

Decisions of the Audit Committee

22 November 2018

Members Present:-

Councillor Anthony Finn (Chairman)
Councillor Peter Zinkin (Vice-Chairman)

Councillor Laithe Jajeh
Councillor Kathy Levine
Councillor Arjun Mittra

Councillor Prager
Councillor Alison Moore

Independent Members

Geraldine Chadwick
Richard Harbord

Also in attendance

Guy Clifton – Grant Thornton
Tom Foster – Grant Thornton

1. MINUTES OF LAST MEETING

RESOLVED that subject to the following clarification the minutes of the meeting held on 17th July 2018 be agreed as a correct record.

Item 10 (last sentence page 7) reads “The External Auditor also reported on the work undertaken to support his Value for Money opinion, which he confirmed would be an unmodified opinion...”

Amend to read;

The External Auditor also reported they would issue an unmodified opinion on the financial statements but were required to issue a modified opinion on value for money due to the Ofsted assessment on children’s services.

2. ABSENCE OF MEMBERS (IF ANY)

None.

3. DECLARATION OF MEMBERS' DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (IF ANY)

Member	Item	Interest Declared
Councillor Alison Moore	Item 8 - Internal Audit Exception Recommendations Report	Non pecuniary – in that Councillor Moore is a governor at the Squires

	and Q2 Progress Report 1 st July to 30 th September 2018	Lane Learning Federation which covered Tudor School.
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4. REPORT OF THE MONITORING OFFICER (IF ANY)

None.

5. PUBLIC QUESTION AND COMMENTS (IF ANY)

Details of the questions asked and the published answers were provided with the agenda papers for the meeting. Verbal responses were given to supplementary questions at the meeting.

Public comments were made by the following:

- Mr Roger Tichborne – Item 7, Report of the Chief Executive
- Mr John Dix, Item 8 - Internal Audit Exception Recommendations Report and Q2 Progress Report 1st July to 30th September 2018
- Ms Barbara Jacobson - Item 7, Report of the Chief Executive
- Ms Theresa Musgrove - – Item 7, Report of the Chief Executive
- Ms Jenny Brown - Item 7, Report of the Chief Executive
- Mr Fred Leplat - Item 7, Report of the Chief Executive
- Mr Nicholas Dixon - Item 7, Report of the Chief Executive

6. MEMBERS' ITEMS (IF ANY)

None.

7. REPORT OF THE CHIEF EXECUTIVE

Before the introduction of the report by the Chief Executive, Councillor Barry Rawlings addressed the Committee. He raised concerns regarding the redacted information on pages 147 – 161, 'Evidence and Observation'. For the Committee to have full reassurances that the contractual obligations were being met and complied with, Councillor Rawlings suggested that the Committee should be provided with the redacted information and supporting evidence.

The Chief Executive clarified that of the 150 pages of the report, only 14 were redacted. He confirmed that the redacted information could be shared with the Audit Committee but would be considered in private session. With regards to releasing the information into the public domain, he confirmed an assessment of commercial confidentiality would need to take place.

Councillor Moore proposed (barring any personal or commercially sensitive information) that the information should be published and made publicly available. Duly seconded by Councillor Mittra she moved the following motion;

“That the redacted information set out in Item 7, Report of the Chief Executive is published and made available to the public in due course.”

Upon being put to the vote the additional recommendation was agreed and became new substantive recommendation 4. The vote was recorded as follows:

For	4
Against	2
Abstentions	1

The Chief Executive introduced the report which provided the Committee with an update on the progress against the key priorities that were set out in the report considered by the Committee on 17th July 2018 – Item 7, Report of the Chief Executive. The report also provided a detailed update on the progress made on the Grant Thornton action plan developed from their independent report - Review of Financial Management Relating to CPO Fraud, following a substantial fraud committed by a former Re (Regional Enterprise) employee.

The Director of Assurance provided the Committee with a detailed briefing of the criminal investigation that was undertaken by the council's Corporate Anti-Fraud Team, the subsequent arrest and conviction of the individual who'd committed the fraud. She confirmed that the proceeds of crimes confiscation were currently still ongoing and that the order was for the full amount that had been restrained.

The Director of Finance provided a brief explanation of the work undertaken following the discovery of the fraud, (i) the financial work, (ii) the independent review by Grant Thornton which primarily focused on the CPO fraud aspect and (iii) the internal subsequent controls. He further explained that 3 enhancement procedures were put in place relating to;

1. Enhancement of Chaps payments, which were tightened up substantially and put in place immediately
2. Enhancement of separation of duty controls
3. Enhancement to schemes of Financial delegation

Mr Guy Clifton Engagement, Grant Thornton's lead for the Review of Financial Management Relating to CPO Fraud and Mr Tom Foster, Grant Thornton's lead on the work on the internal controls environment, provided the Committee with detailed summaries of the work they had undertaken as part of the review and the key findings. The full details of which are set out in the appendices to main report, Item 7.

Mr Clifton explained that the core part of the scope was to look at the control environment and the circumstances that enabled the fraud to take place. He referred to the following 2 workstreams:

- Forensic Fraud and Accounting Analysis
- Contract Review

With regards to Appendix 2, GT Action tracker, Mr Clifton clarified this was put in place by the council to monitor the response to, and implantation of, the GT recommendations.

Mr Foster explained to the Committee that had 5 broad themes been identified (referred to in the review as the 5 Pillars) and provided a brief summary on each Pillar. The Committee were also provided with a further detailed summary of the work undertaken on the Forensic Fraud and Accounting Analysis and the CSG and RE contract review.

Marion Kelly, Finance, set out in detail the work undertaken by officers and the governance process put in place to ensure the GT recommendations were (i) re-written as part of procedures (ii) implemented and (iii) imbedded. She explained a Project Board was set up, chaired by the Director of Finance (Section 151) and met monthly, its membership consisted of officers from across the council, Grant Thornton and CSG and RE. This ensured that anyone with a stake in delivering the recommendations was involved. To support the project board a weekly task force was also set up chaired by herself and included, Mr Tom Foster GT, council officers and anyone responsible for delivering the required actions. The task force's work focused on the GT Action planner (Appendix 2), reviewing it and checking progress.

The Head of Internal Audit provided the Committee with a detailed summary of the work undertaken by Internal Audit (IA) to confirm implementation of the GT actions. Alongside that work she explained they were eight separate IA reviews taking place which incorporated all the testing required by IA to confirm that the GT actions were implemented and embedded, as well as other testing relevant to the area under review. She explained the RAG rating IA applied to the status of the testing of the GT actions. She confirmed the reviews would be followed up and reported back in the next quarter.

With regards to the remedy notices the Commercial Director clarified that these are triggered when there's evidence of a contractual breach. Following the breach, the contractor is obliged to put forward a remedy plan which is acceptable to the authority. He explained that in this case the remedy plan was the Grant Thornton action plan that has been and agreed between Capita and the authority.

Councillor Moore raised concerns around the possibility of financial failings similar to those identified by the review occurring in other services across the council. Duly seconded by Councillor Mittra she proposed and moved the following motion;

“That an independent audit (either by Grant Thornton or an alternative auditor) is agreed, so that a full external audit of both contract can be carried out.”

Upon being put the vote the motion declared lost. The vote was recorded as follows:

For	3
Against	4
Abstentions	0

RESOLVED –

- 1. That the Audit Committee notes progress against the Chief Executive priorities as set out above;**
- 2. That the Audit Committee notes the progress that has been made towards the completion of the GT Action Plan; and**
- 3. That the Audit Committee notes that relevant follow ups to Internal Audit Reviews will be reported to the Committee as part of Q3 and Q4 Internal Audit Progress Reports.**
- 4. That the redacted information set out in Item 7, Report of the Chief Executive is published and made available to the public in due course.**

8. INTERNAL AUDIT EXCEPTION RECOMMENDATIONS REPORT AND Q2 PROGRESS REPORT 1ST JULY TO 30TH SEPTEMBER 2018

The Head of Internal Audit presented the Internal Audit Exception Recommendations Report and Q2 Progress Report (1st July to 30th September 2018).

She explained the high priority actions, 49 in total followed up this quarter 33 of which have been implemented (67%) and 16 have been partially or not implemented (33%).

She provided further details on each of the following that had received no assurance of limited assurance;

- **Temporary and Interim Workforce** – No Assurance
- **Tudor School** – Limited Assurance
- **All Saints' Primary School NW2** – Limited Assurance

She drew the Committee's attention to pages 200 onwards which set out the summary of the actions that hadn't been fully implemented and advised that progress was ongoing.

RESOLVED - That the Committee note the work completed to date on Internal Audit Q2 progress report - 1st July to 30th September 2018.

9. CORPORATE ANTI-FRAUD TEAM (CAFT) Q2 PROGRESS REPORT 2018-19

The Director of Assurance introduced the report which provided the Committee with update on the work undertaken by the Corporate Anti-Fraud Team during the period 1st July 2018 – 30th September 2018.

RESOLVED - That the Committee note the CAFT Progress Report covering the period 1st July – 30th September 2018.

10. COMMITTEE FORWARD WORK PROGRAMME

The Committee noted the Forward Work Programme.

11. ANY ITEM(S) THE CHAIRMAN DECIDES ARE URGENT

None

12. MOTION TO EXCLUDE THE PRESS AND PUBLIC

RESOLVED that under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 2 and 7 of Part 1 of Schedule 12A of the Act (as amended)

13. ANY EXEMPT ITEM(S) THE CHAIRMAN DECIDES ARE URGENT

The Committee considered the unredacted Annex 2: Review of Financial Management Relation to CPO Fraud appended to Item 7, Report of the Chief Executive.

The meeting finished at 10.00 pm