# MINUTES OF
# AUDIT AND STANDARDS COMMITTEE

Tuesday, 26 March 2024
(7:00 - 8:20 pm)

**Present:** Cllr Princess Bright (Chair), Cllr Mohammed Khan (Deputy Chair), Cllr Dorothy Akwaboah, Cllr Josie Channer and Cllr Rocky Gill and Stephen Warren.

**Apologies:** Cllr Adegboyega Oluwole and Cllr Muazzam Sandhu.

**27. Declarations of Interest**

There were no declarations of interest.

**28. Minutes (30 January 2024)**

The minutes of the meeting held on 30 January 2024 were confirmed as correct.

**29. Grant Thornton Indicative Audit Plan, Sector Update & Informing the Audit Risk Assessment**

Yinka Ehinfun, Interim Chief Accountant presented a covering report attaching as appendices Grant Thornton's proposed approach for delivering their responsibilities as the Council's appointed external Auditor for the 2023/24 financial year (Appendix A), an up-to-date summary of emerging national issues and developments within the sector (Appendix B), and details of the Council's management responses to key questions (Appendix C) as part of GT's risk assessment procedures to obtain an understanding of management processes and the Council's oversight of general enquiries of management, fraud, laws & regulations, related parties, going concern, and accounting estimates.

Paul Dossett, GT Key Audit Partner, explained that they had prepared their workplan as presented in the context of not finalizing all of the planning work and so it could change, although he did not envisage any major changes. He highlighted the significant risk areas which were standard to all audits, seen as the risk of management override of controls and the potential for materially misstating the valuation of Council assets, investment properties and net pension fund liabilities. These would be assessed against the most recent set of audited accounts, those being the 2019/20 semi completed set. The Group Accounts would also be assessed taking into account the consolidation of all the Council's significant subsidiaries as listed.

Finally in terms of timetabling, planning visits were noted as taking place between February and March with a final visit expected in July 2024, subject to the 2023/24 draft financial statements being produced by the Council.

In response to the presentation a number of questions and comments arose as follows:

The presentation referenced the significant risk areas including the valuation of Council assets in respect of which GT's views were sought as to whether the

Council had this right. It was noted that GT were intending to engage an expert valuer to assess the valuations prepared by the Council's valuers and for which the auditor expert fees would cover. This piece of work was required so as to be compliant with accounting and auditing standards. However, this was not viewed as high risk in relation to either the General Fund or the HRA, as valuations would not have any material impact on service provision. There would of course be issues where assets were disposed of, and that was something all Councils would be expected to reflect on as there would be a risk to the public purse if the valuations were not right. From GT's perspective they would be focusing on whether the numbers in the Council's Accounts were right. What was important would be the valuation of investment properties as the Council would be looking for these to produce a year-on-year yield as well as maintaining their value for the long term.

Members were interested as to how prepared were the officers to meet the requirements/deadlines set by GT for the 2023/24 Accounts audit. GT had been liaising closely with Council officers in the Finance team during the planning stage of the audit. Monthly meetings were scheduled in calendars to keep abreast of progress with the Accounts for 2023/24 to ensure they were on track ready for the commencement of the main audit in July 2024. One of the key areas that officers were working on was closing down the 2022/23 financial statements including the Group Accounts. In respect to the latter, GT had identified that a number of the subsidiary companies were up to date with their audited accounts, and consequently at this stage they were not unduly concerned that the Group Accounts would delay the overall audit timetable.

Reference was made to the value for money arrangements based on the guidance issued by the National Audit Office and specifically the three key areas the Code identifies that auditors are expected to consider namely financial sustainability, governance and improving economy, efficiency, and effectiveness. To that end GT updated the Committee with their findings to date, flagging up the risks they had identified as set out in Appendix A.

Michael Bate, the newly appointed interim Deputy Section 151 Officer reflected on his own observations as to the progress with the 2023/24 audit. He confirmed that following problems identified with the earlier audits additional resources had been allocated to the Finance Team, and that officers were working tirelessly to ensure that the deadlines set by GT were met and delivered accordingly to the reported timetable. This view was echoed by the Interim Chief Accountant who added that the team were also working hard to conclude the 2020/21 and 2021/22 audits so they could focus on the 2023/24 audit.

Moving on to GT's audit risk assessment set out in Appendix C, and specifically their general enquiries of management, the Chair sought and received clarification from the Interim Chief Accountant as to officer response to the question around awareness of any circumstances that would lead to impairment of non-current assets. The officer also confirmed to the Chair that a separate audit risk assessment would be conducted by GT in respect of the Council Pension Fund Accounts.

The Committee **noted** the report.

**30. BDO Audit Progress and Sector update -Covering report of Section 151 Officer**

The Interim Deputy Section 151 Officer presented a covering report summarising BDO's progress report (Appendix A) in relation to their audit of the Council's Statement of Accounts for 2019/20 including an update on the timetable to complete the audit which was broadly in line with that last reported in January 2024. BDO's key outstanding tasks related to their internal review process, and in that context, it was noted that there were no matters outstanding from the Council's perspective.

BDO have proposed to issue the annual report and commentary on VFM for the 2020/21, 2021/22 and 2022/23 Statement of Accounts by September 2024. This will be subject to the outcomes of consultations on changes to the Accounts and Audit Regulations 2015 to introduce the backstop arrangements, and the National Audit Office Code of Audit Practice to support auditors to meet the backstop date and promote more timely reporting of their work on value for money arrangements.

Finally in respect of the breakdown of the 2019/20 additional fees, despite assurances provided at the last meeting BDO in referencing the fee in their report, had still not provided an indicative figure as to the final fee.

Michael Asare Bediako, BDO confirmed that they had no concerns as to meeting the deadline reported at the last meeting, and therefore they remained on track to complete the 2019/20 Accounts by the end of August 2024. In respect of the additional fees for the said year he apologized for omitting in error from the published report, the indicative figure for the additional fee, which he verbally reported as £233k. He qualified that this was not the final fee as there was still more work to be done, and it was necessary to provide management with a detailed breakdown of how the final fee breaks down.

Having been challenged as to when the Council could expect the final additional fee, he stated that he expected Steve Blandon, the senior Partner at BDO now leading the audit, to be in a position to present it at the next meeting in June.

The Chair expressed her disappointment that Mr Blandon was not present this evening as she wanted to challenge him on a number of issues including when he anticipated completing the partner review and whether in the review, he had identified anything requiring more work to be done from BDO's end. As far as Mr Asare Bediako was aware from the review work he had not raised any issues or concerns, albeit there were a few minor issues that were being concluded which officers were aware of. All indications were that he would complete the review work by June, allowing sufficient time to prepare the final report and meet the August deadline to conclude the audit.

The reported additional fee was a substantial amount and BDO were asked as to whether it was their standard practice not to finalise their costs and provide a breakdown so late into the audit, especially seeing the Council needed to budget for such large sums. The Committee having pushed for the information over a number of meetings put on record their disappointment and frustration that it was still not forthcoming. BDO acknowledged the points made and hoped to be in a position as early as tomorrow to provide the breakdown of the costs incurred to date, added to which they should be able to realistically estimate the further costs likely to accrue barring any unforeseen eventualities.

Referencing the timetable in the Appendix which mirrored that presented at the last meeting, Members repeated comments made then, that the programme of work there did not suggest there was any real sense of urgency to complete the audit, to the extent that Members remained unconvinced that the 2019/20 Accounts would be signed off by August 2024, which was only a month before the anticipated backstop date. BDO again would not commit to completing the audit any sooner than August but were hopeful of finishing ahead of that date to give the Council the opportunity to publish the Accounts and any outstanding disclaimed opinions that BDO issue.

Turning to the current position regarding the 2018/19 additional fee, BDO confirmed that having previously presented the figure to both officers and this Committee it was now with PSAA awaiting their decision. The Chair clarified that despite the previous Section 151 Officer signing off on the additional fee, PSAA had been made aware of this Committee's concerns.

The Committee **noted** the report.

## 31. Internal Audit Charter Strategy Plan 2024-25

The Head of Assurance (HoA) reported that he had reviewed and updated with minor track changed amendments the Internal Audit Charter (Appendix 1), which defined the purpose, activity, and responsibility of Internal Audit activity.

The HoA then discussed the Internal Audit Strategy 2024/25 set out in Appendix 2, which detailed how the Internal Audit Service was delivered, in line with the Charter. The Strategy had been updated to reflect minor changes in working practice as a result of the recent external assessment against the Public Sector Internal Audit Standards. The service was provided by a small inhouse team supported by externally provided resources. It was proposed that the existing arrangements to co-source external support from both Mazars and PwC via appropriate framework contracts be continued into 2024/25.

The scope of the Strategy covered all LBBD activities, including those provided by external providers and legal entities. As such the Internal Audit Plan referred to below included risk-based audit activity in the Council's companies.

The Internal Audit Plan which was compiled annually prior to the commencement of each financial year and was developed in line with the Charter and Strategy. The Plan also detailed the manner in which Internal Audit resources would be used including draft audit titles and proposed audit objectives.

As part of the risk-based approach 120 of the 865 audit days within the Plan had been held back in the event that some, as yet unspecified, risk emerged during the year which required an immediate response. The Plan was set out in Appendix 3.

The Committee in recognising the crucial importance of Internal Audit questioned the size and capacity of the team to deliver what amounted to an ambitious Audit Plan, and within that context what the extent and cost of external support was. The HOA recognised that the team was not big enough to deliver the Plan in isolation, and therefore was reliant on external support. However, he made the point that it did not all come down to staff resources, as a number of the audits were of a specialist nature and consequently that specialism was not always available in house. Most London Boroughs did buy in services from Mazars and PwC, and many bought them in a greater number of days than LBBD. That said steps were being taken to build in house resilience. In the past it had proved difficult to fill the more senior posts and so by reducing vacancies to trainee auditor levels, the HOA had recruited two apprentices via the Pan London Apprenticeship Scheme that had proved very successful. Both were doing well, practically and exam wise and with the right structure in place, this would allow for career progression.

In light of the above response a question was raised as to the ability of the team to provide consultancy services, given the size of the team. The HOA stated that the majority of this work tended to be around control design. For example, when a new IT system was due to come online (a few were included as part of the proposed Plan) it was advantageous for Audit to input at the design stage rather than review it once it was developed and operating. As it was the Council's Audit Manager was a qualified IT auditor which was very valuable to the organisation.

Turning to particular parts of the proposed Plan mention was made of a number of service areas where there was limited or no assurance from previous years, highlighting in particular housing repairs and maintenance, which was an example of an area with no assurance in previous years. Taking that example the HOA stated that management advice at the time indicated that changes were due to be made to the control environment to improve matters. However rather than taking this at face value the service had been added to the Plan for review. This approach had similarly been taken with other services as listed in the Plan where there were limited or no assurances from previous years. The aim of the Plan was to enable the HOA to give an opinion at the end of the year of the overall adequacy and effectiveness of the control environment which included prior year coverage and concerns.

Given the situation with the housing repairs and management service and notwithstanding any mitigation actions taken to improve the assurance status, the Committee placed on record its concerns seeing the significant funding incurred in that area.

Other matters raised by Members and responded to by the HOA concerned the auditing of the Council's companies, the costs of engaging external audit consultancy, the approach taken in preparing the Plan, specifically aligning it to the Council's vision and key priorities, the rationale behind the proposed reviews set out in the Plan especially in areas which were already noted as being of substantial assurance, whether the number of days allocated to each review was seen as sufficient, and what was the meaning of TBC in the case of some audits dating back a number of years.

The Committee **agreed** to approve the draft Internal Audit Charter, as well as both the Strategy and Plan for 2024/25.