

**BRIGHTON & HOVE CITY COUNCIL**

**AUDIT & STANDARDS COMMITTEE**

**4.00pm 10 JANUARY 2017**

**COUNCIL CHAMBER, HOVE TOWN HALL, NORTON ROAD, HOVE, BN3 3BQ**

**MINUTES**

**Present:** Councillors A Norman (Chair) Chapman, Cobb, Druitt, Morris, Robins (Group Spokesperson), Sykes (Group Spokesperson) and Taylor

**Independent Members present:** Diane Bushell, Dr David Horne

**PART ONE**

**54 PROCEDURAL BUSINESS**

**54a Declarations of substitutes**

54.1 There were none.

**54b Declarations of interests**

54.2 There were none

**54c Exclusion of the press and public**

54.3 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.

54.4 **RESOLVED** - That the press and public not be excluded from the meeting.

**55 MINUTES AND COMMITTEE ACTION LOG**

55.1 **RESOLVED** – That the minutes of the previous meeting held on 15 November 2016 be approved and signed as the correct record.

**56 CHAIR'S COMMUNICATIONS**

56.1 The Chair welcomed Councillor Robins to the meeting following recent ill health and congratulated Councillor Chapman on his recent appointment as Chair of the Children, Young People & Skills Committee.

**57 CALL OVER**

57.1 The following items on the agenda were reserved for discussion:

- Internal Audit and Corporate Fraud Progress report
- Ernst & Young Annual Certification report
- Ernst & Young Audit Plan 2016/17
- Decision to Opt In to the National Scheme for Auditor Appointments
- Strategic Risk Register Review November 2016
- Strategic Risk Focus Item: SR22 Modernising the Council
- Corporate Risk Assurance Framework (CRAF)

57.2 The Democratic Services Officer confirmed that the items listed above had been reserved for discussion and that the following reports on the agenda with the recommendations therein had been approved and adopted:

- Treasury Management Policy Statement 2016/17 (Including Annual Investment Strategy 2016/17)- Mid Year Review
- Standards Update

**58 PUBLIC INVOLVEMENT****(b) Written Questions****(i) Contract overpayments**

58.1 David Croydon asked the following question:

*“In the documents relating to Item 59 “Internal audit and corporate fraud progress report” for this meeting it says, “The corporate fraud and audit teams have together worked on a range of cases that have resulted in referrals to relevant authorities, recovery of funds and disciplinary action against Brighton & Hove staff.”  
Is this the last we are going to hear of the £513,000 overcharge?”*

58.2 The Chair provided the following reply:

*“Thank you for your question Mr Croydon that I understand relates to the sub-contractor overcharge on the Housing Repairs contract with Mears Ltd.  
That issue was considered in detail at Audit & Standards committee on 12 January 2016 with further updates discussed at this Committee on 21 June 2016 and 15 November 2016.  
It was also considered at Housing & New Homes Committee in January 2016 and the committee received a further update in September 2016. Housing & New Homes Committee have requested regular updates on this matter to review progress and a further report will be presented to the committee in Spring 2017.*

*In addition to the specific actions identified and disclosed at those meetings, the council is continuing to work with Mears to strengthen processes and procedures and is commissioning an independent review to identify further improvements that would benefit the partnership, residents and stakeholders.*

*Furthermore, as agreed as part of the Internal Audit plan for 2016/17, Internal Audit is currently carrying out a follow up review of housing repairs to assess the progress being made in addressing the issues and actions identified and the results of this work will be reported to this committee at a future meeting”.*

**59 MEMBER INVOLVEMENT**

59.1 There were none.

**60 INTERNAL AUDIT AND CORPORATE FRAUD PROGRESS REPORT**

- 60.1 The Committee considered a report of the Executive Director, Finance & Resources that summarised the progress made against the Internal Audit and Corporate Fraud Plan, the key issues identified and action being taken and progress made by management in implementing audit recommendations.
- 60.2 Councillor Sykes asked for further information on temporary accommodation voids including the percentage of voids and the associated cost, what actions were being taken to monitor contract standing orders and clarification on checks on the eligibility of Right to Buy cases.
- 60.3 The Head of Internal Audit stated that he did not have information in relation to temporary accommodation voids to hand and would provide an update to Councillor Sykes after the meeting. He confirmed that work was required to provide assurance and the Internal Audit team were providing training and monitoring activity to achieve that. Right to Buy eligibility related to an assessment of whether an individual had sufficient funds to purchase properties under the Right to Buy scheme and was used as a deterrent to reduce loan shark activity.
- 60.4 Councillor Taylor noted that administration of banking systems had been given limited assurance and requested re-assurance that Internal Audit were satisfied that alternative solutions had been put in place and not all recommendations had been implemented.
- 60.5 The Head of Internal Audit stated that it was the decision of the relevant manager whether to implement the recommendations or agree alternative solutions. Internal Audit monitored and follow-up instances of limited assurance to track progress.
- 60.6 Dr Horne stated that building and systems access control and IT waste disposal had for some time both had high priority recommendations that had not been implemented. Dr Horne stated that there was seemingly a lack of focus and insufficient progress perhaps because the actions were not robust enough. On this basis, Dr Horne recommended that a report be brought to the committee on these two areas.
- 60.7 The Executive Director, Finance & Resource welcomed the comments from Dr Horne and agreed that a report could be submitted to the Committee.

- 60.8 Councillor Druitt requested further information on Blue Badge enforcement, specifically the quantity recovered against the overall number issued and more detail on the actions being taken to reduce fraud.
- 60.9 The Head of Internal Audit stated that he did not have this information to hand and would provide a response after the Committee.
- 60.10 Councillor Morris stated that he welcomed the actions being taken on resident parking permits and temporary accommodation and asked when a report would be submitted detailing the results of the actions.
- 60.11 The Head of Internal Audit stated that this would be reported to committee in the usual schedule of Internal Audit progress reports.
- 60.12 **RESOLVED-** That the Audit & Standards Committee notes the report

**61 ERNST & YOUNG: ANNUAL CERTIFICATION REPORT**

- 61.1 The Committee considered a report of Ernst & Young that set out their findings relating to the certification of grant claims completed in 2015/16.
- 61.2 Councillor Sykes noted that the value of the failures found represented 0.1% of the overall housing benefit subsidy. Councillor Sykes asked whether it was possible that there was a net effect of zero as the testing only reported overpayments and not underpayments.
- 61.3 Paul King, External Audit Director, clarified that may be the case adding that the Department for Work & Pensions (DWP) requested reporting of overpayments only.
- 61.4 Councillor Druitt asked that when overpayments were found, whether the overpayment was returned to central government or the local authority. In addition, Councillor Druitt observed that the report highlighted a change in arrangements whereby only the certification of the housing benefits subsidy claim was required and asked what had been previously required.
- 61.5 Tom Wilkins, External Audit Manager clarified that where overpayments were found, Ernst & Young reported these to the DWP. Following that, there would be a separate communication between the DWP and Brighton & Hove City Council on how to resolve the matter. It was his understanding that there was no financial detriment to the council. Paul King, External Audit Director, explained that non-domestic rates and capital receipts had previously been part of the grant certification regime.
- 61.6 Councillor Druitt asked if any underpayments found were reported to the council.
- 61.7 Tom Wilkins, External Audit Manager, confirmed that underpayments found were reported to the council and it was in the authority's interest to pursue those.
- 61.8 Diane Bushell asked how the council compared and performed in relation to other authorities.

- 61.9 Paul King, External Audit Director, answered that the council were toward to the middle to low end in terms of errors made. Investment would reduce some errors but the key aspects in terms of auditing were the nature of the error and the amount of testing required.
- 61.10 The Assistant Director, Finance added that in terms of investment, there was a cost versus benefit assessment required. Increased investment could be made but that could equate to a higher cost than the errors found and needed to be considered in the context of a challenging financial environment. Extensive work was undertaken with Internal Audit about how performance in this area could be improved year on year.
- 61.11 **RESOLVED-** That the Audit & Standards Committee note the 2015/16 Certification Report.

**62 ERNST & YOUNG: AUDIT PLAN 2016-17**

- 62.1 The Committee considered a report of Ernst & Young that set out the 2016/17 Audit Plan detailing the work intended to be carried out in line with their responsibilities as the council's external auditor. The report summarised the progress to date, an assessment of the key risks which drive the development of an effective audit and outlined Ernst & Young's planned audit strategy in response to those.
- 62.2 Dr Horne asked of the Audit Plan could include an assessment of the Council's track record in delivering savings in 2016/17 and in the mid-term.
- 62.3 Paul King, External Audit Director, confirmed this would be part of the information gathered by Ernst & Young in their audit.
- 62.4 Councillor Morris asked for further clarification on the statement that the Property, Plant & Equipment (PPE) balance could be materially misstated in 2016/17.
- 62.5 Paul King, External Audit Director, answered that due to the high monetary values associated with PPE, it took little to lead to a large increase or decrease in valuation. The statement also related to the challenge made to the Council on the value of PPE in its draft financial statement and the fact there were a number of recommendations made by Ernst & Young to the Council in 2015/16 in relation to this issue.
- 62.6 Councillor Sykes asked if there could be an analysis of the Council's use of capital within the Plan.
- 62.7 Paul King, External Audit Director, clarified that Ernst & Young always reviewed the way transactions were accounted for and any associated risk and this would cover capital spend.
- 62.8 **RESOLVED-** That the Audit & Standards Committee note the 2016/17 Audit Plan

**63 DECISION TO OPT IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS**

- 63.1 The Committee considered a report of the Executive Director, Finance & Resources that set out the requirements to comply with legislation for the appointment of external auditors effective from the 2018/19 financial year and requested Members to recommend a proposed course of action to Full Council relating to the future appointment of the Council's external auditor through Public Sector Audit Appointments Ltd (PSAA).
- 63.2 The Chair asked whether the Council was likely to appoint the same auditors as its Orbis partners under the process.
- 63.3 The Assistant Director, Finance stated that the position in relation to appointments was as yet unknown. Paul King, External Audit Director, stated that historically, the process enabled a degree of consultation with local authorities, specifically in relation to collaborative partners.
- 63.4 Councillor Taylor noted his uncertainty regarding the arrangement as typically, a procured contract would include in its terms, conditions that a specific local authority wanted to achieve. Councillor Taylor noted his concerns for accountability with hundreds of organisations already signed up to the arrangement. Furthermore, Councillor Taylor requested clarification on the length of contract proposed and whether the Council would be able to withdraw from the arrangement should it wish to.
- 63.5 The Assistant Director, Finance clarified that the PSAA's Procurement Strategy indicated the contracts would be awarded for a five year term. A key advantage of adopting PSAA as the appointing person for the Council was their expertise and experience in contract management of this type which was a resource not currently available within the Council.
- 63.6 Councillor Morris enquired as to whether Orbis partners could make a direct joint appointment as detailed as Option 1 of the report.
- 63.7 The Assistant Director, Finance clarified that one of the Orbis partners had already agreed to assign the PSAA as their appointing persons with the other partner likely to do the same in the very near future meaning that Option 1 and 2 were no longer a viable choice for the Council.
- 63.8 Dr Horne enquired whether Grant Certification work would be included in any new arrangement.
- 63.9 The Assistant Director, Finance stated that he was uncertain as to the arrangements for Grant Certification claims and would clarify and report back as soon as possible. Paul King advised that the arrangement would be likely to be similar to the current arrangements whereby grant certification work can be awarded to the same External Audit Firm if desired but would be a separate decision for the council. However, this would be subject to agreement of the government department responsible for each grant.
- 63.10 **RESOLVED-** That the Audit & Standards Committee:

- 1) Note the requirements relating to the appointment of an External Auditor to the Council for 2018/19.
- 2) Note the letter of invitation from PSAA for the Council to opt into the national scheme for auditor appointments (Appendix 2).
- 3) Recommends that Council opt-in to the national scheme and adopt PSAA as the appointing person for the Council including in the prescribed acceptance form a request for a collaborative auditor appointment with Surrey County Council and East Sussex County Council.
- 4) Recommends that the Council delegate the process of acceptance of the invitation to the Executive Director of Finance & Resources as the council's S151 Officer.

#### **64 STRATEGIC RISK REGISTER REVIEW NOVEMBER 2016**

- 64.1 The Committee considered a report of the Executive Lead Officer, Strategy, Governance & Law 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 by the Executive Leadership Team (ELT). The report included recent updates by ELT made on 16 November 2016.
- 64.2 Councillor Morris noted that the risk actions for SR18: Transition to modern, digital IT to improve service delivery had been ongoing for some time and were seemingly no nearer to completion.
- 64.3 The Executive Director, Finance & Resources stated that the actions had unfortunately not been progressed further over the past six months. Recruitment and retention of staff had been issue and it was hoped that the Orbis partnership would help bolster operations.
- 64.4 Dr Horne welcomed the new strategic risk SR29: Contract Management but noted that there were no actions currently associated with the risk.
- 64.5 The Executive Director, Finance & Resources responded that this was a relatively new risk and ELT would be discussing the item further including designating risk actions.
- 64.6 Councillor Druitt stated that he could not understand why the likelihood score for SR21: Housing Pressures had been revised from likely to possible when it was clear that the city was in the midst of a housing crisis.
- 64.7 The Chief Executive stated that there had been a lot of measures undertaken in relation to the council's statutory duties including the granting of planning permission for 300 new homes and the agreement for a joint venture with Hyde Housing that would deliver a further 1000 homes amongst other measures. The Council was also undertaking work with the private sector but there was a limit to its powers in this area.
- 64.8 **RESOLVED-** That the Audit & Standards Committee notes the SRR Report December 2016 at Appendix 1.

**65 STRATEGIC RISK FOCUS ITEM: SR22 MODERNISING THE COUNCIL**

- 65.1 The Chief Executive provided a verbal update and answered Members questions for SR22: Modernising the Council. The Chief Executive was accompanied by the Head of Performance, Improvement & Programmes.
- 65.2 Councillor Sykes stated that there were 23 large corporate programmes currently underway and he was concerned that the Head of Performance, Improvement & Programmes had too large a workload.
- 65.3 The Chief Executive explained that delivery of the programmes did not fall upon one person but was allocated to ELT and departmental management teams.
- 65.4 Councillor Cobb asked if contracts procured by the council would be focussed on small businesses or larger companies.
- 65.5 The Chief Executive stated that he believed the council could do more to get a better result from its contract management. New contracts would be price and quality balanced and other factors relating to the Social Value Act would be included.
- 65.6 Councillor Cobb asked for further information on the Able & Willing corporate programme.
- 65.7 The Chief Executive stated that the Council were working on programmes to address exclusion from the workforce of those with mental health issues and physical disabilities and part of that would be a re-imagining of the role of Able & Willing.
- 65.8 **RESOLVED-** That the Audit & Standards Committee notes the Strategic Risk Assessment Report at Appendix 1.

**66 CORPORATE RISK ASSURANCE FRAMEWORK (CRAF)**

- 66.1 The Committee considered a report of the Executive Lead Officer, Strategy, Governance & Law and the Executive Director, Finance & Resources that was designed to better protect the council's reputation and contribute to keeping the council safe, support managers to obtain the assurance they need to plan and deliver their services, replace the Risk Management Strategy and inform Internal Audit work.
- 66.2 Diane Bushell asked if there would be corporate monitoring of the areas where no 3<sup>rd</sup> line of defence had been identified.
- 66.3 The Head of Internal Audit noted that that this was the first occasion that the CRAF had been prepared and reported and identifying a 3<sup>rd</sup> line of defence for every area was the desired outcome long-term.
- 66.4 Councillor Sykes stated that the CRAF was based upon an international framework that might be a level above the council. Councillor Sykes asked how the CRAF would be used in a practical sense.



66.5 The Risk Management Lead stated that the council was following guidance from CIPFA/SOLACE, Delivering Good Governance in Local Government Framework and the CRAF would allow the council to map itself against the framework and help assist the Annual Governance Statement. The Risk Management Lead added that she did believe the CRAF would apply to the council as it fitted how it ran its affairs.

66.6 Dr Horne welcomed the report stating that he hoped that any gaps in assurance could be targeted in the Internal Audit Plan and that the framework may also help identify any over engineered controls.

66.7 **RESOLVED-** That the Audit & Standards Committee:

1) Note the CRAF at Appendix 1.

2) Agree for a working group of the Committee to carry out a “deep dive” to review the CRAF to:

- enable members to consider whether the council has sufficient assurance over its governance arrangements and risks
- inform the Annual Governance Statement (AGS) and the Internal Audit plan for 2017/18.

3) Note that the CRAF will replace the Risk Management Strategy as outlined in paragraphs 6.2 to 6.4.

**67 TREASURY MANAGEMENT POLICY STATEMENT 2016/17 (INCLUDING ANNUAL INVESTMENT STRATEGY 2016/17) –MID YEAR REVIEW**

67.1 **RESOLVED-** That the Committee note the report.

**68 STANDARDS UPDATE**

68.1 **RESOLVED-** That Members note the report.

**69 ITEMS REFERRED FOR COUNCIL**

69.1 There were none.

**70 ITEMS FOR THE NEXT MEETING**

See minute item 60.6.

The meeting concluded at 6.30pm

Signed

Chair

Dated this

day of