

MINUTES OF AUDIT AND STANDARDS COMMITTEE

Monday, 27 July 2020
(5:00 - 6:50 pm)

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

Also Present: Cllr Dominic Twomey and Stephen Warren (Independent Advisor)

25. Declarations of Interest

There were no declarations of interest.

26. Minutes (27 April 2020)

The minutes of the meeting held on 27 April 2020 were confirmed as correct subject to the following amendment:

The sentence under the first bullet point under item 18, "The audit was currently going through the Council's and BDO's quality review processes" should read, 'The audit was currently going through BDO's quality review processes.'

27. Approval of the Statement of Accounts 2018-19 and BDO's ISA260 Report

The Chief Accountant presented a report on the Statement of Accounts and the Council's external auditor's Audit Completion Report. He stated that it was with much regret that he was not able to present the Committee with a Statement of Accounts (which was marked as 'to follow' in his report) as some aspects of the audit were still outstanding. He confirmed that the unadjusted errors identified in the audit were below the materiality threshold, which was an important milestone, as the aim of the audit was to ensure that the accounts were free from material errors. The audit was almost in the position of receiving official sign-off and he would endeavour to provide the Committee with sufficient opportunity to read the Statement of Accounts before presenting them for approval at a future date.

The Senior Manager at BDO, the Council's external auditor, confirmed that the Audit Completion Report (ISA260) appended to the Chief Accountant's report was a draft version. The final version, along with the audit opinion was yet to be issued as there was work remaining. He presented an overview of the key changes to the audit since the interim audit findings report was presented to the Committee, confirming that the work relating to significant risks identified was almost complete, except matters relating to the group accounts. An overview of the following outstanding matters was provided:

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

The Senior Manager stated that he and other BDO colleagues working on the audit would be on annual leave during various parts of August 2020 and that plans were in place to ensure the audit was progressed smoothly, with the aim of providing the audit opinion by the end of the first week of September 2020.

The Chair stated that as the Statement of Accounts had not been provided, clearly the Committee was not in a position to make a decision on it, as recommended in the report. She stated that although the Committee understood that there were a number of challenges in completing the audit this year, there had been substantial delays in progressing the audit. The Committee was very disappointed that the Statement of Accounts had not been presented, despite being reassured of this previously. The Committee was concerned that the completion of the audit was now being pushed to September, and this would potentially impact the audit of the 2019/20 accounts. The Chair requested that:

- Following this meeting, an annotated version the Statement of Accounts be provided so that Members could see the key differences between the draft version that was provided to the Committee in July 2019 and the proposed final set;
- Officers share their response to the recommendations made by BDO regarding the lessons learnt from the current audit so that the Committee could have reassurance that the issues identified would not recur when the audit of the 2019/20 accounts took place; and
- Officers provide a realistic date to hold a meeting of the Committee whereby the Statement of Accounts for 2018/19 may be presented for approval so that the Committee was not put in this position again.

The BDO Partner confirmed that the main difficulty in completing the audit had been the group accounts, referring to the draft Audit Completion Report which gave an overview of the extent of the difficulties that arose. However, the group accounts were now at a stage where a final set of amendments could be made and the impact this would have on the single entity accounts could be reviewed. BDO's Assistant Manager would be working with the Council's Chief Accountant to ensure the audit process was complete by this week so she could review the work prior to her going on annual leave. The quality reviews of the audit would then take place and BDO's Senior Manager would ensure this process progressed smoothly in her absence. He would update her on the quality review outcomes when she returned to work on 19 August, and the audit work would be brought together to present a set of accounts that could be considered materially accurate.

In response to a question, the Assistant Manager for BDO stated that he felt it was realistic to aim for a date in September to present the Statement of Accounts to the Committee. The work that was outstanding in relation to inter-group transactions and other consolidation adjustments that needed to be verified, were minor, and he was confident that they would be resolved imminently. Following this, BDO would need to review the final group accounts and then a quality review process would be undertaken.

In response to questions and comments, the Council's Finance Director stated that the finance team was working hard with BDO to ensure the audit of the accounts could be finalised as quickly as possible. Whilst it was disappointing that the audit

completion was now heading towards September, the audit of the single entity accounts was almost there. He reiterated that the main reason for the delay was the audit of the group accounts which had been very complex, due to the nature of the Council's structure and 2018/19 being the first year of preparing them. He confirmed that the Chair's request that the Committee receive an annotated version of the accounts, which would show the changes made since the version the Committee received in July 2019, would be adhered to. The Director also assured Members that he was committed to undertaking a 'lessons learnt' review with BDO's specialist team which would be in addition to the responses given to BDO as a result of recommendations made by them as part of the 2018-19 audit process. This work would take place in September so that the lessons learnt from this audit could be applied to the 2019/20 accounts audit process, to help ensure past mistakes were not repeated. The Director stressed that the Chief Accountant had been extremely thorough in working through the 2019/20 accounts, undertaking quality assurance to ensure the errors identified in the 2018/19 accounts were not repeated.

In response to questions, the Finance Director stated that:

- September was a better time than August to seek the Committee's approval for the 2018/19 accounts as this would allow officers time to present the papers to the Committee in way that would facilitate the Committee making an informed decision;
- The Government had given local authorities an extended deadline to publish their 2019/20 accounts due to the Covid-19 pandemic, which somewhat mitigated the impact of the delay in completing the 2018/19 audit. Also, as BDO would have already undertaken an audit of the Council's accounts, they would be acquainted with how the accounts were set-up, which should smoothen the audit process for the 2019/20 accounts;
- The Chief Accountant and his team were separate from the team which kept oversight of the spend incurred by the Council's services; and
- Over 10% of local authorities' 2018/19 audits were outstanding at the end of May 2020 and he knew of some London boroughs who did not expect to have their accounts audit approved until later in the year. Whilst the Council's position was not desirable, it was certainly not alone in facing complexities in its audit process for the 2018/19 accounts.

The Independent Advisor to the Committee stated that clearly the Committee was disappointed by the prolonged audit process; however, it was refreshing to see a clear commitment for resolution at this meeting. He agreed that an over-ambitious timescale to present the accounts for approval could risk the outcome desired by the Committee. He welcomed the 'lessons learnt' review referred to by the Director and suggested that the outcomes from this work could be shared with Committee outside of the formal meeting process before its meeting in November 2020, which would consider the approval of the 2019/20 Accounts.

The Committee **resolved** to agree that the Statement of Accounts be presented to the Committee at a meeting in September 2020, to be arranged.

28. Schedule of Subsidiaries Report based on 2018/19 figures

The Chief Accountant presented a report on the schedule of subsidiaries owned by the Council, which was requested at the last meeting.

It was noted that each subsidiary was required to produce statutory accounts, which (depending on its size and the nature of the relationship with the Council) were subject to an annual audit. These accounts were then consolidated into the Council's group accounts, which were audited by the Council's external auditor, BDO. The Chief Accountant stated that the Council had a complicated structure which made producing the Council's accounts a very complex task. For example, one of the Council's companies, Barking and Dagenham Trading Partnership, was a group company as it had five subsidiaries, the accounts of all of which would have to be consolidated into the Council's group accounts. There was scope for him to provide further detail on the Council's subsidiaries and their accounts in future versions of this report, if Members felt this would be helpful.

In response to a question, the Chief Accountant stated that in line with accounting principles, the accounts of Barking and Dagenham School Improvement Partnership and Reside Weavers LLP were not consolidated into the Council's group accounts as the Council did not have majority control or influence in these companies.

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

29. Counter Fraud Annual Report 2019/20

The Counter Fraud Manager presented the Counter Fraud Annual Report 2019 which brought together all aspects of counter fraud work undertaken from 1 April 2019 to 31 March 2020.

In response to questions, the Counter Fraud Manager stated that:

- The Counter Fraud teams did see many cases of fraud occurring which shared similar themes, traits and behaviours. Any new lessons learnt from cases were always responded to, be it closing 'loopholes' which allowed the fraud to take place or introducing new policies and procedures which would make committing the fraud more difficult, and this was done in partnership with other teams across the Council. However, this approach had to be balanced against the needs of all residents, as it was also the Council's duty to make itself and its services accessible;
- The number of cases his teams dealt with relied heavily on referrals made by officers in other teams across the Council. He and his teams regularly reviewed referral numbers by department and were proactive about supporting the departments that had low referral rates in understanding how to identify fraud and make a referral. Furthermore, as more services were moving towards online forms of communication with residents, the Counter Fraud teams were also proactive about supporting colleagues to take into account anti-fraud measures in that context, for example when designing online forms for residents; and
- The Counter Fraud teams did not deal with TV licence fraud; however, where the teams came across cases of fraud which were not within their remit to investigate, they would refer the details on to the relevant body and seek to raise awareness of the fraud amongst residents, if the type of fraud in question could become prevalent.

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

30. Internal Audit Annual Report 2019/20

The Internal Audit Manager presented the Internal Audit Annual Report 2019, which outlined the work carried out for the year ended 31 March 2020 and included the Head of Assurance's overall opinion on the work undertaken.

In response to questions, the Internal Audit Manager stated that:

- He would ensure that the target dates for progressing the actions identified to address areas of limited assurance were included in future update reports;
- The Internal Audit team worked with external auditors when drafting the Internal Audit Plan for the year by having a two-way discussion with them around the areas both sides had identified as potentially benefitting from inclusion in the Plan;
- The Internal Audit Team consulted the Council's contractors, Mazars and PwC, who were helpful in suggesting areas for inclusion in the Internal Audit Plan, which would potentially ensure the Council's assets were protected from harm such as cyber-security attacks; and
- The Internal Audit team would also be undertaking a Covid-19 review to ensure the Council was doing all it could to recover the costs of dealing with the pandemic. This work would include, for example, checking that all eligible costs had been claimed from the Government, and reviewing a sample of business rate relief applications to provide assurance that only those who were entitled had claimed relief, and any suspected cases of fraud had been referred to the relevant Counter Fraud team to investigate.

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

31. Internal Audit Response to the Covid-19 Pandemic

The Finance Director presented a report on Internal Audit's response to the Covid-19 pandemic, which included the impact that the pandemic had had on planned internal audit work, as well as the additional value that the team had added to the Council's overall response.

The Chair commended the response of the Internal Audit team to the Covid-19 pandemic in reviewing risks and priorities in a timely and rational manner, providing reassurance to the Committee and the Council at an unprecedented and uncertain time.

In response to questions, the Finance Director stated that:

- The Internal Audit Charter and Strategy, which was presented to the Committee at the last meeting, set out the context to how the Internal Audit Plan was formulated and the guidelines within which the team operated. There were no specific national internal audit guidelines on how to respond to a pandemic of this nature, so the team had taken a measured and proactive approach in their response based on best practice;
- With regards to the issue of managing the risks associated with children returning to school, Internal Audit was not directly responsible for this. Each school would need to undertake a risk assessment and assure parents and pupils that it would be safe to return, by working with the Council's Director

of Public Health and the Commissioning Director for Education in light of the guidance available. The Council was also taking part in scenario testing involving schools and other external partners to help ensure that both the plans in place to open schools and other services, as well to contain any outbreaks within them, were vigorous. This work was being undertaken in the context of the Council participating in a 'tri-borough agreement for resilience' with Redbridge and Havering which had facilitated much learning in overcoming the challenges posed by the pandemic;

- It was important that the Council took a holistic approach in supporting residents, partners and businesses respond to the pandemic to keep communities stay safe. For example, guidance had been issued to the Borough's faith communities and best practice across various parts of the country were being reviewed to help manage possible future local outbreaks. Ultimately though, it was every individual's responsibility to do their part in keeping themselves and their communities safe;
- Local authorities did not have the legal power to enforce the wearing of masks in certain places; and
- The Council was working with its companies to ensure they were aware of how to manage any shared risks posed by the pandemic.

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

32. Standards: Complaints Update Report

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

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

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

33. Work Programme 2020/21

The Chair presented a draft work programme outlining the matters that were scheduled to be reported to the Committee at its meetings in 2020/21, adding that it was a flexible document which could be updated in response to any changing priorities and circumstances as the year progressed.

It was noted that in line with the discussions relating to Item 4 of the agenda, the Work Programme would need to be updated to reflect the need for an additional meeting in September 2020 so that the Statement of Accounts could be presented for approval.

The Committee **resolved** to note the Work Programme.