

<u>MEETING</u> AUDIT COMMITTEE
<u>DATE AND TIME</u> TUESDAY 16TH JULY, 2019 AT 7.00 PM
<u>VENUE</u> HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BG

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
5.	PUBLIC QUESTION AND COMMENTS (IF ANY)	3 - 20

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AUDIT COMMITTEE
Tuesday 16 July

ITEM 5 – PUBLIC QUESTIONS AND COMMENTS

Note

At the meeting a total of 30 minutes is available for public questions and comments. The questioner may ask one supplementary question at the meeting which will be answered without discussion. The supplementary question must be relevant to the original question put to the Chairman.

Comment (up to 3 minutes per comment)

Agenda Item No	Public Comment Request
Item 9 – Annual Governance Statement and Code of Corporate Governance	John Dix

Qn No	Agenda Item No	Raised By	Question Raised	Answer
1.	Item 8 – Annual Internal Audit Opinion 2018 - 19	John Dix	The Internal auditor notes that the speed of implementation across some aspects of the GT Action plan has been slower than it could have been and for a significant portion of 2018/19 a number of key actions had not been completed. What steps have been taken to change the culture of the council so that completion of key actions within the agreed timescale becomes the norm.	<p>The Council took action to address arrangements within the finance team by bringing the service in-house from 1 April 2019. This should improve the management of CSG and the implementation of any agreed actions.</p> <p>On the implementation of internal audit actions more generally, in Q3 of 2018/19 the Chief Executive instigated fortnightly (now monthly) checkpoints to challenge where progress was not being made as required. For the last two quarters, performance on complete implementation of high priority recommendations has increased to 82% and 73% respectively with significant progress on many of the others.</p>

Qn No	Agenda Item No	Raised By	Question Raised	Answer
2.	Item 9 – Annual Governance Statement and Code of Corporate Governance	Theresa Musgrove	<p>Annual Governance Statement</p> <p>7.9 Barnet’s Fire Safety</p> <p>You state that after Grenfell, Barnet's Fire Safety 'was identified as a significant governance issue'.</p> <p>Two years have passed, and in response to my recent FOI request to Barnet Homes I have been told that of the 1,183 Manse Masterdor doors that were known to be in place in Barnet's social housing stock NONE have yet been removed. How can this possibly be justified, especially in the light of the Willow House fire last year?</p>	<p>As part of the investigation into the fire at Grenfell Tower the Police commissioned testing of fire doors from within the block. In light of the results of these tests the Government released a statement on the 15th March 2018 regarding potential issues identified with door-sets produced by the company Manse Masterdor. Manse Masterdor ceased trading in or around mid-2014. Further testing of these doors was undertaken by the MHCLG and an updated statement made on the 16th May 2018. An excerpt of this statement is as follows: <i>“The expert panel has concluded there is a performance issue with these Manse Masterdor fire doors, which do not consistently meet the 30 minute fire resistance standard. Nevertheless, the National Fire Chiefs Council has advised the expert panel the risk to public safety remains low”</i></p> <p>The MHCLG statement recommended that property owners review the Fire Risk Assessments (FRA’s) where Manse Masterdor products have been fitted. This has been undertaken and Barnet Homes have also written to all residents with these doors to advise that these doors will be replaced. The timeframes for replacement have been determined through the FRA (Fire Risk Assessment) process through a risk based approach, however broadly the recommendations have been to replace doors between a timeframe of 1 and 3 years depending on location.</p>

				<p>Along with most other landlords Barnet Homes, in cooperation with its contractor who originally installed the doors, are endeavouring to identify suitable replacement fire doors that meet or exceed the necessary standards. Due to the systemic issues identified within the fire door industry, great care is being taken to ensure that the replacement door type chosen is fully compliant with the FD30S standard and has test data to confirm as such. That said, we are confident that the target timescales for replacing the doors as set out in the risk assessments will be achieved.</p>
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Qn No	Agenda Item No	Raised By	Question Raised	Answer
3.	Item 9 – Annual Governance Statement and Code of Corporate Governance	Mr Levy	<p>Annual Governance Statement</p> <p>AGS ‘Significant Governance Issues’:</p> <p>7.3 ‘Governance of major capital programmes including Brent Cross Cricklewood Regeneration’:</p> <p>You say that:</p> <p><i>“In terms of Brent Cross Thameslink, the council is exposed to the risk of cost overrun and grant clawback. ... Many of the key dependencies to enable milestones to be met are on the critical path for this year. ... Progress, risk, issues, benefits realisation and finance are all reviewed monthly at Government Assurance Board.”</i></p> <p>(a) Do you accept that: as a public-sector design study, the 'Brent Cross station integration study' authorised by Barnet ARG Committee, 17/9/2018, and any policy-making arising from it, clearly and unambiguously fall within the scope of provisions of the UNECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters of 1988, a convention ratified by the UK?</p>	<p>Delivery of the new Thameslink Station at Brent Cross West is not dependent on the integration study. The integration study is a technical assessment to see whether there are opportunities to future proof the station design to account for any possible future development of a West London Orbital passenger rail line. It will be for the West London Orbital scheme to address design interfaces, and undertake any appropriate public consultation, if and when that scheme comes forward.</p>

			<p>(b) Do you agree that: because, as you say, "<i>you are responsible for ensuring that your business is conducted in accordance with the law and proper standards</i>", that you will unavoidably need to carry out proper public consultation on the policy recommendations of the 'Brent Cross station integration study', unrelated to, and in advance of, any possible station planning application?</p>	
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4.	Item 8 – Annual Internal Audit Opinion 2018 - 19	John Dix	The report notes that “it is also apparent that across the Council medium priority actions are not routinely implemented”. Why is this situation tolerated and when will it change?	<p>Directors across the Council are clear that they are accountable for the implementation of all actions within their areas and there is now a monthly mechanism in place for outstanding actions to be monitored and any issues with non-implementation to be escalated. The primary focus for 2018/19 was to ensure that high priority recommendations are implemented, the focus for 2019/20 will extend to medium priority recommendations.</p> <p>In 2019/20 additional resources have been made available to Internal Audit to enable the service to follow-up some medium priority actions as well as continuing to follow-up high priority actions.</p>
5.	Item 8 – Annual Internal Audit Opinion 2018 - 19	Theresa Musgrove	<p>Summary of Findings</p> <p><i>Temporary and interim workforce - We noted that the management of the Agency staff contract sits with both Procurement and HR. Based on our findings, there were indications that this arrangement meant that the contract management process was unclear and didn't facilitate and support workforce planning and management at an operational level. For instance, roles and responsibilities for monitoring the performance of the temporary agency staff supply contract were unclear.</i></p> <p>Why had only seven out of eighteen high priority actions been implemented by the end of March? Who was responsible for this?</p>	<p>As noted in the Q1 internal audit progress report all outstanding actions relating to Temporary and Agency Contract Review have now been completed.</p> <p>The responsibilities for completing audit actions sat between Capita (Strategic HR) and the Council. At the time there was limited HR resource within the Council which was focused on insourcing both Strategic HR and Finance.</p>

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6.	Item 8 – Annual Internal Audit Opinion 2018 - 19	John Dix	Given that the Council has received a Limited Assurance rating for the second year running and the report notes that “Further improvements are required to improve the adequacy and effectiveness of governance and control compliance”, who, from the senior management team, will you hold responsible and accountable for making sure these improvements take place?	<p>The Chief Executive and Council Directors are responsible and accountable for making sure that improvements in control and governance take place. Officers are overseen and held to account by members and committees.</p> <p>Significant progress has been made in 2018/19. Children’s services have moved from “inadequate” to being rated as “good”, the Council’s budget was balanced and a new medium term financial strategy set, the auditor is proposing unqualified accounts and VFM opinion, the majority of financial control recommendations have been implemented and the finance and strategic HR functions have been insourced.</p> <p>In the last two quarters there has been a significant improvement in the implementation of audit recommendations and should this improvement continue throughout 2019/20, it provides a basis for an improved internal audit opinion.</p>

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7.	Item 8 – Annual Internal Audit Opinion 2018 - 19	Theresa Musgrove	<p>Pensions Administration follow-up – <i>Significant data quality issues with regards the conditional data required for the Triennial valuation of the Scheme Fund were identified. Although these were reduced in year, interest from the Pensions Regulator and a number of other issues remain.</i></p> <p>As someone who has been personally and directly affected by the 'significant data quality issues' regarding the Pension Scheme, I would like you please to explain why you still have 'a number of issues' outstanding, and the Chief Executive is drawing up plans should the administration of the scheme further deteriorate. Are you waiting until a Maxwell sized pensions's disaster happens before you remove the scheme from the hands of Capita?</p>	<p>The Pensions Regulator has set a deadline of 31 August 2019 for improvements in:</p> <ul style="list-style-type: none"> - Monitoring of contributions; - Improvements in data quality; and - Adequate internal controls <p>A Plan is in place to satisfy the Regulator progress against this is being measured every week. However, if performance falls below the tests set by the Regulator then arrangements are in place to find an alternative provider.</p>
8.	Item 8 – Annual Internal Audit Opinion 2018 - 19	John Dix	At the year-end, 11 of the 18 High Priority actions on the Interim & Agency Contract Review had not been completed. Given the HR function was brought back in house on 1 April, can you clarify how many of these 11 outstanding high priority actions have been completed in the last 3 months?	As per the Q1 internal audit progress report all remaining 11 outstanding audit actions have been implemented relating to the Interim and Agency Contract Review.
9.	Item 8 – Annual Internal Audit Opinion 2018 - 19	Theresa Musgrove	In regard to data quality and pensions, please tell me how many instances of annual statements being issued with an incorrect age of qualification were discovered after I raised the question at a recent Pensions Committee meeting, and the Chief Finance Officer agreed to carry out 'tests' to establish the frequency of the error?	Following the question posed around the volume of members whose “Normal Retirement Date” was held incorrectly, a sweep of all records took place and established that 1880 individual records required to be amended. All records were amended on 11 April 2019.

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10.	Item 11 - Internal Audit Exception Recommendations Report and Q1 Progress Report 1 st April to 30 th June 2019	John Dix	Pensions Admin has now missed an agreed implementation deadline for a third time, a situation which is intolerable. We have been fined and warned by The Pension Regulator. How many more chances will be given to Capita and why have you not exercised your step in rights under the contract to take this contract back in house?	As Question 7 above.
11.	Item 8 – Annual Internal Audit Opinion 2018 - 19	Theresa Musgrove	Why, despite the deeply serious and continuing failures in the administration of the Pensions Scheme, do Tory members continue to think it is acceptable to allow Capita to retain this service? Has a risk assessment been made of the decision to continue to allow Capita to continue with the administration? If so, please supply me with the details.	As Question 7 above.
12.	Item 11 - Internal Audit Exception Recommendations Report and Q1 Progress Report 1 st April to 30 th June 2019	John Dix	I am shocked that the implementation of the Bankline – access and authorisation recommendations have been delayed again because of the long term sickness of one member of staff. Can you clarify why such an important action is entirely dependent on just one person, whether it indicates a weakness in the management structure and procedures and what steps have been taken to ensure this problem can be resolved immediately?	Completion of this recommendation requires ‘Bankline administrator’ access rights. These rights were restricted as part of the response to the GT recommendations to improve controls. There are back up administrators that exist outside the Treasury team but they do not have the skills to undertake the detailed work required. Additional administrator functionality has been granted within the Treasury team in order to undertake this work.

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13.	Item 9 – Annual Governance Statement and Code of Corporate Governance	Theresa Musgrove	<p>Code of Corporate Governance</p> <p><i>Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service provision is contributing towards the achievement of intended outcomes.</i></p> <p>Please explain how this administration will be seen as being compliant with this principle when it is about to vote through a series of measures that will end the sort of scrutiny that is based on participation by residents, by ending their right to submit questions like these, to speak at committee, or to engage with committee members, which is a vital part of the process of consultation.</p>	<p>The Council’s Consultation and Engagement Strategy details how consultation and engagement with residents is undertaken. The Strategy can be downloaded here: https://engage.barnet.gov.uk/1116/documents/1152</p> <p>Residents can also participate at committee meetings and residents forums as detailed in Article 3 (Residents and Public Participation): http://barnet.moderngov.co.uk/ecSDDisplay.aspx?NA ME=SD330&ID=330&RPID=651893596 Under the proposed revisions to Article 3, residents will continue to be able to participate by asking questions at committee meetings.</p>
14.	Item 11 - Internal Audit Exception Recommendations Report and Q1 Progress Report 1 st April to 30 th June 2019	John Dix	<p>Onboarding has missed its target date for implementation for a third time. Who is at fault; is it CSG; is it the new in-house HR team, or is the problem falling between the two given that the new starter packs come from Capita in Belfast whereas the HR team are based here in Barnet?</p>	<p>The final outstanding action is in progress and all new starters should now be receiving the up to date new starter pack.</p>

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15	Item 9 – Annual Governance Statement and Code of Corporate Governance	Theresa Musgrove	<p>Code of Corporate Governance</p> <p><i>Ensuring that external providers of services on behalf of the Council are required to act with integrity and in compliance with ethical standards.</i></p> <p>Please explain how this principle is being adequately addressed when senior Capita officers are able to leave the service and immediately begin work as consultants dealing with their former colleagues, and/or for clients with whom they have previously acted on behalf of the authority? And has the risk of not preventing this practice been assessed?</p>	Barnet follows usual local government practise.
16.	Item 12 – Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2019-20	John Dix	Can you clarify the difference between on-going fraud investigations and on-going financial investigations. Are they mutually exclusive or could some of the financial investigations also be fraud investigations?	Both fraud and financial investigations are criminal investigations and as such are required to comply with the Criminal Procedures and Investigations Act, the Human Rights Act and Data Protection Act. Fraud investigations encompass many different criminal offences, however financial investigations can only be carried out under the Proceeds of Crime Act. Often a financial investigation is instigated to obtain specific financial records (as authorised by a Crown Court judge) in order to evidence a fraud. These are statistically reported separately due to the difference in the processes and government reporting requirements. On closure of investigations details of all cases are reported within the CAFT report.

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17.	Item 12 – Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2019-20	John Dix	Two of the on-going fraud investigations related to CSG Information Systems. Can you clarify exactly what that means, i.e. is it a fraud(s) by CSG Information systems staff, a weakness in the CSG Information Systems that allowed a fraud to take place and if you cannot clarify it now, in public, will you be clarifying it to Audit Committee Members in closed session?	Information relating to these investigations is not disclosable at this stage. It will be disclosed in the usual way as soon as we are able to do so.
18.	Item 12 – Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2019-20	John Dix	Under on-going financial investigations, one case relates to Trading Standards, one relates to Finance and one relates to Pensions. Trading Standards and Pensions are outsourced to Capita and Finance was outsourced to Capita prior to 1 April. Whilst accepting that you cannot give specific details of these cases, can you at least identify if they are systems driven problems i.e. like the system weakness identified in the Grant Thornton Fraud investigation, and will the Pensions Financial Investigation be reported in blue papers to members of the Pensions Board/Pensions Fund Committee given the on-going serious problems with Pensions Administration?	Response to Question 17 above.

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19.	Item 10 – Annual Report of the Audit Committee 2017-18	John Dix	At 2.6.3 in the report it notes that “Despite monies being repaid to the council by Capita, CAFT has continued with the financial investigation recovering over £1 million of the stolen funds and continues to do so in order to ensure all proceeds of crime are identified and recovered accordingly”. Of this £1 million of stolen funds recovered, is it split in the ratio identified in paragraph 2.6.10 and if so, of the 37.5% allocated to the investigating authority, does Barnet receive that money or does it have to be refunded to Capita?	Funds are being recovered as compensation rather than confiscation and as such the confiscation incentivisation scheme does not apply so all recovered funds will go to RE after all recovery costs are considered.
20.	Item 10 – Annual Report of the Audit Committee 2017-18	John Dix	At 1.3.2 in the report, it notes that effective audit committees can “increase public confidence in the objectivity and fairness of financial and other reporting”. Given that the council intends to prevent residents from: asking more than one question per agenda item; that only two public questions will be taken on each agenda item; and that members of the public will no longer be able to make their public comment in person at the committee, preventing committee members from asking them any questions; how does that help increase public confidence in the objectivity and fairness of financial and other reporting?	Audit Committees are comprised of elected Members and co-opted Members. Members of the committee have delegated authority from Full Council to provide independent scrutiny of the authority’s financial and non-financial performance. Proposed changes to Article 3 (Residents and Public Participation) are not expected to have an impact on the committee’s ability to discharge its responsibilities as detailed in the terms of reference (see Article 7).

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21.	Item 7 – Report of the Chief Executive	John Dix	The Chief Executive’s report notes that strengthening internal controls will continue to be a key focus for 2019/20 but the report fails to address a significant concern of the Internal Auditor that when improvements to internal controls are identified there is a routine failure to implement recommendations. What steps will be taken to ensure that when the Internal Auditor makes a recommendation it is implemented within the agreed timescale?	Directors across the Council are clear that they are accountable for the implementation of recommendations within their areas and there is a monthly mechanism in place for outstanding actions to be monitored and any issues with implementation to be escalated.
22.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	The addendum report notes that the failure to monitor pension contributions was identified in March 2018 and CSG agreed to implement additional monitoring by June 2018. Given that a year later they still haven’t implemented this additional monitoring what confidence is there that this problem will be resolved by the new deadline of 31 st July?	Progress has been made on monitoring of contributions and therefore confidence has increased that the action will be implemented by the end of July 2019.
23.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	What is the potential financial liability for the missing contributions and how confident are Capita that this money can be recovered in full?	Capita are confident the money will be recovered in full. The missing contribution relates to only 1 employer and the amount is estimated to be in the region of £50k. we are waiting for the admission agreement to be finalised in order to recover.

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24	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	If 13 employers did not have admission agreements, the oldest dating back to 1 September 2014, why was this not identified before now and what are the implications for the qualifying staff of these 13 employers, especially if they are about to retire?	<p>These issues were well known and an acknowledged part of the issues in the pension service that must be corrected as discussed in the report to the Policy and Resources Committee (reference to link).</p> <p>With regard to the implications for qualifying LGPS members working for the affected employers, their LGPS benefits are safeguarded under LGPS regulations and will be paid as and when they fall due.</p>
25.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	What is the scale of the financial risk of failing to recover the funds due from the 5 employers who have left the fund without a cessation agreement or the 10 employers whose admission bonds have expired?	<p>The amounts are immaterial in the context of the Fund.</p> <p>Until such time as the cessation calculations have been undertaken by the scheme actuary, whether those employers are in surplus or deficit remains unknown. Therefore, it is difficult to estimate the financial risk. However, any amounts due from ceasing employers will be recovered.</p> <p>With regard to those whose bonds have expired, the renewal of those bonds is being expedited. However, until such time as the scheme actuary has completed their work, the financial risk is difficult to quantify. As above, any deficit arising from any employer who in the meantime ceases to be an active employer in the scheme, will be recovered.</p>
26.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	Why didn't Capita control systems identify such serious problems with their pension administration systems before now and why did it have to wait for Barnet's internal audit to identify this problem?	The issues with the pension Fund were acknowledged in the reports to the Policy and Resources Committee and have been explored in the reports along with recommendations.
Qn No	Agenda Item No	Raised By	Question Raised	Answer

27.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	<p>The report notes that “It is not clear who is responsible for ensuring that invoices raised to employers for strain contributions are collected and there is no clearly defined process for chasing debts due”. This contract has been in operation for 6 years yet a basic but critical issue such as this has not been identified before now. How can this situation have arisen: was it the method statements or the outputs specifications that were incomplete, or have LBB contract monitoring staff failed to check to ensure that the output specification HR008 was being followed?</p>	<p>Raising invoices to employers for strain contributions and chasing debts due are activities CSG carries out for the council. There was a period of time when there was a lack of clarity around these activities within CSG. This was identified as part of a pensions improvement plan put in place to address acknowledged shortcomings in the service.</p>
28.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019	John Dix	<p>Why has contribution strain only been identified as a Medium Risk. Is that a reflection of the scale of the potential financial loss and if so what is the scale of that potential loss?</p>	<p>The balance as at 31 March 2019 (before provision) is £2.1 million of which £1.4 m is due from the Council.</p> <p>The main driver of the medium rating is that if the contributions aren't paid, they get recovered from employers in any case as the triennial valuation will show under funding of benefits and thus increase deficit contributions to collect the shortfall. This has some impact (effectively it means that the employer could pay more in the long run as they have to pay investment returns due on the initial strain contributions) but not a significant one (i.e. the loss will be recovered, eventually).</p>

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29.	Item 11 – ADDENDUM - Internal Audit Exception Recommendations Report and Q1 Progress Report 1 st April to 30 th June 2019	John Dix	Will the Pension Fund Committee and Pension Board meetings scheduled for this month be made aware of the problems identified in this report and appraised of the financial risks?	Yes. The report has been shared with the Chair of both Committees.
30	Item 13 - External Auditor's Audit Completion Report for the year 2018/19	John Dix	On page 27 of the External Auditors Completion Report it states "We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan to the Audit Committee". In light of the CAFT report where it states there were 23 new fraud investigations and 4 new financial investigations in Q1 of 2019/20 have any of these cases been confirmed to the external auditor?	The External Auditor will be appropriately updated on all relevant current fraud matters before completing their audit work.
31	Item 13 - External Auditor's Audit Completion Report for the year 2018/19	Theresa Musgrove	<p>Pension Liability Valuation</p> <p><i>"Management confirmed that there are no other significant changes in membership data that have not been communicated".</i></p> <p>Can the auditor confirm that he was aware that there has been a testing of membership data which revealed other examples of the serious error that has affected my own benefit scheme, that is to say LGPS members listed as having a qualification date five years later than the correct age, and annual statements sent out, two years running, in my case five months late, with that incorrect age? As presumably this error in membership data has had to be corrected, was this communicated to him?</p>	The external auditor is sighted on issues around pensions admin through information provided via internal audit reports and audit work on PF accounts.