

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Monday, 3 February 2020
(7:00 - 8:35 pm)

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

Also Present: Stephen Warren

9. Declarations of Interest

There were no declarations of interest.

10. Minutes (23 July 2019)

The minutes of the meeting held on 23 July 2019 were confirmed as correct, subject to the following amendment:

The final sentence in paragraph 4 of minute 3 should read:

“The BDO representative explained that the audit focussed on compliance with *accounting policies adopted by the Council* and accounting practice, value-for-money and ‘reasonableness’ considerations, the impact on the Council’s medium-term financial strategy and the robustness of the arrangements, as opposed to the detail of individual decisions taken by the Council.”

11. Progress Update on External Audit of 2018-19 Accounts

Further to the report the Committee received on 23 July 2019 (minute 3 refers) on the draft statement of accounts, the Council’s Chief Accountant presented a report on the progress made on the external audit of 2018-19 Accounts. The delay in completing the audit was due to the external auditors, BDO, identifying adjustments needed to the draft accounts as a result of misstatements made, which were down to a number of reasons, including the complexities of the Council’s Group structure, with the group accounts consolidating 17 subsidiaries. The accounts for all subsidiaries, except Reside, were complete. The finance team had accepted amendments to the accounts and subject to further work, was on track to achieve an unqualified opinion on the Statement of Accounts and the Value for Money Conclusion. The Chief Accountant added that BDO had raised the bar this year by undertaking greater scrutiny of the accounts, and the finance team would be working constructively with BDO to complete the audit and reflect on what needed to be put in place to ensure a smoother, more timely process for next year’s external audit.

A BDO representative referred to papers circulated to the Committee earlier in the day (referred to as ‘Supplementary 1’) which provided an update on the audit from BDO’s perspective. Council officers had been very cooperative in working with BDO in providing them with information to progress the audit and the final audit completion report would reflect on how BDO and the Council could work more effectively going forward. This year’s audit had been subject to extra processes

around quality control as a result of regulators raising the bar. She summarised the findings of the audit so far, highlighting the risks of misstatements and deficiencies in internal control. However, she assured members that nothing had been identified to suggest that the accounts would be deemed materially inaccurate and based on the actions being taken by council officers, it was envisaged that the Council would achieve an unqualified opinion on its external audit.

Members expressed serious concerns regarding the findings of the audit to date, referring to the risk of material misstatements and shortcomings in internal control, and the time remaining to complete the audit. The responses provided to a number of questions posed by Members regarding the completion of the audit are set out below:

- The Council's Chief Operating Officer (COO) stated that the meeting of this Committee scheduled for 22 October 2019 had been cancelled as it became clear to officers prior to the meeting that it would not be quorate due to a clash with another meeting, and the meeting scheduled for 18 December 2019 was cancelled due to its proximity to the general election. She assured members that the work to progress the audit had continued and the cancellation of these meetings did not contribute to the delay in completing the external audit.
- The COO stated that Members were right to raise concerns regarding the nature and number of misstatements; however, there were complex reasons for this; for example, the audit identified prior year adjustments which meant that accounts that had previously been signed-off had to be revisited, which was a new area of work and required time to understand. Furthermore, the Council, having undergone a massive transformation programme in recent years, was now a very complex organisation with 17 different subsidiaries, which further complicated the process. Nevertheless, officers were working hard to correct the errors identified and the Council was still anticipating an unqualified opinion on its accounts.
- The BDO representative stated that there was also a broader context behind the delay in completing the audit, referring to the reduced timeline to complete audits for all local government bodies, which had had a substantial impact on local government bodies nationwide, and had caused significant concern amongst auditors generally. Members of various national audit bodies had formed a group to review the impact of the delayed audit opinions, particularly the potential knock on effect on the audit process over the coming years.
- The BDO representative stated that the field work for completing the audit was almost complete; however, discussions with the Council's finance team were ongoing as to additional testing and quality reviewing. When BDO is in a position to give an opinion, its audit completion report containing all its findings would ask for ??? of any statements that management decide not to correct, and this Committee would need to accept them, or otherwise. It was felt that approximately another two months was needed to get to this stage.

In response to further questions, it was confirmed that:

- 'Prior period adjustments' by their nature, were always 'material';
- After the completion of the audit, the Head of Assurance would meet with

the external auditors to discuss whether the deficiencies identified in internal control posed a risk that needed to be incorporated into the Council's Corporate Risk Register for next year; and

- Ideas for presenting accounts and audit information in a simpler, more user-friendly way were being considered by those in the sector, and it was likely that it would be one of the issues arising from this year's audits to develop further.

The Independent Advisor to the Committee suggested that given the nature of the concerns raised, the Committee consider requesting an additional meeting to receive the final audit report and also a report on the planning for next year's audit, including the learning from this year and the timescales involved. A discussion on when the Committee should receive the audit completion report took place and it was suggested that it may be possible for the report to be presented at the prescheduled meeting on 27 April 2020, depending on the number and nature of the agenda items, or alternatively, an additional meeting could be arranged for earlier in April. It was noted that the agenda papers would have to be published and circulated at least five clear days before the meeting as stipulated by the Access to Information rules.

The Committee **resolved** to agree to request that officers confirm as soon as possible the date of the meeting that would receive the final audit completion report for approval.

12. Counter Fraud 2019-20, Q1 - Q3 and Counter Fraud Policies & Strategy Report

The Council's Head of Assurance presented a report on counter fraud work undertaken in Quarters 1 to 3 of the financial year and the Counter Fraud Policies and Strategies.

The Chair referred to a statement in the report that as part of the outcomes of the counter fraud work, two cases were identified that did not involve fraud, but did raise serious concerns in relation to the procurement process. She asked what action would be taken to address these concerns and the Head of Assurance confirmed that these cases formed part of the internal audit plan which would be reported on in the summer.

In response to a question, the Head of Assurance confirmed that the majority of the properties recovered as a result of counter fraud intervention related to cases where the property was not the tenant's principle home and could be recovered to provide homes to people more in need of them.

The Committee agreed to note the contents of the report and the Council's updated Counter Fraud Policies and Strategy; and commend its principles to school governing bodies, and where appropriate to other stakeholders, including partnerships, arm-length organisations, and to contractors.

13. Internal Audit Report 2019/20 Q1 - Q3 (April to December 2019)

The Head of Assurance presented the Internal Audit Report 2019/20 for quarters 1 to quarter 3 of the financial year, which brought together all aspects of internal

audit work and included details of high-risk recommendations which were overdue.

In response to a question regarding nine new audits added to the Risk and Compliance Audit Plan, the Head of Assurance stated that internal audit was a totally independent function; however, the service did work collaboratively with managers and would undertake audit work requested if it would add value and would not impact on existing audit priorities.

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

- The target of 50% of school audits to be at draft stage at the end of Q3 had not been met; however, this was for planned reasons to allow the Council's contractor to focus on some short notice urgent work on the Risk and Compliance Plan; and
- With regards to recommendations in relation to critical and high risk findings, internal audit tracked management progress by following these up and in some cases, asking management to corroborate progress with evidence; and
- With regards to the reference in the report to the outcomes of internal audit work and the audit of five schools, a given number of internal audit days were always in the plan to do this work and an example of the issues contributing to the risk assessment of schools was the extent of oversight on the level of buy-back of council services.

The Committee's Independent Advisor suggested the amendments below to the presentation of the next progress report and the internal audit plan for 2020/21, with which the Head of Assurance agreed:

- The inclusion of a column with some words to explain why a matter had been regarded a risk and included in the plan; and
- The inclusion of an executive summary for audits that gave limited assurance and a full report for audits that gave no assurance.

The Committee noted the report.

14. Corporate Risk Register Update

The Head of Assurance presented a report on an update on the Corporate Risk Register. There were 14 corporate risks identified in the Register and the next stage of the risk management journey was to get underneath corporate strategic risks and how the risks worked their way across the organisation.

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

- The target risk for safeguarding failures was rated amber rather than green in recognition that this area involved a large inherent risk which could be managed but not eliminated;
- If a risk (such as an environmental or weather related risk), was not covered in the Corporate Risk Register it did not mean that it did not feature in other risk management consideration, as the Corporate Risk Register captured the 14 biggest corporate risks;
- With regards to the gross risk relating to the financial management of the Council being rated amber, this related partly to the Council's companies

and the risk that unrealistic financial modelling of company income could lead to the Authority's funding model no longer being sufficient. This work would form part of his ongoing review and the risk updates that were presented to the companies' shareholder panels, could be included in his next update to this Committee; and

- In his next date he could present the update so the movement and journey of the risks could be seen, rather than just the current positions.

The Committee noted the report.

15. Work Programme 2019/20

The Chief Operating Officer (COO) presented a report with details of the reports submitted to the Committee during the past 12 months and those scheduled to be presented under the current Work Programme, which was noted.

The COO asked Members to note that some items on the current version of the Work Programme due to be presented at this meeting would need to be rescheduled, which would be done once it was clearer as to when BDO would be in a position to present its audit completion report.

The Chair stated that it would be beneficial to reflect on the full range of the Committee's terms of remit when developing the 2020-21 Work Programme.

The Chair reminded the Committee that the COO would in due course confirm the date of the meeting where BDO's report on the completion of the 2018-19 audit would be presented to the Committee.