

**BRIGHTON & HOVE CITY COUNCIL**

**AUDIT & STANDARDS COMMITTEE**

**4.00pm 12 JANUARY 2016**

**THE RONUK HALL, PORTSLADE TOWN HALL**

**MINUTES**

**Present:** Councillors A Norman (Chair) Chapman, Cobb, Druitt, Morris, Robins (Group Spokesperson), Sykes (Group Spokesperson) and Taylor and Diane Bushell and Dr. David Horne

**PART ONE**

**55 PROCEDURAL BUSINESS**

**55a Declarations of substitutes**

55.1 There were none.

**55b Declarations of interests**

55.2 There were none

**55c Exclusion of the press and public**

55.3 In accordance with Section 100A of the Local Government Act 1972 (“the Act”), the Committee considered whether the public should be excluded from the meeting during consideration of any item of business on the grounds that it is likely in view of the business to be transacted or the nature of the proceedings, that if members of the public were present during it, there would be disclosure to them of confidential information as defined in Section 100A (3) of the Act.

55.4 **RESOLVED** - That the press and public not be excluded.

**56 MINUTES**

56.1 **RESOLVED** – That the minutes of the previous meeting held on 17 November 2015 be approved and signed as the correct record.

**57 CHAIR'S COMMUNICATIONS**

57.1 The Chair welcomed Ian Young who was attending his first meeting of the Committee as representative from Ernst & Young.

**58 CALL OVER**

58.1 All items on the agenda were reserved for discussion.

**59 PUBLIC INVOLVEMENT**

59.1 No items from members of the public were received.

**60 MEMBER INVOLVEMENT**

60.1 No items from Members were received.

**61 STRATEGIC RISK MAP FOCUS: SR10 INFORMATION GOVERNANCE MANAGEMENT; SR22 MODERNISING THE COUNCIL; AND SR24 WELFARE REFORM**

61.1 The Committee considered a report of the Acting Director, Finance & Resources which informed Members that the Committee had a role to monitor the effectiveness of risk management and internal control. This included oversight of the Strategic Risk Register which was set and reviewed every six months by the Executive Leadership Team (ELT). Each Strategic Risk has a Risk Management Action Plan (a risk MAP) to deliver action to address the risk by a Risk Owner, a member of ELT. The meeting was attended by the Acting Executive Director, Finance & Resources and the Senior Information Risk Owner (SIRO) who are joint Risk Owners for SR10: Information Governance, with support from the Chief Technology Officer who was Risk Action Owner. The Chief Executive attended as Risk Owner for SR22: Modernising the Council, with support from the Head of Performance, Improvement & Programmes; and the Acting Executive Director, Finance & Resources who was the Risk Owner for SR24: Welfare Reform, with support from the Welfare Reform Programme Manager. Each provided verbal updates and answered Members' questions based on their Strategic Risk Report.

61.2 With regard to SR10: Information Governance, Councillor Sykes enquired as to the implications of shared service agreements such as Orbis upon Information Governance.

61.3 The Chief Technology Officer clarified that each authority would have sovereignty for its own Information Governance Strategy and that would be formalised in any arrangement. Each authority would also have a collective approach to risk and there would be opportunities in sharing best practice. In practice, this would likely lead to a balance between sovereignty and collectivism.

61.4 Councillor Sykes asked if a risk assessment could be undertaken on this particular issue.

61.5 The Chief Technology Officer agreed and this would be taken forward.

61.6 With regard to SR22: Modernising the Council, Councillor Druitt noted that the initial rating had been assigned on 3/11/2014 but had been revised the same day. Councillor Druitt asked if that was standard practice.

- 61.7 The Risk Management Lead confirmed that there was an initial rating assigned on the basis of inherent risk that was then assessed against existing controls giving a more realistic assessment therefore, it could be that both were considered on the same day. Subsequently, proposed solutions are added to further mitigate the identified risk.
- 61.8 Councillor Sykes stated that there was no mention in the risk narrative regarding ongoing budget reductions and possible consequences.
- 61.9 The Chief Executive clarified that this would be added to this strategic risk.
- 61.10 Diane Bushell noted that 3 actions had been assigned an end date of March 2015 yet none had achieved 100% progress. Diane enquired as to the underlying issues for this and whether Officers believed the actions could be achieved.
- 61.11 The Head of Performance Improvement & Programmes stated that the 3 actions were linked to 25 modernisation programmes. Some of those were progressing well and some were not advancing as quickly and there was now a new process of refinement in completing the tasks.
- 61.12 The Chief Executive stated that the new administration had established a Fairness Commission and ELT may need to review the Commission's findings against the Council's Corporate Plan. The Council had also started looking at new ways of working such as the Orbis shared service and there would be stronger focus on engagement with neighbourhoods and communities in the way the council worked going forward.
- 61.13 With regard to SR24: Welfare Reform, Councillor Druitt asked if there was an increase expected in demand for the council's own welfare advice services.
- 61.14 The Welfare Reform Programme Manager stated that demand across the community and voluntary sector had increased and was expected to continue to rise in the short to medium-term.
- 61.15 Councillor Druitt asked if any plans had been set out to deal with increase in demand.
- 61.16 The Welfare Reform Programme Manager stated that in managing this demand and given current financial challenges, officers had been focussing on spend to save initiatives as well as controlling costs wherever that was possible.
- 61.17 Councillor Sykes stated that the impact upon residents should be listed as a priority and if demand outweighed service provision, that should be highlighted on the Strategic Risk.
- 61.18 Diane Bushell noted that a Programme Board had been scheduled for December and asked if that had been held and if so, what actions had arisen from that meeting.
- 61.19 The Welfare Reform Programme Manager clarified that due to personnel changes, the meeting had not gone ahead but a meeting had been held directly with the risk owner.

- 61.20 Diane Bushell noted that the council's external auditors had noted some issues with regard to calculation of income and asked how that might be impacted by the introduction of Universal Credit.
- 61.21 The Welfare Reform Programme Manager clarified that responsibility for calculations under Universal Credit would no longer lie with the council but with the Department for Work & Pensions.
- 61.22 The Risk Management Lead clarified, in response to Member Comments about how these risks could impact on the Corporate Plan, that each Strategic Risk represented something which could prejudice achievement of the Council's objectives as set out in the Corporate Plan, therefore reference to the impact on the Corporate Plan objectives was not necessary.
- 61.23 **RESOLVED-**
- 1) That Members note the information provided in the Strategic Risk MAPs in Appendix 1 (Strategic Risk Assessment Report).

**62 ERNST & YOUNG: ANNUAL CERTIFICATION REPORT 2014/15 AND PROGRESS REPORT 2015/16**

- 62.1 The Committee considered a report of Ernst & Young that provided the 2014/15 Annual Certification report that related to the audit of the Council's 2014/15 grant claims and communicated the results of the auditor's certification work to Members. The report also included a progress update that provided the Committee with an overview of work on the 2014/15 audit and a schedule for the 2015/16 audit.
- 62.2 In relation to Housing benefits subsidy claims, Councillor Druitt asked how the Council ranked comparatively against other authorities in this area and for the auditors views on how improvements in the control environment of the housing benefit department could be achieved.
- 62.3 Paul King clarified that Brighton & Hove City Council were amongst the better performing councils in this area. In relation to improvements in the control environment, Paul King stated that this was a general recommendation and the Revenue & Benefits team were aware of how controls could be tightened and Ernst & Young would seek demonstration of improvement in their next audit.
- 62.4 The Acting Director, Finance & Resources cautioned that the administrative cost of reducing extrapolated errors needed to be considered as this could end up being higher than the current overpayments which represented less than 0.1% of the overall housing benefit scheme payments made.
- 62.5 Dr Horne noted that the committee were provided in-depth detail on internal audit actions but much less on external audit actions. Dr Horne believed that this was an area Members could refine and he felt it would be useful for the committee to receive a report on the matter to a future meeting.

- 62.6 Councillor Sykes asked if sufficient resources were available to undertake the recommendation from the external auditor relating to the control environment.
- 62.7 The Acting Director, Finance & Resources stated that the service was always seeking potential efficiencies and there may be scope to do so in this area through digital services. Furthermore, the council always sought to minimise risk and claim the full subsidy amount due.
- 62.8 **RESOLVED-** That Committee note the report.

**63 TARGETED BUDGET MANAGEMENT (TBM) 2015/16 MONTH 7**

- 63.1 The Committee considered a report of the Acting Director, Finance & Resources that provided the Targeted Budget Management 2015/16 Month 7 report and an extract from the proceedings of the Policy & Resources Committee meeting held on 3 December 2015 from which the report had been referred; together with a specific report to the Audit & Standards Committee from the Acting Director of Finance & Resources.
- 63.2 Diane Bushell sought assurance that the saving controls implemented would not have a knock-on effect that would lead to an unforeseen increase in costs elsewhere.
- 63.3 The Head of Corporate Finance and Resources stated that consideration was given when designing the saving controls to any knock on effects in expenditure that would cancel out the potential saving. Furthermore, the controls were reviewed by Internal Audit subsequent to their implementation and monitored at senior manager level to ensure the savings were realised and there were no unintended consequences.
- 63.4 Councillor Sykes noted that paragraph 3.11 stated that savings plans for 2016/17 had been brought forward and asked if this had been carried out with democratic oversight.
- 63.5 The Head of Corporate Finance and Resources clarified that only a limited number of savings plans had been brought forward and that policy decisions were necessary, this had been sought through reports to Policy & Resources Committee as had occurred with recent decisions taken on 4 November 2015 at a Special Policy & Resources Committee in relation to proposed Adult Social Care service changes.
- 63.6 Councillor Taylor noted that there appeared to be a trend that the council would overspend in the early stages of the financial year with that overspend being reversed by year end and asked if that indicated that processes needed to be improved. Councillor Taylor also asked how the Value for Money (VFM) Programme was progressing as it had not met its target in the previous financial year.
- 63.7 The Head of Corporate Finance and Resources stated that the council's budget had a number of volatile demands on services that could lead to an unforeseen increase or decrease in costs and in some respects, identifying rather than suppressing overspends early in the financial year was positive as it allowed thorough scrutiny and review and appropriate action to be taken early. The Acting Director, Finance & Resources indicated that the graph on page 54 of the agenda highlighted the current savings monitoring programme which included VFM savings.

63.8 Councillor Druitt asked if the current spending controls programme was a matter of deferring the inevitable need to cut services.

63.9 The Head of Corporate Finance and Resources confirmed that a feature of the current spending controls was to encourage the redesign of services that may lead to the deletion or removal of currently vacant posts plus a number of one-off savings.

63.10 **RESOLVED-** That Committee note the report

#### **64 TREASURY MANAGEMENT POLICY STATEMENT 2015/16 (INCLUDING ANNUAL INVESTMENT STRATEGY 2015/16) – MID YEAR REVIEW**

64.1 The Committee considered a report of the Acting Director, Finance & Resources that provided the Treasury Management Policy Statement 2015/16 (including Annual Investment Strategy 2015/16)- Mid-Year Review report and an extract from the proceedings of the Policy & Resources Committee meeting held on 3 December 2015 from which the report had been referred.

64.2 **RESOLVED-** That Committee note the report

#### **65 OVERPAYMENTS ON THE HOUSING REPAIRS AND IMPROVEMENT CONTRACT**

65.1 The Committee considered a report of the Acting Director, Finance & Resources that summarised the results of the internal audit review of overpayments identified by the council in respect of housing repairs carried out by its contractor Mears Ltd.

65.2 Councillor Druitt stated he felt that the correct measures had been put into place subsequent to the discovery of overpayments but raised his concern that the structure of the contract meant that Mears Ltd were requesting, undertaking and inspecting work and each of those processes should be assigned to different groups.

65.3 The Head of Housing stated that the arrangement in managing and supervising work was set out in the contract between Mears Ltd and the council and delivered significant savings to the council and its tenants. The issue of overpayment had prompted a review to improve that system.

65.4 The Chief Executive, Mears Ltd stated that his organisation were supportive of an audit of repairs.

65.5 Councillor Robins stated that he felt the underlying issue was Mears Ltd use of subcontractors and that only 10% of completed work was inspected. Councillor Robins added that in most instances, it would be difficult to give a judgement on the quality of work at the stage of completion and there should be regular checks by a Clerk of Works as a repair was progressing. Councillor Robins asked if sub-contractors made a profit on the repairs they carried out and if this was in turn passed onto the council via Mears Ltd.

65.6 The Chief Executive, Mears Ltd stated that the average cost of a repair was a £100 and there were many minor jobs that would not require inspection such as fixing a light switch. In that context, it was not justifiable to have every job inspected. He added that it was not possible for Mears Ltd to employ specialists in every area of trade as in some

areas, there was insufficient demand to employ a full-time member of staff. In such cases a sub-contractor would be used on the basis of a fixed price quotation with the same charge invoiced to the council.

- 65.7 Councillor Morris asked if post-inspections were still carried out on 10% of works.
- 65.8 The Head of Housing Strategy clarified that the number of responsive repair inspections was still 10% and checks on major and planned work increased temporarily to 100%. The Chief Executive, Mears added that they had also increased inspection rates to 100% initially to ensure that overpayments were not a systemic problem.
- 65.9 Councillor Taylor asked why it had taken 17 months to discover the overpayments made.
- 65.10 The Chief Executive, Mears clarified that the underlying issue was the improper use of a fixed price code on a regular basis and investigation had found that this was not a systemic problem.
- 65.11 Councillor Robins asked for clarification on whether Mears Ltd intended to review work as it progressed.
- 65.12 The Chief Executive, Mears Ltd stated that live inspections were carried out on larger jobs. For smaller work, Mears Ltd asked its staff to take photos before, during and after repairs jobs. Furthermore, Mears Ltd had committed to providing funding for the council to employ a Quantity Surveyor for a three to six month period with discussion on a long-term solution to follow.
- 65.13 **RESOLVED-** That the Audit & Standards Committee:
- 1) Note that the council's housing revenue account was over-charged by an amount estimated by audit at more than £300,000 over a 17 month period for work carried out by a sub-contractor working on the housing repairs and improvements contract.
  - 2) Note that the council expects to recover the overpayments from the main contractor, Mears Ltd.
  - 3) Note that the council is working positively with Mears Ltd to identify any other overpayments that may have been made and to prevent any overpayments in the future.

## **66 INTERNAL AUDIT AND CORPORATE FRAUD PROGRESS REPORT**

- 66.1 The Committee considered a report of the Acting Director, Finance & Resources that summarised the progress made against the Internal Audit and Corporate Fraud Plan 2015/16.
- 66.2 Councillor Sykes noted that the figures listed on page 83 and page 84 of the agenda appeared to be an increase on previous years.

66.3 The Head of Internal Audit confirmed that the figures were higher and this was because of a specific audit focus of the corporate fraud team on risk areas, particularly in unauthorised sub-letting of council properties.

66.4 **RESOLVED-**That the Audit and Standards Committee note:

- 1) Progress made on the audit plan for 2015/16
- 2) Progress made against recommendations
- 3) Continued success in tackling fraud and corruption

## **67 STANDARDS UPDATE**

67.1 The Committee considered a report of the Head of Law that updated Members on Standards-related issues/activities since the previous update.

67.2 **RESOLVED-** That Members note the report

## **68 INFORMATION GOVERNANCE STRATEGY**

68.1 The Committee considered a report of the Head of Law and Monitoring Officer that sought comment from the Committee on the draft Information Governance Strategy ahead of its submission to Policy & Resources Committee for consideration.

68.2 The Head of Law circulated a document outlining a number of spelling corrections to be made to the draft document.

68.3 Dr. Horne stated that he welcomed the Strategy that filled a current vacuum in the council's policy and procedures. Dr. Horne suggested that the document be amended ahead of its submission to Policy & Resources Committee to outline the cost of delivery of the Strategy, the pace of implementation and the risks involved in managing the Strategy in the long-term including any potential impact from Orbis shared service arrangements.

68.4 The Head of Law clarified that under the Orbis arrangements, each authority would be responsible for its own Information Governance Strategy. This would in turn present Information Governance issues that would be included in the due diligence process and regularly monitored.

68.5 **RESOLVED-**

- 1) That Members consider the attached draft Information Governance Strategy 2016-19 (appendix 1) and comment as necessary.
- 2) Note that any comments will be incorporated into a revised draft going to the Policy & Resources Committee for final approval.

## **69 ANNUAL SURVEILLANCE REPORT 2015**

- 69.1 The Committee considered a report of the Acting Director, Finance & Resources that informed Members of the activities that had been undertaken utilising the powers under the Regulatory Investigatory Powers Act 2000 (RIPA) since the last update in December 2014, informed the Committee of the outcome of the recent audit of the Council's surveillance activity by the Office of the Surveillance Commissioners in June 2015 and introduced revised Policy and Guidance documents reflecting that audit.
- 69.2 Dr Horne noted that 'Gatekeepers' could also be 'Authorising Officers' and asked if these two duties should be separated to ensure impartiality.
- 69.3 The Trading Standards Manager clarified that the Policy and Guidance stated clearly that a 'Gatekeeper' could not act as an 'Authorising Officer' on the same matter. The Head of Law added that the council could look at increasing its number of 'Gatekeepers'.
- 69.4 **RESOLVED-**
- 1) That the Committee approve the continued use of covert surveillance as an enforcement tool to prevent and detect crime and disorder investigated by its officers, providing the activity is in line with the Council's Policy and Guidance and that necessity and proportionality rules are stringently applied.
  - 2) That the Committee note the surveillance activity undertaken by the authority since the report to Committee in December 2014 as set out in paragraph 3.3.
  - 3) That the Committee approve the continued use of the amended Policy and Guidance document as set out in Appendix 2.

**70 ITEMS REFERRED FOR COUNCIL**

- 70.1 No items were referred to Full Council for information.

**71 ITEMS FOR THE NEXT MEETING**

- 71.1 Dr Horne suggested the Committee receive the due diligence outcome for Orbis shared service proposals for Internal Audit.
- 71.2 The Head of Internal Audit stated that although it may not be possible to report the due diligence outcome, an update on the Internal Audit service would be provided.

The meeting concluded at 6.30pm

Signed

Chair

