

# Audit Committee Minutes

Wednesday 31 July 2024

## PRESENT

**Committee members:** Councillors Patrick Walsh (Chair), Florian Chevoppe-Verdier, Adrian Pascu-Tulbure and David Morton

**Other Councillor:** Councillor Rowan Ree (Cabinet Member for Finance and Reform)

### **Officers:**

Sukvinder Kalsi (Executive Director of Finance & Corporate Services)

James Newman (Assistant Director of Finance)

David Hughes (Director of Audit, Fraud, Risk and Insurance)

Andy Hyatt (Head of Fraud)

Moira Mackie (Head of Internal Audit)

Jules Binney (Risk and Assurance Manager)

Amanda Gordon (OD Children's and Young People Services) (attended remotely)

Debbie Yau (Committee Coordinator)

### **Guest**

Nick Halliwell (Senior Manager – Audit, Grant Thornton)

## 1. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Lisa Homan who was a new member of this Committee.

The Chair took the opportunity to thank Councillor Ashok Patel for his contributions to the Committee in the past.

## 2. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 3. MINUTES OF THE PREVIOUS MEETING

### *Matters arising*

Responding to the enquiry of Councillor Adrain Pascu-Tulbure, Sukvinder Kalsi (Executive Director of Finance and Corporate Services) agreed to provide the information on the Annual Parking Report 2022 to 2023 when it was published.

**ACTION: James Newman**

**RESOLVED**

That the minutes of the meeting held on 11 March 2024 were agreed as an accurate record.

**4. EXTERNAL AUDIT PLAN 2023/24, AUDIT RISK ASSESSMENT AND STATEMENT OF ACCOUNTS UPDATE**

Sukvinder Kalsi (Executive Director of Finance and Corporate Services) briefed members that this report covered the external audit plan, risk assessment for the audit of the financial year 2023/24 and an update on the Statement of Accounts for 2022/23 and 2023/24. He noted that the Audit Risk Assessment 2023/24 (Appendix 2) included the following areas:

- General Enquiries of Management
- Fraud
- Laws and Regulations
- Related Parties
- Going Concern
- Accounting Estimate

Sukvinder Kalsi further noted that the external auditor had issued an unqualified opinion on the 2022/23 Statement of Accounts on 28 March 2024 after they had been approved by this Committee on 11 March 2024. The draft (unaudited) 2023/24 Statement of Accounts were published on the Council's website on 31 May 2024 in accordance with the statutory deadline, with the public inspection period ended on 12 July 2024. Upon the completion of external audit work, the final 2023/24 accounts would be presented to the Audit Committee for approval.

Nick Halliwell (Senior Manager – Audit, Grant Thornton) introduced the external audit plan which included separate plans for pension fund and the Council's general fund accounts. The significant risks identified were similar to that of the previous years except the disclosure requirements following the implementation of IFRS 16 by local authorities from 1 April 2024. Among the similar ones, the greatest risk identified was materiality. Nick then shared with members the level of materiality being determined for the Council's fund, senior officer remuneration, and Pension Fund under which a separate materiality was set to detect errors in specific accounts (page 24). He said that any error above 5% of the materiality levels would be reported in the audit findings.

In regard to signing off the 2023/24 audit, Nick Helliwell noted that the external audit work had started in mid-June and the report would be ready for the Committee's scrutiny around October to be signed by November 2024. While appreciating the audited accounts, the Chair stressed the need for this Committee to review the external audit reports and sign off accounts as soon as practicable at regular intervals. Nick agreed to take this on board.

Councillor Rowan Ree (Cabinet Member for Finance and Reform) said he was pleased to note that the Council managed to sign off 3 years of audits within one financial year which provided reassurance to the residents that LBHF was a well-run council. He also looked forward to the early signing off of the 2023/24 audited accounts.

Councillor Florian Chevoppe-Verdier highlighted the national economic context which continued to present challenges to the local government sector. There were also increasing demand for local government services, especially in adult and children's social care. As such, it was no small feat for this Council to battle significant pressures and balance the book. He nevertheless noted the need to update the name of the Pension Investment Advisor (Appendix 2, page 62) and to rectify the website links for electronic reporting under Safecall (Appendix 2, page 67).

Councillor Chevoppe-Verdier was concerned about the reasons for ongoing audit reporting delays and asked about the situation in this Council. Nick Halliwell noted there had been issues across the local authorities that their accounts for 2022/23 or earlier were not signed on time. They were caused by issues such as increased regulation, increased amount of work related to property and pension valuations, technical issues identified around infrastructure and the knock-on effect of the previous years' delays due to the pandemic. Nick noted that the new Parliament had agreed to implement a new backstop date and any 2022/23 audits not being signed off by mid-December 2024 would be accompanied by a disclaimer opinion. He was pleased to note that LBHF's 2022/23 audit had been completed in March 2024, well before the new backstop date. He added that Grant Thornton was an outlier in audit sign-off, having completed 65% vis-à-vis 7% of other firms as at end of May 2024. The rate was envisaged to increase to 75% by the end of this September.

In reply to the Chair's question on sector update, Nick Helliwell advised that the proportion of council audits done by Grant Thornton and other firms under the old contract was around 40:60. He then went through the audit sign-off situations between the two since 2020/21 (page 93). In this regard, Councillor Ree was concerned about Grant Thornton's capacity in signing off the Council's audits on time given their attention might be diverted to some trickier accounts of other local authorities. Nick reassured members that their London audit team had sufficient capacity to deal with regular audits by named colleagues, with extra manpower to be allocated on top of a normal team to undertake more complex audit work.

Members noted that the audit fees were set by Public Sector Audit Appointments (PSAA) as part of their national procurement exercise. In reply to Councillor Chevoppe-Verdier's questions about the changes in audit fees, Nick Helliwell explained that in 2017, PSAA awarded a 5-year contract of audit for LBHF for the period between 2018/19 and 2022/23. In 2023, Grant Thornton was re-appointed under a new 5-year contract. PSAA had set new fees for 2023/24 in response to the new regulatory framework and high inflation. By offering higher fees, PSAA also sought to draw more firms into the market to help clear the backlog. He added that under the new standards, the audit process became more laborious for both sides and the new fees also reflected the increased man-hours.

In this regard, Sukvinder Kalsi highlighted PSAA's robust procurement process in appointing an external auditor which helped assure the residents that the finances of a complex organisation such as this Council were well governed. He reiterated that the proposed Council Audit Scale Fee of £413K for 2023/24 was very similar in cash terms compared to 10 years ago and it was lower in real terms. He reassured that the Finance Department would keep an eye on the audit fees.

The Chair appreciated that a vast majority of councils had subscribed to PSAA's service as there were few firms could undertake an audit of an organisation as complicated as a council like LBHF. Echoing the Chair's view, Councillor Ree pointed out that in view of the lack of supply in the audit market, LBHF had probably obtained the best value for money audit services.

David Hughes (Director of Audit, Fraud, Risk and Insurance) undertook to provide information on the external auditor fee comparison data for London Boroughs for the 2023/24 audit year. He noted that H&F's council audit fee was in the bottom half.

**NOTE: The information has been circulated on 5 August 2024**

## **RESOLVED**

That the Committee agreed

1. to note the 2023/24 External Audit Plan as prepared by the Council's External Auditor, Grant Thornton (Appendix 1); and
2. to note the contents of the report produced by Grant Thornton on Informing the audit risk assessment 2023/24 and the responses from management (Appendix 2).

## **5. EXTERNAL AUDIT PROGRESS AND SECTOR UPDATE**

Nick Halliwell (Senior Manager – Audit, Grant Thornton) introduced the report which included audit deliverables planned for 2023/24 and a series of sector updates. He noted that the deliverables were on track, and it was planned to bring the next Audit Plan earlier to the March 2025 meeting. The Audit Findings Report, Auditor's Report and Auditor's Annual Report would be presented at the next Committee meeting.

On issues in anticipation of the recent change of government and the King's Speech as raised by Councillor Adrian Pascu-Tulbure, Nick Halliwell said they expected to see the impact of the new budget, including the claim of the £22 billion black hole, on the councils' funding. It was also expected that a statutory backstop date for 2023/24 audits would be set probably for the end of February 2025 which should not affect LBHF.

Regarding Councillor Pascu-Tulbure's further question on LBHF's productivity plan (page 99), Councillor Ree said that the plan was published after it had been sent to the new minister.

## **RESOLVED**

That the Committee noted the External Auditor Progress Report and Sector Update.

### **6. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT 2023/24**

Andy Hyatt (Head of Fraud) introduced the report which provided an account of fraud-related activity undertaken during the financial year 2023/24. He highlighted the following:

- It was reassuring to have received high number of referrals from the National Fraud Initiative (NFI) data matching exercise which had helped reduce overpayments by tackling the cases earlier.
- The Economic Crime and Corporate Transparency Act 2023 (the “Act”) had inadvertently included local authorities due to its catchment criteria. Nevertheless, the Act and the defence available provided opportunities for the Council to strengthen its policies and procedures to prevent employees committing fraud offences benefitting the council, and to roll out fraud awareness across the Council.
- On tenancy fraud, while 18 properties had been successfully recovered, there were another 16 cases due to be heard in court. An action plan was put in place with colleagues from housing and legal services with a view to moving them forward and recovering properties for reallocation to people in genuine need.

Councillor David Morton said he ran a small Housing Association of 140 flats and noted there was a current trend for young people to live with their parents. He remarked that because of the legal requirement in passing the social housing tenancy once, a young adult living with the second parent who had succeeded the tenancy would become homeless if that parent also passed away. He asked if the Council could change the rule.

Andy Hyatt said as he understood, LBHF could award discretionary secondary succession based on the merits of each case to ensure appropriate tenants would not lose tenancy. He agreed to confirm and provide more detailed information on this after the meeting.

#### **ACTION: Andy Hyatt**

Noting notional values helped quantify the financial benefits of counter-fraud efforts which had incurred resources, Councillor Florian Chevoppe-Verdier asked about the “optimisation point” beyond which no additional fraud cases could be recovered even with more investment. Andy Hyatt said, in his opinion, LBHF had not reached there yet. At a recent meeting with the Chief Executive and Executive Director of Finance and Corporate Services, there was a discussion on the level of resources required to yield the most return on investment on anti-fraud activities and a business case was under preparation. He then shared with members how the appointment of experienced officers from within the council greatly benefitted the service bringing their different perspectives tackling various types of offences.

As regards research and study, David Hughes (Director of Audit, Fraud, Risk and Insurance) noted that before its disbandment, the Audit Commission used to do an annual counter-fraud survey. It was estimated that nationally about 3% to 5% of social housing tenancies were being fraudulently sublet. Such fraudulent practice was likely to be more prevalent in London. He agreed that the more resources being deployed effectively and appropriately, the more properties could be recovered.

Councillor Chevoppe-Verdier noted the numbers of cases for each fraud types set out in paragraph 1.5 of the report (page 107) and asked about the corresponding numbers in the previous year. Andy Hyatt expected that in tandem with the slight increase in the service's headcount, there was a slight increase in terms of the processing of cases including NFI's investigated matches.

Councillor Adrain Pascu-Tulbure sought breakdown information on the reasons accounting for the closed cases, for example, no fraud had taken place, difficult to prove fraud had taken place, potentially losing the legal challenge and so on. Andy Hyatt noted from the case management system that some cases could not move forward due to the lack of evidence. Andy added that some of the closed cases particularly those from the previous year might have exhausted all lines of inquiry but could be re-opened if new information came to light. He agreed to provide the requested information after the meeting.

**ACTION: Andy Hyatt**

On Councillor Pascu-Tulbure's further question on benchmarking, Andy Hyatt said that as this Council had invested for a bigger team in deterring and tackling fraud, LBHF had a slightly higher case turnover when compared to the other two councils.

Councillor Rowan Ree (Cabinet Member for Finance and Reform) thanked the excellent work of the Anti-fraud team which had brought about a notional value of over £1 million as well as the savings achieved through preventive actions. He highlighted that every penny recovered or saved could be invested in delivering quality services to vulnerable residents.

Responding to the Chair's enquiry about the recent trend of moonlighting which was prevalent during the pandemic, Andy Hyatt noted there was a downturn of moonlighting across London because London boroughs had been tackling it. He expected that some cases might come to surface by the next NFI data matching exercise which would involve local authorities outside London. While the next NFI data would be taken in September for the matching exercise to be carried out in March next year, the tri-borough Fraud Hub could fill the gap by comparing the payroll data across London more regularly to deter or identify moonlighting. He added that examining specific tax codes might also help uncover such practice.

Councillor Chevoppe-Verdier recalled previous discussions on the need to strike the delicate balance between sharing fraud information and sharing too much personal data without the subject's consent when exchanging data with other local authorities/ organisations. With reference to the four objectives under the Anti-fraud and Corruption Strategy 2024/27 in Appendix 2 (page 117), i.e. Govern, Understand, Prevent and Respond, he asked whether the three boroughs could pool the

resources to strengthen the fraud signals/networks and review existing solutions before resorting to matching NFI data.

In response, Andy Hyatt stressed that the NFI data matching was empowered by the Secretary of State and that was why the Fraud Hub with power deferred from the Local Government Act was moving to use the NFI platform for the assurance of the protection it provided. He added that data subjects were notified under a declaration on the Council's webpages and privacy notices about their data being shared.

Andy Hyatt detailed a case whereby departments disagreed to share the data leading to a council property remaining empty. Councillor Chevoppe-Verdier considered LBHF, while ensuring democratic control, should also develop and uphold an internal ethical function. He asked whether the case mentioned earlier was resident-led.

David Hughes assured that before data sharing, the local authorities concerned would enter into data sharing agreement after conducting a data privacy impact assessment and consulting the legal advisors. Andy Hyatt added that the London Boroughs Fraud Investigators Group, a partnership across London, could also seek independent opinion to provide further assurance.

Referring to the Anti-Fraud & Corruption Strategy 2024/27, Councillor Pascu-Tulbure considered the successes by 2027 under each objective (page 119) were qualitative ones easy to achieve. He asked for the quantitative successes which could reflect the priority of "being ruthlessly, financially efficient" under the Council's vision. Andy Hyatt said he was happy to take that away. It was in the plan to give the matter a deeper dive and provide information on the team's performance against each individual area at future meetings.

**ACTION: Andy Hyatt**

## **RESOLVED**

That the Committee noted the report and the Anti-Fraud & Corruption Strategy 2024/27.

## **7. RISK MANAGEMENT UPDATE**

David Hughes (Director of Audit, Fraud, Risk and Insurance) outlined the report which provided an update on the steps being taken to refresh the Corporate Risk Register and to review and update the Council's Risk Management Strategy. Taking account of the stability of existing risks on the register and changes in the corporate management structure, opportunity would be taken over the summer to work with Senior Leadership Team (SLT) to

- review with the relevant Executive Director who had taken over responsibility for the reassigned areas; and
- refresh the Corporate Risk Register so that it provided more focus on planned mitigations which were intended to maintain or reduce the risk over time.

This would provide enhanced assurance to SLT, Executive Directors and Members that planned actions were being implemented, were having the desired effect and provided opportunities to take corrective action where appropriate.

David Hughes noted that the Risk Management Strategy was last developed in 2019 before the pandemic. It was now timely to revise the Strategy to support the delivery of the LBHF Vision and quality services to the residents and communities. It was planned to present the new Strategy to SLT Assurance in November and then this Committee at its December meeting. Responding to Councillor Florian Chevoppe-Verdier's question about SLT, David noted that the SLT Assurance met once a month and it was a good practice for risk management colleagues to brief SLT as and when appropriate on issues about risks and their control as well as ways to make improvements in key areas.

In reply to the Chair's enquiry, David Hughes advised that to enhance the visual representation of the Corporate Risk Register, the heat map would be kept and dashboard reporting would be brought along in the Risk Management Strategy. As regards the Chair's further question on the extent of consultation with the departments in terms of risk management, Jules Binney (Risk and Assurance Manager) explained that the risks at the top of the Corporate Risk Register were long term corporate risks and hence were not expected to change significantly over time. However, moving down the refreshed Corporate Risk Register to the departmental level, the risks would be weighted and rated in the same way and those with more issues of concern might be highlighted in the Corporate Risk Register. These risks and their mitigation measures would be presented in consistent terminology to enhance public understanding.

Councillor Chevoppe-Verdier was concerned whether the standards and approaches under the refreshed Risk Management Strategy and Corporate Risk Register were subject to external assessment. David Hughes assured members that as part of the Internal Audit plan, external validation would be carried out and this Committee would also be duly consulted.

The Chair said standardising the terminology could avoid misunderstanding and he looked forward to receiving the next report.

#### **RESOLVED**

That the Committee noted the report.

### **8. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2023/24**

Moira Mackie (Head of Internal Audit) presented the report which summarised the work of Internal Audit in 2023/24 listed in Appendix 1. It also provided the opinion of the Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion was used to support LBHF's Annual Governance Statement. She noted that while LBHF had the most substantial assurance audits among the three councils serviced, most were inevitably satisfactory assurance audits given the wide range of work involved from an individual school to a more complex system.



Members noted that the Internal Audit Team (IAT) did regular follow-up work to make sure recommendations were implemented. Moira Mackie was pleased to report that there was a good level of implementation of recommendations and those not fully implemented were listed in Appendix 4 (page 152). The work of the IAT was quality assessed externally to demonstrate it was in line with the internal audit standards (Appendix 5, page 154).

David Hughes (Director of Audit, Fraud, Risk and Insurance) referred to the two limited assurance audits on housing voids and adoption services (pages 148 -151) and highlighted the good engagement at a senior level through the audit work. For example, the audit work posed a lot of challenges in the housing space and substantial improvement work on void properties was going on. The IAT also briefed more junior members of staff in terms of engagement during the internal audit process. He remarked that both audits were making good progress.

With reference to the final report of External Quality Assessment of the Internal Audit performance prepared by London Borough of Lambeth (Appendix 5), Councillor Florian Chevoppe-Verdier applauded at the conclusion that the internal audit services for the three councils generally conformed with the Public Sector Internal Audit Standards which was the highest available rating (page 155). He noted from the survey of key stakeholders that the results were very positive and a testament to the professionalism and expertise of the internal audit service. He found the survey results at Appendix B very encouraging, in particular about 80% of respondents agreed that internal audit activity promoted appropriate ethics and values within the organisation (page 168). In response to his question, David Hughes advised that around 40 survey questionnaires were sent to senior officers and chairs of Audit Committees across the three councils. The anonymous responses went directly to the external assessor. David considered the feedback very helpful and positive.

Councillor Chevoppe-Verdier noted audit work on election readiness was in progress and asked whether further report would be provided in future. Moira Mackie said due to the short notice of the General Election, the related audit work had to be paused. IAT planned to work with the election team in summer and present a further report at the next meeting.

**ACTION: Moira Mackie**

Councillor Adrain Pascu-Tulbure noted from limited assurance audits that at the time of audit (October 2023) 310 properties were voids and asked for the current number after management action had been taken. Sukvinder Kalsi (Executive Director of Finance and Corporate Services) said as he recalled, the current number of void properties was around 220 which represented about a normal level of 2% of all council properties. In reply to the Chair on the conditions of the remaining properties on the list of voids, Sukvinder noted that some of them required some substantial work. He undertook to provide the requested information after the meeting.

**ACTION: Sukvinder Kalsi**

The Chair was concerned about the recruitment, training and development of finance officers in schools. For example, the vacancy in Jack Tizard School since May 2022 had resulted in some of the processes and targets not achieving the school's usual high standards. Members noted that the new permanent officer was undergoing training in the Spring Term.

Moira Mackie advised that the schools' finance team had liaised closely with and provided support to the school and obtain additional resources to bridge the gap and cover the vacancy left by a key member. The school had also been helped to prioritise work and plan for the current year's audit work.

**RESOLVED**

That the Committee noted the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment (para 20).

**9. DATES OF FUTURE MEETINGS**

The Committee noted the dates of future meetings:

- 16 September 2024
- 9 December 2024
- 10 March 2025

**NOTE: The September meeting has been rescheduled to 6 November**

Meeting started: 7.03 pm  
Meeting ended: 8.20 pm

**Chair** .....

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