assets and Capital Board (ACB) there are some issues with the quality of the reporting into this committee, for example, the financial reporting is not subject to any formal scrutiny or sign off before it reaches this group limiting its accuracy. Risks are also not being formally reported to this committee and no risk register is maintained for the Council's Capital Programme.</p> <p>We identified three medium risk findings:</p> <ul style="list-style-type: none"> • Budgets and forecasting – The financial forecasts for each of the projects should be subject to sufficient challenge before being passed onto Finance. However, we noted that when the relevant project manager extracts the forecast from the Be First Project Tracker, this extract goes directly to Finance and so there is no oversight by the programme directors or budget holders. This has led to forecasts being submitted without sufficient explanation of variances from budget and Finance are not informed in a timely manner of any developing financial issues. • Risk management – The Council should maintain visibility over the status of each of the key risks relating to the Council's Capital Programme and individual projects, where appropriate. We identified that while the Council identifies the main risks facing a project in their initial proposal to Cabinet, the risks are not monitored throughout the duration of the project. This limits the Council's ability to respond to an issue if a risk were to materialise as they may not have appropriate mitigations in place. • Action tracking – The Assets and Capital Board (ACB) oversees the Council's Capital Programme. It reviews key management information and produces actions to address any issues. Currently while an action tracker is in place this is not being regularly updated or actions being closed to ensure that any issues identified are addressed. <p><i>Two agreed actions completed.</i></p> <p><i>Risk Register due for review January 2024.</i></p> |
| <p>Be First – Reside – My Place Relationships</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place for the relationship between Be First, Reside, My Place and BD Energy relevant to the potential risks.</p> | <p>Limited Assurance</p> <p>The relationship between Be First and Reside was last looked at by Internal Audit in 2019. There has been considerable turnover in staff since that point and we note that as a result some controls such as the Handover Steering Group, the governance forum with responsibility for overseeing the handover process, that was in operation in 2019 are no longer operating. While other projects such as the development of a single RACI (responsible, accountable, consulted, and informed) matrix that were in progress in 2019 but were not completed and have started again under new staff members. The above indicates a dependency risk on key members of staff that has crystallised as they have moved on. The review has identified that this still appears to be a significant issue with the New Build Asset Coordinator, who is the Council's operational lead for handovers, being central to the process and also being on a short-term secondment from another part of the Council. This issue needs to be addressed to prevent delays in the handover process, which may result in loss of rental income from new properties.</p> |

| | |
|---|---|
| | <p>We have identified one high risk issues during this audit:</p> <ul style="list-style-type: none"> • High dependency on key staff involved in the handover process – The handover process between Be First and Reside is managed by a small number of people and is based heavily on the strength of the relationships between them. There is limited formally documented policies and procedures in place or contingencies arrangements to deal with staff leaving or being absent. If key individuals were to leave, then the process is likely to be set back considerably, potentially delaying handovers. <p><i>Agreed actions implemented. Further review 2024/25.</i></p> |
| <p>Leasehold Management - Service Charges</p> <p>The objective of this audit was to provide an independent review of the adequacy and effectiveness of the control environment relating to the Council's Leasehold Management - Revenue & Capital Service Charges.</p> | <p>Limited Assurance</p> <p>Audit was informed that currently there is no key performance indicator for the recovery of debts relating to Section 20 major works. If there are no expected performance standards set, officers may not know what is expected of them or not understand what constitutes poor, acceptable and excellent performance. This could have an associated effect on recovery rates of Leaseholders' contributions. Management are still trying to unravel what can be charged for and what can't be charged for some of the section 20 works carried out. As such no collection has been carried for the period of the audit. On accounts that can be recovered this is being collected through the reserve funds.</p> <p>We identified one high risk finding:</p> <ul style="list-style-type: none"> • Adequate controls should be implemented over the recovery arrangements for revenue and capital service charges for Leaseholder including: <ul style="list-style-type: none"> • electronic administration of debt recovery arrangements. • the facility to extract reports regularly from the system which identify the level of income receivable. • aged debt reports being compiled and filtered into corporate debt monitoring arrangements. • the facility to generate automatic reminders to Leaseholders periodically for unsettled accounts; • the standardisation of the recovery arrangement with detailed timeframes and level of arrears. <p>From the above process key performance indicators (KPI) should be set to measure the level and value of debt recovery. KPI reports should then be produced on monthly basis for senior management.</p> <p><i>Agreed actions due for completion by March 2024.</i></p> |
| <p>Right To Buy Valuations</p> <p>The objective of this audit was to evaluate the control design and test the operating effectiveness of key controls in place for Right to Buy relevant</p> | <p>Limited Assurance</p> <p>The Right to Buy process has been in place at the Council for a significant period but has recently come under new management. This has flagged some issues that the Council is now seeking to address. This includes a lack of detail being provided by surveyors valuing properties and a subsequent uncertainty about the accuracy of valuations. This may lead to the Council under valuing it's properties during sales at a loss to the Housing Revenue Account. We did identify some good practice including proactive checking of all cash used in purchases to prevent properties being used for the purposes of money</p> |

| | |
|--|--|
| <p>to the potential risks for each scope area.</p> | <p>laundering and applications being processed in a timely manner with a clear system to track this.</p> <p>We identified one high risk finding. This is:</p> <ul style="list-style-type: none"> • Documentation of valuations is not sufficient – The documents provided as part of the valuation of properties for Right to Buy are not sufficient to assess the reasonableness of the valuations made. Key things that the Council is not getting from the surveyor include the assumptions and adjustments made to get from an average price in an area to the valuations, the criteria used to select comparable properties, the methodology used for the valuation and evidence of the surveyors' experience and qualifications. <p><i>Agreed actions now complete.</i></p> |
| <p>Cyber Essential Plus</p> <p>The objective of this audit was to assess the design and operating effectiveness of the cybersecurity controls in place at London Borough of Barking and Dagenham (LBBD), using the National Cybersecurity Centre (NCSC) Cyber Essentials control framework as a baseline to manage cybersecurity risks.</p> | <p>Limited Assurance</p> <p>Cybersecurity remains a key risk for organisations, with recent increases in the frequency and sophistication of cyberattacks. Rapid digitisation and changes in working practices brought on by the Covid-19 pandemic have introduced new risks that organisations are required to understand and manage. Although some attacks are complex, many can be avoided by taking simple steps to secure the IT environment. The NCSC Cyber Essentials control framework provides guidance that helps fulfil these needs and is advocated as good practice by the UK Government.</p> <p>Only fully supported operating systems, such as Microsoft Windows, should be installed on devices, such as workstations and AVDs, to ensure that important security updates and patches are deployed. Out of support operating systems will not receive security updates to fix vulnerabilities from the vendor. Vulnerabilities can be exploited by attackers as part of ransomware attacks, where critical data is inaccessible and held to ransom using encryption. Unsupported devices may not have the latest security updates installed to remediate vulnerabilities, which could be exploited, resulting in financial/data loss and/or business disruption.</p> <p>Administrator access to the firewall consoles as well as to the servers is privileged access and should be kept secure via Multi Factor Authentication (MFA). Not using MFA exposes an organisation to severe cyber-attacks such as Brute Force attacks, where the attacker using automated tools, enters many passwords or passphrases in quick succession with the hope of eventually guessing correctly. Weak administrator password controls can be bypassed if there is no MFA in place, leading to potential unauthorised access to devices such as firewalls and servers, thus causing business disruption as well as data/financial loss.</p> <p>We identified two high risk actions:</p> <ul style="list-style-type: none"> • Management should ensure that the unsupported devices are upgraded on a timely basis. • Management should assess the feasibility of enabling MFA for access to firewalls and servers. If it is feasible to do so, then MFA should be implemented for access to all such devices. |

| | |
|---|--|
| | <p><i>Agreed actions complete.</i></p> |
| <p>Payroll and Expenses</p> <p>The objective of this audit is to evaluate the controls design and test the operating effectiveness of key controls in place for Payroll and expenses, relevant to the potential risks for each scope area.</p> | <p>The Council has just implemented a new payroll system, iTrent. This has changed the way some processes operate and means that expenses are now being processed through the payroll system, which was not previously the case. This review has identified concerns with the set up of the new system and associated processes. The biggest areas of concern are the failure of the new system to enforce the correct approvals of expenses and errors found in the final payment calculations for leavers. There is a need for some significant updates to processes to ensure expenses are correctly approved and that the quality issues with leaver calculations are addressed.</p> <p>This review identified two high risk findings:</p> <ul style="list-style-type: none"> • Expenses – The expenses process is currently operating without key controls to check that submitted expenses are approved by someone at the correct level, have receipts and that the correct policy is followed. We have additionally noted a lack of controls to ensure that the expenses policy is compliant with tax law and that there is a process in place to recover any over payments identified. • Leavers - The Payroll team were unable to provide evidence of the date that five leavers had been removed from the payroll. In addition for two of the leavers tested we identified discrepancies in the calculation of the final payment or between the calculation and the final amount paid. <p><i>Implementation of agreed actions will be tested during the 2023/24 audit in Q4.</i></p> |
| <p>Enforcement Service – Bailiff System implementation</p> <p>The objective of this audit was to evaluate and report on the control design and test the operating effectiveness of key controls in place over the implementation process for the enforcement system.</p> | <p>A contract for a new Enforcement System was awarded to Lateral Technology Ltd in February 2022. A sealed and signed contract was put in place in June 2022 for 2 years plus 24-month extension subject to review on G-Cloud.</p> <p>This review identified one high risk finding:</p> <ul style="list-style-type: none"> • A generic account on the system is a computer account that is not uniquely owned by an individual user while default local user accounts are built-in accounts that are created automatically when a system is installed. These accounts can be used by several individuals who share the same password. The list of users’ accounts reviewed by audit identified 4 generic accounts within the system. Management should ensure that all Generic Accounts are removed, Default Accounts disabled and replaced with individual user accounts or restricted group accounts with specific purpose that individual users could be added. <p><i>Agreed actions complete.</i></p> |

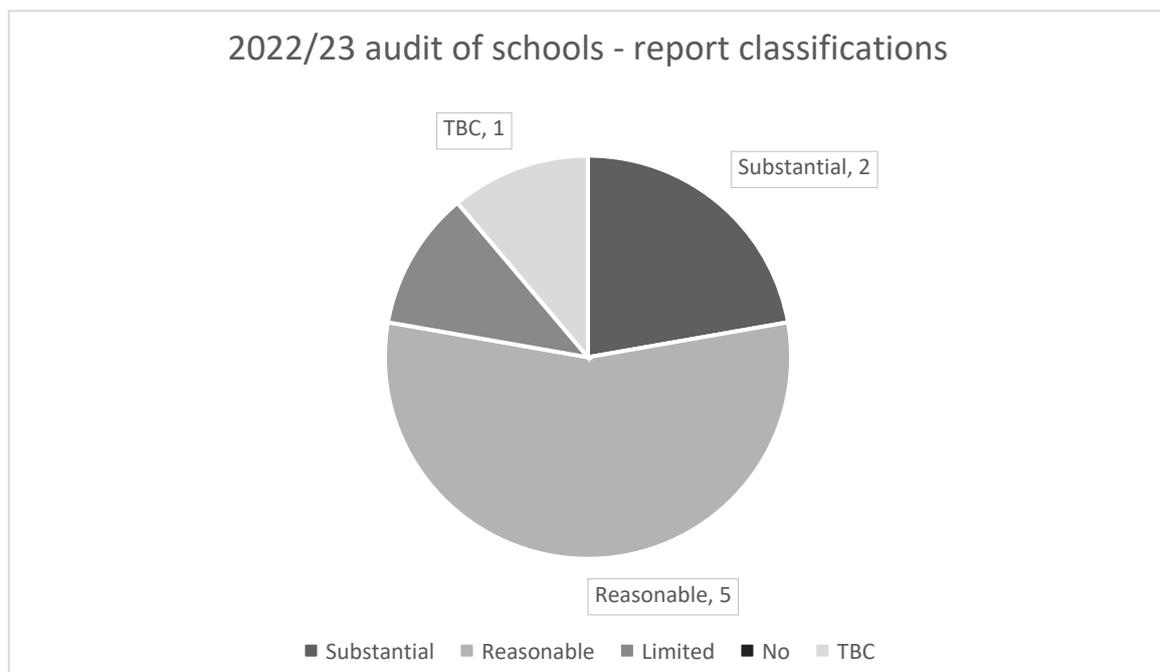
A critical risk is defined as requiring immediate and significant action. A high risk is defined as requiring prompt action to commence as soon as practicable where significant changes are necessary. Management are expected to implement all critical and high-risk recommendations by the agreed target 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.

Audits of Schools

Schools within the Borough are audited on a risk basis. 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 the 2022/23 Internal Audit work auditing 9 schools:

| School | Opinion | Number of findings | | | |
|--------------------------------|-------------|--------------------|----------|-----------|-----------|
| | | Critical | High | Medium | Low |
| William Ford School | Limited | 0 | 2 | 9 | 6 |
| All Saints Catholic School | Substantial | 0 | 0 | 1 | 0 |
| Rush Green Primary School | Reasonable | 0 | 1 | 3 | 0 |
| William Bellamy Primary School | Reasonable | 0 | 0 | 3 | 0 |
| Dorothy Barley Infant School | Reasonable | 0 | 0 | 5 | 0 |
| Eastbrook Comprehensive School | Substantial | 0 | 0 | 1 | 2 |
| Henry Green Primary School | Reasonable | 0 | 0 | 4 | 2 |
| John Perry Primary School | Substantial | 0 | 0 | 0 | 0 |
| Northbury Primary School | Reasonable | 0 | 0 | 1 | 1 |
| Prior Year Follow-up Work | N/A | - | - | - | - |
| TOTAL: | | 0 | 3 | 27 | 11 |



We issued one “Limited Assurance” school report in the year as follows:

| Title | Summary of findings and current progress to address reported high-risk findings |
|--|---|
| <p>William Ford Junior School</p> <p>The objective of this audit was to ensure that William Ford Junior School has adequate and effective controls with regards to the financial management and governance of the school.</p> | <p>This school was previously audited the school in November 2021, achieving an assurance rating of ‘No Assurance’. While we have raised a number of findings, overall the school have demonstrated progress from the November 2021 review. Our previous report raised 19 recommendations, of which 7 were classed as high risk, 5 as medium, and 7 as low. This latest fieldwork indicates an improvement to two high risk recommendations.</p> <p>The School Development Plan (SDP) for 2021/2022 has been derived from the priorities from the previous year’s SDP. The Headteacher monitors progress of the SDP through the use of formal evaluation twice a year and key areas are now monitored by governors. At the request of the new Headteacher, the Local Authority commissioned a full governance review from an independent consultant in October 2020, which resulted in an action plan (17 points) being implemented. Observation of the action plan confirmed that there are several areas of concern across how the governing body operate, in particular around Governor training and development. We have made recommendations in relation to governance where relevant to the scope of our testing.</p> <p>We also noted that the school has, with approval of the FGB, set a financial approval limit for the Head Teacher of £10,000. While we have raised no recommendation in respect to this, in other schools we have noted that expenditure rarely reaches this level, and the school may therefore wish to keep this under review and revise the approval threshold to provide greater oversight of procurement. In two out of nine audit areas which have been reviewed, the control environment in place met expected standards.</p> <p>We identified two high risk findings:</p> <ul style="list-style-type: none"> • Income and Expenditure Records and Banking – For one of the procurement sample requiring quotes as part of the Value for Money process, no evidence of quotations or approval could be provided • Staffing – No assurance on the soundness and adequacy of the external payroll provider’s systems has been provided. <p><i>Agreed actions now complete.</i></p> |

7. Internal Audit Performance

| Purpose | Target | Performance & RAG Status | What it measures |
|--|--|--------------------------|---------------------------------------|
| Output Indicators (Efficiency) | | | |
| % of 2021/22 Audit Plan completed (Audits at draft report stage) | >25% by 30/09/22 | 13% - RED | Delivery measure |
| | >50% by 31/12/22 | 45% - AMBER | |
| | >80% by 31/03/23 | 69% - RED | |
| | 100% by 31/05/23 | 91% - AMBER | |
| 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% | 10% - AMBER | Delivery measure |
| Overall Client Satisfaction | > 85% satisfied or very satisfied over rolling 12-month period | 100% - GREEN | Customer satisfaction |

* Internal Audit for 2022/23 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 strengthen quality in 2023/24 particularly through further recruitment to the in-house team and the establishment of a London-wide Internal Audit Pathway for trainees.

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 and agreed changes thereto. 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 & STANDARDS COMMITTEE**30 January 2024**

| | |
|--|---|
| Title: Internal Audit Report 2023/24 Q3 (April to December 2023) | |
| Report of the Head of Assurance | |
| Open Report | For Information |
| Wards Affected: None | Key Decision: No |
| Report Author: Christopher Martin, Head of Assurance | Contact Details: Tel: (020) 8227 2174 E-mail: Christopher.Martin@lbbd.gov.uk |
| Accountable Strategic Leadership Director: Jo Moore - Strategic Director, Finance & Investments | |
| Summary: This report brings together all aspects of Internal Audit work undertaken to date during 2023/24. The report details audit progress and results to 31 December 2023 and includes details of the overdue high-risk recommendations outstanding and actions being taken by management to address these. | |
| Recommendation: The Audit & Standards Committee is asked to note the contents of the report. | |

1. Risk and Compliance Audits 2023/24

- 1.1. The risk and compliance audit plan has had three new audits added to the plan since the start of the year with three being removed. There have also been days added to two audits to ensure appropriate depth of coverage. This is detailed in Section 1.
- 1.2. At the end of Q3, 33% of the plan of risk and compliance audits were at least at draft report stage. This falls short of the target for the end of Q3 which is for 50% of audits to be at draft stage but the plan as a whole remains on track for 100% delivery by the prescribed deadline.

2. School Audits 2023/24

- 2.1. An exercise has been undertaken to assess the schools in the Borough to inform a risk-based school audit plan and work is now underway against this plan.
- 2.2. The 55 days allocated to school audits has been split amongst 10 schools and the prior year follow-up work.
- 2.3. At the end of Q3, 50% of the school audits had been completed which meets the 50% target and the plan remains on track for 100% completion by March 2024.

3. Outcomes of the Internal Audit work

- 3.1. Seventeen draft reports have been issued since the start of the year, twelve from the risk and compliance plan and five schools. Seven of these have progressed to the final report stage with all of these being awarded either reasonable or substantial assurance opinions. It is however unlikely that all opinions issued as the year progresses will be so favourable.

4. Progress in implementation of Internal Audit recommendations as at 31 December 2023

- 4.1. Internal Audit tracks management progress in implementing all critical and high-risk findings by way of a chase up or follow up to the audit client accordingly.
- 4.2. There are 3 overdue high-risk findings as at 31 December 2023 (see appendix 1). There are no critical findings outstanding.

5. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

- 5.1. 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. Financial Implications

Implications completed by: Nish Popat, Deputy S151 Officer

- 6.1. 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.

7. Other Implications

- 7.1. Risk Management – Internal Audit activity is risk-based and therefore support effective risk management across the Council.
- 7.2. No other implications to report

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

9. Appendices

| Appendix | Content |
|-----------------|-------------------------------------|
| 1 | Internal Audit 2023/24 Q3 update |
| 2 | Revised Internal Audit Plan 2023/24 |

Appendix 1: Internal Audit 2023/24 Q3 update

1. Progress against Internal Audit plan 2023/24 as at 31 December 2023

Risk and Compliance audits

1.1. The following tables detail the changes to the 2023/24 audit plan made in the first three quarters of the year, April to December 2023:

| Added | Removed | 2023/24 audits as at end of Q3 |
|-------|---------|--------------------------------|
| 3 | 3 | 36 |

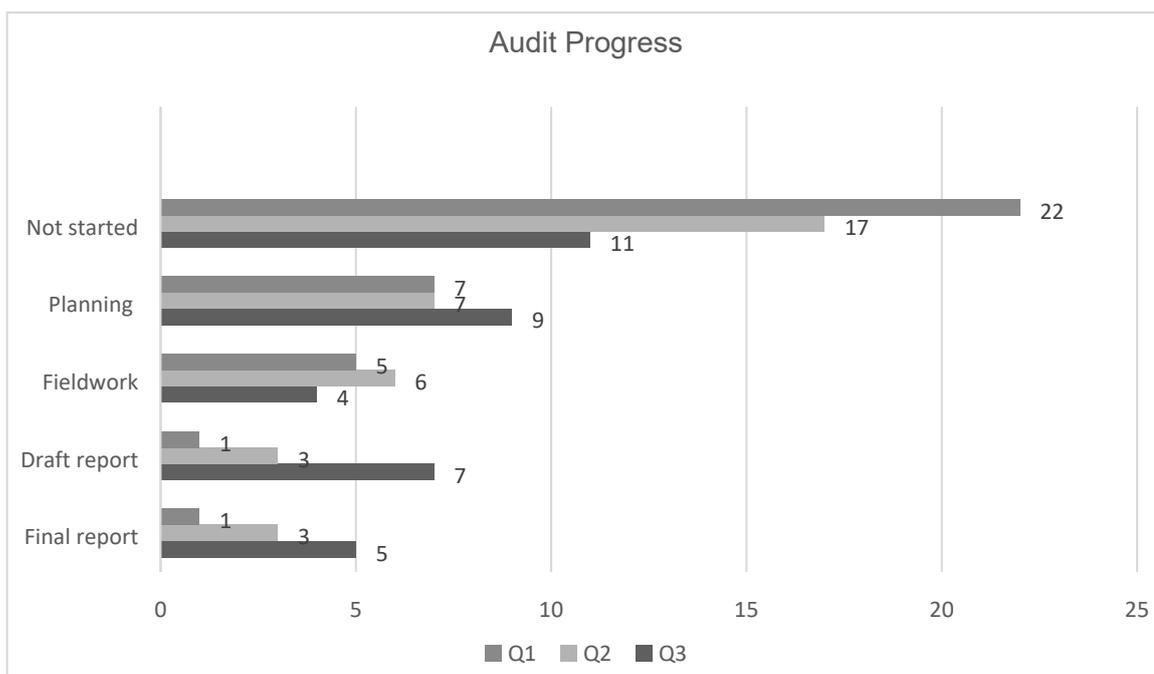
| Audit title | Change | Rationale for change |
|--------------------------------------|----------|---|
| Anonymous Recruitment | Added | Identified risk around recruitment processes |
| RSL Health & Safety Compliance | Added | Independent review of My Place progress against Regulator concerns |
| Domestic Violence Strategy | Added | Deferred from 2022/23 |
| Environmental, Social and Governance | Deferred | Deferred to 2024/25 to allow sufficient time for policy development |
| Damp and Mould Compliance | Deferred | Deferred to 2024/25 given demands of Health & Safety Compliance audit |
| Fire Safety | Deleted | Risks covered within Health & Safety Compliance audit |

The revised Internal Audit plan is detailed at Appendix 2.

1.2. The table and graph below indicate the progress made against the 2023/24 audit plan as at 31 December 2023.

| Not started | Planning | Fieldwork | Draft report | Final report |
|-------------|----------|-----------|--------------|--------------|
| 11 | 9 | 4 | 7 | 5 |

Audits identified as 'not started' in the table above will enter the planning and delivery stages during Quarter 4.



1.3. All five audits that have reached the final report stage during 2023/24 so far were awarded either substantial or reasonable assurance audit opinions.

School Audits

1.4. In recent years the Head of Assurance has modified the approach taken to school audits such that they are now risk-based rather than cyclical in nature. A risk assessment has been undertaken to inform the school audit plan for 2023/24.

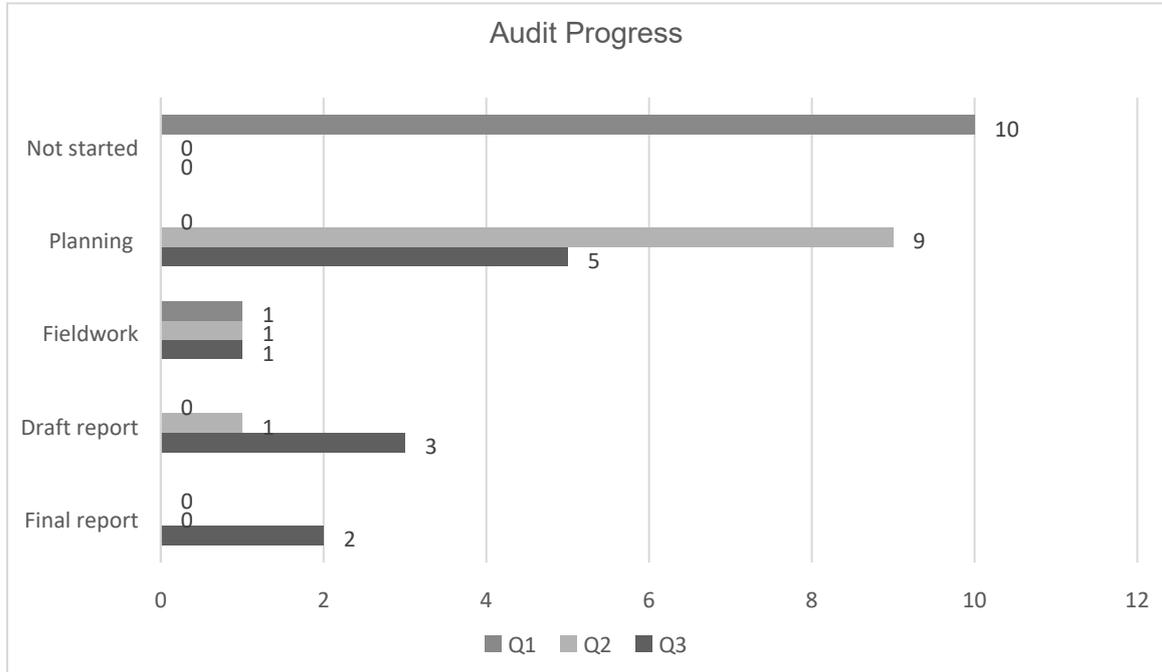
1.5. The following table details the allocation of the 55 school audit days for the year:

| School | Days |
|---|-----------|
| Grafton Primary School | 5 |
| George Carey Church of England Primary School | 5 |
| Hunters Hall Primary School | 5 |
| Jo Richardson Community School | 5 |
| Ripple Primary School | 5 |
| Roding Primary School | 5 |
| Thomas Arnold Primary School | 5 |
| Robert Clack School | 5 |
| Becontree Primary School | 5 |
| Richard Alibon Primary School | 5 |
| Follow-ups | 5 |
| | 55 |

The current Internal Audit plan is detailed at Appendix 2.

1.6. The table and graph below indicate the progress made against the 2023/24 schools audit plan as at 31 December 2023.

| Not started | Planning | Fieldwork | Draft report | Final report |
|-------------|----------|-----------|--------------|--------------|
| 0 | 5 | 1 | 3 | 2 |



1.7. Both of the two audits that have reached the final report stage during 2023/24 so far were awarded either substantial or reasonable assurance opinions.

2. Progress in implementation of audit findings as at 31 December 2023

2.1. The table below summarises the high-risk findings, as at 31 December 2023, that have reported as final, been implemented, are outstanding and are beyond their due date:

| | Reported | Implemented | Outstanding | Beyond due date |
|---------------|------------|-------------|-------------|-----------------|
| 2019/20 | 34 | 34 | 0 | 0 |
| 2020/21 | 21 | 21 | 0 | 0 |
| 2021/22 | 29 | 28 | 1 | 1 |
| 2022/23 | 15 | 8 | 8 | 2 |
| 2023/24 | 4 | 0 | 4 | 0 |
| Total: | 103 | 91 | 13 | 3 |

2.2. The current progress in implementing the overdue high-risk recommendations has been reported by management to be as detailed in the following table:

| Finding | Agreed Action | Latest progress as reported by management |
|---|--|--|
| 2021/22 – AccuServ Repairs Management System – Limited Assurance | | |
| <p>AccuServ is designed to have three interfaces - to Open Housing, BDMS's accounting system and their supplier of materials. Only one of these was in operation, the link to Open Housing.</p> <p>Due to limitations with Open Housing, the Council can supply repair data to AccuServ but Open Housing cannot receive updated data from AccuServ. This creates both inefficiency and inaccuracy as this requires manual entry of work done into the Council's system.</p> | <p>Management should undertake regular reconciliations between data sets and ensure that the final interfaces are implemented.</p> <p>Consider the benefits of enabling full integration between AccuServ and Open Housing.</p> <p>Original Date: September 2022</p> | <p>A copy of the reconciliation between data sets has been provided with exceptions identified and resolved.</p> <p>There is an ongoing discussion around the relative benefits of an integration from AccuServ to Open Housing. The current view is that the Council's needs around asset management may be better served by integrating to a data platform that can then pull data together from a variety of sources to better support the operational needs of My Place.</p> <p>Revised Date: Reviewed monthly</p> |
| 2022/23 – Leasehold Management Service Charges – Limited Assurance | | |
| <p><u>Debt Recovery Management</u></p> <p>There is currently no key performance indicator for the recovery of debts relating to Section 20 major works.</p> | <p>KPIs will be set to measure the level and value of debt recovery.</p> <p>KPI reports will then be produced on monthly basis for senior management.</p> | <p>The service has been unravelling what can be charged for some of the S.20 works carried out. As such no collection was made for the audit period. On accounts that can be</p> |

| | | |
|--|--|---|
| | <p>Original Date: September 2023</p> | <p>recovered this is being collected through the reserve funds.</p> <p>The service has almost completed an exercise to identify the major works debt against the reserve fund so that the level of arrears can be determined.</p> <p>Revised Date: March 2024</p> |
| <p><u>Section 20B Notice Consultation</u></p> <p>No major works costs have been demanded from Leaseholders for at least three years and recent 1A1 and 1A2 Section 20B Notice costs received are currently being reviewed to ensure compliance with consultation requirements before billing the Leaseholders.</p> | <p>Review the consultation process and controls in place to ensure that consultations with Leaseholders are done before carrying out qualifying works or enters into a long-term agreement for the provision of services.</p> <p>All completed works and long-term agreement works that were signed off should be billed to Leaseholders in accordance with the schedule of billing in place.</p> <p>Original Date: September 2023</p> | <p>As above.</p> <p>Revised Date: March 2024</p> |

3. Internal Audit performance as at 31 December 2023

| Purpose | Target | Performance & RAG Status | What it measures |
|--|---|--------------------------|---------------------------------------|
| Output Indicators (Efficiency) | | | |
| % of 2023/24 Audit Plan completed (Audits at draft report stage) | >25% by 30/9/23 | 15% - RED | Delivery measure |
| | >50% by 31/12/23 | 36% - RED | |
| | >80% by 31/3/24 | N/A | |
| | 100% by 31/5/24 | N/A | |
| 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 Recs not addressed within timescale | <5% | 14% - AMBER | Delivery measure |
| Overall Client Satisfaction | > 85% ratings excellent, good or adequate (i.e. not rated poor) | 100% – GREEN | Customer satisfaction |

*Internal Audit for 2023/24 is being provided by a combination of the in-house team, Mazars LLP and PwC LLP. All teams have evidenced ongoing compliance with the Public Sector Internal Audit Standards.

Appendix 2: Revised Internal Audit plan 2023/24 as at 31 December 2023

1.1. The Internal Audit plan 2023/24 was approved by the May 2023 Audit and Standards Committee.

1.2. The following audits have occurred or are in progress as at the end of Q3:

| Audit title | Status at 31 December 2023 |
|--------------------------------------|--|
| Mayor's Charity Account | Final Report issued Q2 – Substantial Assurance |
| VAT | Final Report issued Q2 – Substantial Assurance |
| Social Value | Final Report issued Q2 – Substantial Assurance |
| BDMS Performance Plan | Final Report issued Q3 – N/A |
| Pensions Administration | Final Report issued Q3 – Reasonable Assurance |
| Planning and Building Control | Draft Report issued Q3 |
| Gifts and Hospitality | Draft Report issued Q3 |
| Cost of Living Crisis | Draft Report issued Q3 |
| Payroll | Draft Report issued Q3 |
| Council Tax | Draft Report issued Q3 |
| NNDR | Draft Report issued Q3 |
| Settlement Agreements | Draft Report issued Q3 |
| Third Party IT Contracts | Work In Progress |
| Antivirus & Malware | Work In Progress |
| Anonymous Recruitment Process Review | Work In Progress |
| Health & Safety Team | Work In Progress |
| HRA Compliance Health Check | Work In Progress |
| Schools | |
| Robert Clack School | Final Report issued Q2 – Substantial Assurance |
| Richard Alibon School | Final Report issued Q3 – Reasonable Assurance |
| Ripple Primary School | Draft Report issued Q3 |
| Roding Primary School | Draft Report issued Q3 |
| Becontree Primary School | Draft Report issued Q3 |
| School Follow-ups | Work in Progress |

1.3. The audits planned for the remainder of 2023/24 are set out below. The plan details the draft audit title and draft audit objective:

| Audit Title | Days | Focus of Scope |
|------------------------------------|-------------|---|
| Finance & IT | | |
| Systems Logical Access Review | 15 | Access controls for key systems |
| Identity & Access Management | 15 | Issuing and managing digital identities |
| General Ledger & Budgetary Control | 15 | Key Financial System – control design & effectiveness |

| | | |
|---|----|---|
| Payment Card Industry Data Security Standard - PCIDSS | 15 | Retained risk |
| | | |
| Inclusive Growth | | |
| Accounts Payable | 15 | Key Financial System – control design & effectiveness |
| | | |
| Law, Governance & Organisational Change | | |
| Onboarding Process | 15 | Managers' use of system incorporating probation |
| Workforce Governance | 15 | Revised ways of working |
| Access To Work | 10 | Authorisation, approval and reclaim of costs |
| HR - Working Patterns | 10 | Management control over working patterns |
| | | |
| Community Solutions | | |
| Accounts Receivable | 15 | Key Financial System – control design & effectiveness |
| Community Hubs | 10 | As identified on risk registers |
| Development of Civil Society | 15 | Review of approach to corporate risk mitigation |
| | | |
| My Place | | |
| Housing Repairs & Maintenance | 15 | No Assurance in previous year |
| Commercial Rents | 15 | Setting and monitoring of rental income |
| Land & Building Valuations | 15 | Controls to ensure accurate and valid valuations |
| Housing Rent Setting & Adjustment | 15 | Setting of HRA rents |
| Asset Management | 20 | Discharge of responsibilities to maintain public assets |
| | | |
| People and Resilience | | |
| Special Education Needs & Disability | 15 | Focus on areas of improvement |
| Domestic Violence Strategy | 15 | Review of strategy impact |
| | | |
| Schools | | |
| Grafton Primary School | 5 | School probity review of whole business area |
| George Carey CE Primary School | 5 | School probity review of whole business area |
| Hunters Hall Primary | 5 | School probity review of whole business area |
| Jo Richardson Primary | 5 | School probity review of whole business area |
| Thomas Arnold Primary | 5 | School probity review of whole business area |
| | | |

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AUDIT & STANDARDS COMMITTEE**30 January 2024**

| | |
|---|------------------------|
| Title: Counter Fraud Report 2023/2024 Q3 (April to December 2023) | |
| Report Author: Kevin Key, Counter Fraud & Risk Manager Tel: 020 8227 2850, E-mail: kevin.key@lbbd.gov.uk | |
| Wards Affected: None | For Information |
| Accountable Director: Jo Moore - Strategic Director, Finance & Investments | |
| Summary: This report brings together all aspects of counter fraud work undertaken to date during 2023/24. The report details progress between 1 April and 31 December 2023. | |
| Recommendation: Audit & Standards Committee is asked to note the contents of the report. | |

1. Summary of counter fraud work undertaken for Q1-3 2023/24

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

2. Corporate Fraud Activity including Whistleblowing

2.1 The update on corporate fraud activity for Q1-3, 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. 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 Quarterly Fraud referrals including whistleblowing:

| | 22/23 Total | Q1 | Q2 | Q3 | 23/24 Total |
|---|----------------|-----|-----|----|----------------|
| Cases Outstanding from last quarter | | 16 | 17 | 16 | |
| Referrals received in Period | 271 | 110 | 115 | 87 | 312 |
| Cases accepted for investigation | 76 | 16 | 8 | 14 | 38 |
| Referred to other service block within LBBD | 84 | 86 | 83 | 61 | 230 |
| Data Protection Requests received from other Local Authorities, the Police and outside agencies | 111 | 8 | 24 | 12 | 44 |
| Cases closed following investigation | 74 | 17 | 9 | 10 | 36 |
| Ongoing Corporate Fraud Investigations: | | 17 | 16 | 20 | |

2.3 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. Given the scope of what may be construed as 'fraud', many referrals are sent through in the belief that fraud has been committed, but following assessment, found to be more appropriately dealt with elsewhere.

We receive requests that relate specifically to CCTV, Subject Access Requests, 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. If there is a possible consideration of fraud we are likely to have received a referral either via email or phone.

2.4 Outcomes – Quarterly and annual totals

| | 22/23 Total | Q1 | Q2 | Q3 | 23/24 Total |
|--|----------------|----|----|----|----------------|
| Disciplinary Action (including referrals for DA)/Resigned during | 11 | 0 | 0 | 3 | 0 |
| Referred to Management/advice given | 13 | 4 | 0 | | 4 |
| No fraud found/Not proven/NFA | 36 | 5 | 5 | 2 | 10 |
| Referred to Police/Action Fraud/3 rd Party | 8 | 8 | 4 | 3 | 12 |
| Prosecutions | 0 | 0 | 0 | 2 | 2 |

| On Going Cases - Legal Action | Q1 | Q2 | Q3 |
|--------------------------------------|----|----|----|
| Total Corporate cases | 3 | 3 | 4 |

3. Housing Investigations

3.1 Members are provided specific details on the outcomes from the work on Housing Investigations. For 2023/24, outcomes are set out below.

3.2 Quarterly Housing Investigations

| Caseload | 22/23 Total | Q1 | Q2 | Q3 | 23/24 Total |
|----------------------------|----------------|-----|-----|-----|----------------|
| Open Cases brought forward | | 40 | 28 | 19 | |
| New Cases Added | 464 | 149 | 155 | 124 | 428 |
| Cases Completed | 460 | 161 | 164 | 125 | 435 |
| Open Cases | | 28 | 19 | 33 | |

| Ongoing Cases - Legal Action | Q1 | Q2 | Q3 |
|-------------------------------------|----|----|----|
| Total housing cases for recovery | 4 | 4 | 6 |

| Outcomes - Closed Cases | 22/23 Total | Q1 | Q2 | Q3 | 23/24 Total |
|--|-------------|----------|---------|---------|-------------|
| Convictions | 1 | 0 | 0 | 0 | 0 |
| Properties Recovered | 11 | 4 | 4 | 0 | 8 |
| Right to Buy initial checks | 459 | 108 | 79 | 63 | 250 |
| Successions Prevented & RTB stopped/agreed | 47 | 18 | 15 | 15 | 48 |
| Savings (FTA, SPD CTax, RTB, Decant) | £959,368 | £175,326 | £12,224 | £23,260 | £210,810 |
| Other Potential Fraud prevented/Advice given/passed to appropriate service block incl Apps cancelled | 121 | 15 | 51 | 21 | 87 |
| No further action required/insufficient evidence/not proven | 41 | 16 | 15 | 26 | 57 |

3.3 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.

| | 22/23 Total | Q1 | Q2 | Q3 | 23/24 Total |
|------------------|-------------|----|----|----|-------------|
| Education Checks | 411 | 90 | 62 | 88 | 240 |

(Education checks relate to assisting admissions in locating children or families to free up school places or confirm occupancy and RTB checks are the early-stage checks undertaken to ensure occupancy and the legitimate tenant/s are entitled to continue with the RTB process to purchase their property).

4. Summary of Q1-3 key issues

4.1 Throughout Quarters 1 & 2 the team completed visits to those properties in receipt of small business rates relief. This was a proactive exercise, in conjunction with colleagues within Community Solutions, to establish whether there had been any change of circumstance in any business that was in receipt of Small Business Rates Relief. The team completed visits to all 1,666 properties that currently qualify for the scheme. This resulted in a total of 79 properties having their liability amended, raising an extra £256,275 in small business rates.

| Row Labels | SBRR VALUE | Count of PROPERTY |
|----------------------|-------------------|--------------------------|
| Liability Amended | £19,206 | 8 |
| Visit Raised/Tracing | £237,069 | 71 |
| Grand Total | £256,275 | 79 |

- 4.2 Quarter 3 saw the sentencing of 2 ex-employees who had worked in the Trade Waste Collection Service. Both ex-employees were handed 90-week prison sentences, suspended for 2 years, alongside 120 hours of unpaid work and £3,600 each in costs and compensation. One also received a further 20 days of rehabilitation activity following his late guilty plea. The Counter Fraud Team started an investigation 18 months previously following suspicion that they may have been collecting extra waste, and taking money, from businesses who were not paying the council for the service. An initial disciplinary investigation led to both resigning before a disciplinary hearing. The team opened a criminal investigation and assisted by colleagues in Public Realm and a full review of data established the full extent of the fraud. The criminal investigation led to both being summonsed to Barkingside Magistrates Court in September 2022 where the case was committed to Snaresbrook Crown Court, ultimately leading to the sentencing in October 2023.
- 4.3 Quarters 2 & 3 also saw the team become involved with checking of Reside applications. To date this has resulted in numerous applications being stopped for not meeting the required criteria, alongside 4 confirmed frauds, where the applicants provided false documents. Criminal investigation is ongoing with the view to prosecuting those that attempted to gain Reside tenancies fraudulently.
- 4.4 Throughout Quarters 1 to 3, the team recovered 8 housing properties. One particular property was the subject of a joint working initiative with colleagues in Anti-social behaviour. The property has been regularly visited by Police leading up to the involvement of LBBB. Checks confirmed the tenant was residing in Essex and through working with her to explain the concerns, and evidence available to instigate legal action, the tenant voluntarily gave up the property and returned the keys.
- 4.5 Of the 8 properties in the quarter, outlined below is a summary of the people who were given the properties that were being sublet or not used in the correct way, and recovered by the team in the quarter.

| | | |
|-------------|------------|---|
| 1 bed flat | Still void | Tenant was living abroad and allowing family member to reside in property. Tenant passed away during the investigation and property was recovered without the need for legal action. |
| 2 bed house | Still Void | Sublet property and anti-social behaviour reported at address. Tracked tenant living in another borough and following a meeting at the property, tenant voluntarily handed back keys. No approach |

| | | |
|-------------|---|---|
| | | from any of the subtenants to date. |
| 2 bed flat | Re-let as temporary accommodation on 13 July to a Priority Homeseeker | Tenant was living abroad and allowing family member to reside in property. No one has approached for assistance since the property was recovered |
| 2 bed house | Re-let 27 July to a Priority Homeseeker | Tenant was living abroad and subletting, but they moved out of the property and never met with Officers. We have no information as to who they were so cannot state whether they have approached for assistance. |
| 3 bed flat | Re-let 25 September 2023 to Homeseeker | Sublet property and anti-social behaviour reported at address. Tracked tenant living in another borough and following a meeting at the property, tenant voluntarily handed back keys. No approach from any of the subtenants to date. |
| 2 bed flat | Re-let 27 June 2023 to Homeseeker | Tenant sublet property to family member and voluntarily handed back keys when challenged. No contact to date from subtenant. |
| 1 bed flat | Re-let 25 September 2023 to Homeseeker | Tenant was living abroad and subletting. Keys handed back and property recovered without need for legal action. No one has approached for assistance since the property was recovered. |
| 1 bed flat | Re-let on 29 August 2023 by transfer | Tenant was subletting and voluntarily handed keys back when challenged. No contact from either Tenant or subtenants to date. |

4.6 As part of a commitment to be more transparent about how we deal with employees, outlined below is a summary of the 10 cases within Q1-3 that the Counter Fraud Team were involved in;

| Service | Allegation | Outcome |
|--------------------|--|---|
| Enforcement | Working 2 jobs simultaneously | Former employee – Information passed to requesting Authority via Data Protection response |
| Public Realm | Being flagged on Credit Industry Fraud Avoidance System | Established that Agency worker had attempted to pay false cheques into a bank account 8 years previously. Full checks completed and allowed to continue with role |
| Adults & Childrens | Whistleblowing allegation | Former employee raised concerns over SEND funding. Fully investigated and no wrongdoing found. |
| Parking | Allegation received that member of staff allegedly provided false evidence at a Parking Tribunal | Fully investigated and establish no one knowingly made a false statement; unclear wording used; recommendations provided to prevent future occurrences. |
| School | Using incorrect address for job application | Investigated. Established the incorrect door number was mistakenly added on the application. School dealt direct. |
| Care Home | Multiple allegations of abuse at Care Home made by employee | Escalated as safeguarding and dealt with directly by Head of Service/Inspection Team |
| My Place | Abuse of Position | Agency contract terminated following internal investigation |
| Core | Abuse of permit system | Not proved, referred for management action |

| | | |
|----------|--|--|
| Parking | Abuse of permit system/PCNs | No issues found identifying any officer, referred for management action |
| Be First | Believed to have been the victim of a scam | No issues found with LBBB processes/procedures or staff involvement Reported to Action Fraud. |

5. Regulation of Investigatory Powers Act

5.1 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 Officer and Members maintain an oversight of RIPA usage.

5.2 In June 2023, the Council received an inspection undertaken by the Investigatory Powers Commissioner's Office. The report was favourable, and we have begun to work on the recommendations.

5.3 Training was last provided to over 90 staff and managers, across all service blocks, throughout 2020. Following the inspection in June 2023 a recommendation was made regarding training of staff. Work is currently ongoing to ensure the appropriate officers are reminded of their obligations and understand the need to consider RIPA should this come up in their work.

5.4 The current statistics are set out below following review of the central register, held by the Counter Fraud & Risk 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 Quarter 1-3 April – December 2023, and the number in force on 7 September 2023

Nil granted. Nil in Force.

(b) Communications Information Requests

The number of authorisations for conduct to acquire communications data during Quarter 1-3, April – December 2023

Nil granted. Nil in force.

6. Financial Issues

Implications completed by: Nish Popat, Deputy S151 Officer

- 6.1 The team is fully funded and there are no financial implications impacting on this report.

7. Legal Issues

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

- 7.1 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 7/7 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.
- 7.2 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.
- 7.3 Counter Fraud practices set out in this report address the need to counter fraud, money laundering, bribery and the proceeds of crime. The Council's policies guide on the investigatory and prosecution process. In formulating the policies it addresses the issue of corruption and bribery. Corruption is the abuse of entrusted power for private gain. The Bribery Act 2010 defines bribery as “the inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages whether monetary or otherwise”.
- 7.4 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.

8. Other Implications

- 8.1. Risk Management – Counter Fraud activity is risk-based and therefore support effective risk management across the Council.
- 8.2. No other implications to report

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

10. Appendices None

Audit and Standards Committee - Work Programme 2023/24

Chair: Councillor Princess Bright

| Meeting | Agenda Items | Lead Officer | Reports deadline |
|---------------|---|---|--------------------|
| 26 March 2024 | Updates re: 2020/21, 2021/22 and 2022/23 external Audit Report timetable(s) Internal Audit Q3 Update Counter Fraud Q3 Update Internal Audit Charter, Strategy & Plan 2024/25 Standards Complaints update Gifts and Hospitality Registers review and new Sponsorship Policy Review of Committee Terms of Reference | BDO Paul Feild Christopher Martin Christopher Martin Christopher Martin Paul Feild Paul Field Jo Moore | 5pm, 14 March 2024 |

- *TBC for final Audit Completion Report for Council Accounts 2019/20*

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