AUDIT BOARD
PUBLIC MINUTES

Meeting held on 25th July 2018
Committee Room 1, Newham Town Hall, East Ham E6 2RP

Present: Councillor Zulfiqar Ali (Chair)
Councillors Daniel Blaney, Canon Ann Easter, John Gray, Anthony McAlmont, Terence Paul and Sarah Jane Ruiz; and Ruth Glazzard and Fiona Marsh (Advisory, Non-Voting Members)

Officers Present: Michael O’Donnell (Interim Executive Director of Financial Sustainability, LBN1), Paul Thorogood (Director of Finance, oneSource), Radwan Ahmed (Financial Control & Corporate Business Systems, oneSource), Jeremy Welburn (Head of Assurance, oneSource), Stuart Moore (Deputy Head of Assurance, oneSource), Simon Letchford (Director of Commissioning (Communities, Environment and Housing), LBN), Graham Cox ([for the purposes of this meeting] Interim Operations Director, RMS, LBN2) and Cameron MacLean (clerk)

Also Present: Ernst & Young LLP
Janet Dawson

The meeting commenced at 7.00 p.m. and closed at 9:33 p.m.

1. Management of the Business of the Meeting
The Chair agreed to take the items that were before the Board in the order in which they were set out on the agenda.

It was noted that Item 10b): Audit Summary Reports, was a duplication of one of the reports attached to Item 10a): 2017/18 Outturn Report & Summaries of Audit Reports Issued in Quarter 4.

In response to an enquiry by the Chair, it was reported that, since the last meeting of the Board, there had been no audit reports where the audit opinion was of limited assurance.3

2. Apologies for Absence
Apologies for absence were received from Cllr Julianne Marriott.

---
1 London Borough of Newham
2 Repairs and Maintenance Services
3 Any audit report where the audit opinion was of limited assurance would, as a matter of routine, be submitted to the Board for consideration.
3. **Declarations of Interest**

Cllr Gray declared an interest, as Chair of the Council’s Investment and Accounts Committee, in Item 6: External Audit Plan 2017/18 (Newham Pension Fund Annual Planning Report).

4. **Appointment of Vice Chair**

The Chair stated that, historically, an Independent Advisory Member of the Board had been appointed Vice Chair of the Board. Accordingly, he proposed, and it was seconded, that, Ruth Glazzard be appointed Vice Chair of the Board.

Ruth Glazzard said it had been a tradition that Independent Advisory Members of the Board would take turns during the course of an administration to be Vice Chair of the Board.

**Resolved:** that Ruth Glazzard be appointed Vice Chair of the Board for the Municipal Year 2018/19.

5. **Minutes**

The Board had before it the public minutes of its meeting of 29th of March 2018 and the minutes of its meeting 11th April 2018.

5a) **Public Minutes of the Meeting of 29 March 2018**

As there was no provision for the Board to consider the accuracy of the minutes, the minutes were circulated for information only.

**Noted**

5b) **Minutes of the Meeting of 11 April 2018**

The Chair stated that he had been reminded by the Clerk that the only question that could properly arise on the confirmation of the minutes was that of their accuracy.

**“Matters Arising”: Point of Clarification**

The Clerk, referring to “Knowles on Local Authority Meetings: A Manual of Law and Practice”\(^5\), advised the Board that it was not appropriate for the Board to consider “Matters Arising” as to do so would be contrary to the requirements of the Local Government (Access to Information) Act 1985 (as amended).

[The advice in “Knowles” was that consideration of “Matters Arising” was –

“not good practice and, unless the subject to be raised is related to a matter specifically referred to in the agenda, is likely to be unlawful as it infringes the statutory restriction that only business specified in the notice can be dealt with (LGA 1972, s. 100B).”\(^6\)]

---

\(^4\) the statutory requirement regarding confirmation of the minutes is that the minutes must be confirmed at the same or next following meeting [Schedule 12 (Paragraph 41), Local Government Act 1972]

\(^5\) McCourt, P. “Knowles on Local Authority Meetings: A Manual of Law and Practice”, 8th edition, ICSA publishing Ltd

\(^6\) *Ibid.* page 263
To allow the Board to be updated on matters set out in the minutes, the Chair proposed, and it was agreed, that a decision sheet and action log be circulated with minutes of meetings of the Board.

The following matter arose out of consideration of the accuracy of the minutes.


Janet Dawson (EY - external auditors) stated that the phrase “override fee” should be amended to read –

*overrun fee*

as the phrase “override fee”, in accountancy terminology, had a different meaning from that of “overrun fee”.

**Resolved:** that the minutes of the meeting of 11th April 2018 be approved and the Chair authorised to sign them as a correct record.

6. **External Audit Plan 2017/18**

The Board considered a report of the External Auditor, EY (formerly Ernst & Young LLP), setting out its plan for auditing the Council’s accounts for the year 2018/19. It was noted that the audit plan identified significant risk areas that required special audit attention, and the auditors planned approach to carrying out the review. The report was appended to a covering report by the Director of Finance, oneSource, in which an update on the 2014/15 objections was provided.

Janet Dawson (EY) presented the report, which she stated was in three parts: the LBN and the Newham Pension Fund Audit Planning reports; and Annual Audit Letters for the Year Ended 31 March 2017.

(i) **London Borough of Newham Audit Planning Report**

- In response to a question by the Chair of regarding the Planning Materiality figure of £13.4 million set out on page 33 of the papers, Janet Dawson stated that the figure was a fixed percentage of gross expenditure and, therefore, would vary from year to year as the numbers in the accounts fluctuated. She stated there were two variables affecting the degree of fluctuation viz. the overall limit which was set at 1% as befitting a major local audit; and the threshold set for tolerable error testing which was set at a lower limit because of past issues.

(ii) **Newham Pension Fund Audit Planning Report**

- In response to a question by the Chair, Janet Dawson stated that, when looking at the risks in both the Newham Council report and the Pension Fund report, these were typical risks to do with estimation and valuation which warranted particular attention and which would always be referred to in the audit reports. Areas where the auditors had previously encountered difficulties, or any change that was inherently risky, would be highlighted as areas of risk.
• If there was improved performance in previously identified risk areas, these areas would cease to be identified as risk areas in subsequent audit reports.

(iii) Annual Audit Letter for the Year Ended 31 March 2017

• Regarding the conclusion on page 105 that EY could not -

*Formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.*

Janet Dawson confirmed that remained the position and that, until the issues relating to the outstanding objections from previous years' audits had been resolved it would not be possible to issue certificates of completion for these years or for 2017/18.

• Regarding the 2014/15 completion of audit certificate, it was noted that PricewaterhouseCoopers (PwC) were the Council’s external auditors at the time. Consequently, as there was no established protocol given the circumstances for issuing a Certificate of Completion, EY were liaising with PwC and the National Audit Office on the practicalities of issuing the certificate. Janet Dawson stated that it was likely that the certificate would be issued before Christmas of this year.

• As EY were the Council’s auditors for 2015/16, as soon as the 2014/15 certificate of completion had been issued, it would be possible to issue the certificate of completion for 2015/16. Regarding the certificate of completion for 2016/17, an action plan to address the objections to the accounts that had been received had been agreed, and it was proposed to issue a Certificate of Completion as soon as was practically possible.

• Objections to the 2017/18 accounts that had still to be resolved included LOBO (lender option borrower option) loans; PFI (Private Finance Initiative) projects; and Section 106 planning agreements

[Janet Dawson then detailed the steps set out in the guidance issued by the National Audit Office that had to be followed when addressing objections by residents to the Council’s Statement of Accounts].

• As yet, it was not known what the cost would be to the Council to complete the work on the objections, but that EY could provide an estimate of the cost of the work, should this be required.

• Radwan Ahmed summarised issues that had complicated resolution of some of the objections, including locating documentation referred to in the decision-making process.

[There then followed a brief discussion on the origin and nature of the objections, including requests for information under the Freedom of Information Act (FOIA); the Council’s duty to respond to the objections; and the possible withdrawal of objections in response to the Council’s legal action in respect of the LOBO loans.]
In response to a question about grounds for refusing to respond to an objection, Janet Dawson stated that the criteria to be applied were whether or not the objection was deemed to be frivolous and/or vexatious, and that the auditors were in a procedural straight jacket once an objection had been received. In addition, under the General Data Protection Regulations (GDPR), the auditors could only notify the Council of the identity of the objector if it had the objector’s permission. However, if objectors brought information to the auditor that was outside the formal objection process, the auditors would encourage the objector to refer their enquiries, in the first instance, to the Council.

Cllr Paul stated it was his view that details of an objection should be included in the Statement of Accounts, along with the cost of responding to the objection, and, ideally, the identity of the objector. Publishing this information may persuade would-be objectors to use other, less costly ways, including FOIA requests, to make their objections.

Janet Dawson summarised the number and nature of the objections received since 2014/15, noting that several of the objections dealt with the same issues.

In conclusion, the Chair thanked Janet Dawson for her presentation.

Resolved: to note the report by the Director of Finance, oneSource, and the report of the External Auditor, EY, which was appended to the Director’s report.

7. **New Financial Control Environment**

The Board considered a report of the Director of Finance, oneSource, Paul Thorogood, the purpose of which was to provide the Board with an overview of the Council’s financial control environment and the steps taken by officers in reviewing that environment.

It was recommended that the Audit Board –

(i) Note the content of the report;

(ii) Agree to the establishment of a working group to review reports presented to the Audit Board; and

(iii) Subject to approval of Recommendation (ii), to nominate Members of the Audit Board to sit on the working group.

Mr Thorogood presented the report. In the subsequent discussion, the following points were raised.

(i) Officers were of the view that the steps being taken to review the financial control environment, as set out in paragraph 4.1 of the report, were the measures most likely to have the greatest impact on strengthening the Council’s financial management and control arrangements.

(ii) In the absence of a learning and development programme for officers, financial advice had been provided by the finance teams to officers on an ad hoc basis, the reason being that many officers seeking advice had been in post for many years and were deemed to be experienced officers, and because financial training had not been given a sufficiently high priority.
(iii) As a shared service, oneSource promoted best practice across the three local authorities it supported. It was noted that the London Borough of Havering had robust procurement and financial rules training programme and it was proposed to adopt a similar training programme for Newham officers.

(iv) Councillor Gray noted that, previously, there had been little challenge in the way the Board had operated that was independent of the administration and that the Board had not sought to challenge the administration in a constructive manner. He suggested that it was a lack of political leadership that was to blame for any mistakes that had been made rather than the actions of officers.

(v) Cllr Paul stated that, over the last several years, there had been significant challenges to the administration at the instigation of Members of the Board, notably Ruth Glazzard.

(vi) In response to the proposal that it would be appropriate to include HR in the governance scheme as a means of addressing failures on the part of managers which had contributed to the breakdown in financial controls, it was noted that the Director of HR would be a member of the Assurance Board.

[There then followed a discussion about how different financial systems within the Council corresponded with and linked into OneOracle, the financial management system which had recently replaced the Council’s former accounting system, Masterpiece.]

(vii) In response to a question by Cllr Blaney, it was stated that the proposed working group, as set out in the report’s recommendations, would consider whether or not the Board was receiving the relevant control, assurance and compliance reports to enable the Board to carry out its duties. It was noted that Members had to be able to correlate the audit plan with the risk register and the reports before Members of the Board could give assurances that the necessary financial controls were in place.

(viii) Regarding the level of confidence officers had in the proposed measures set out in paragraph 4.1 of the report to prevent a re-occurrence of the failures affecting the Repairs and Maintenance Services (RMS), it was stated that the key measure was the last one listed i.e. the introduction of continuous auditing of the control environment through an assurance framework by Internal Audit officers.

[There then followed a discussion of the various proposals referred to in the report and measures to change the financial culture including redefining the role of the budget manager as part of the learning and development programme.]

(ix) Cllr Paul stated that Cabinet Members were ultimately responsible for the management of their portfolios and that the Mayor, in conjunction with the Head of HR, had embarked upon a programme of culture change within the Council. In addition, both he and Mr O’Donnell had spent time talking

7 Illustrated in diagrammatic form at paragraph 3.4 of the report
8 See Paragraph 4.1 of the report.
to a particular team of officers about their financial position and the financial controls that were in place.

(x) Councillor Gray queried why it was that the Investment and Accounts Committee was responsible for signing off the Council’s Statement of Accounts and Mr Thorogood referred to an action being taken by Officers to consider whether in the future the Council should revert to a tradition Audit Committee and Pension Fund Committee.

(xi) When asked by the Chair for his comments, Mr O’Donnell stated that the statutory responsibility for the Council’s budget lay with him as the Council’s Chief Finance Officer. He stated there was a leadership role for him in getting the relationship and the balance right between the finance team and the wider leadership team. He believed that the report had identified a number of steps that would lead to improvement and that changing the culture and the narrative was central to this success.

Resolved: to –

1. Note the contents of the report;
2. Agree to the establishment of a working group to review the reports that were submitted to the Audit Board; and
3. That membership of the working group be open to all members of the Audit Board.


The Board considered a report of Radwan Ahmed (Financial Control & Corporate Business Systems, oneSource), stating that, each year, the Council had to prepare a Statement of Accounts in accordance with the CIPFA Code of Practice of Local Authority Accounting in the UK. Attached to the report was the Draft Statement of Accounts 2017/18. Members of the Board were asked to note the report.

Mr Ahmed presented the report. In the subsequent discussion, the following points were made.

(i) In response to a question by the Chair, Mr Thorogood explained the operation of the shared and non-shared oneSource budgets and the factors affecting the non-shared asset management plan including reduced rental income from Stratford and Newham Town Halls and from Dockside; a change in legislation affecting business rates; and assumptions made about school numbers affecting PFI projects. It was noted that, in previous years, RMS had reported a modest surplus.

(ii) In response to a question about the overspend in Children’s Services, it was reported that demographic changes had significantly affected both Children’s Services and Adult Social Care budgets. However, Adult Social Care had been able to mitigate to some extent the effects of demographic change with funding provided by central government from the Better Care Fund.
(iii) It was noted that, with regard to both Children’s Services and Adult Services, it was the requirement to provide statutory services that created pressure on these budgets.

(iv) It was also noted that that there would be a quarterly budget update to the Cabinet.

(v) In response to a question about what was going to be done differently to address the annual overspend in the Children’s Services budget, the Chair proposed that officers should be looking at issues such as making efficiencies; value for money; different, alternative and new ways of working; and ways in which to mitigate costs before seeking additional financial resources.

Cllr Paul stated that he and Mr O’Donnell had discussed funding with Children’s Services officers and that further discussions were planned. He stated that one way of addressing the budget concerns relating to Children’s Services would be to look at individual services, identifying those services that were statutory in nature, and non-statutory services where savings might be made. He also advised the Board that budget discussions were taking place at all levels within the Council, including on a collective responsibility basis at Cabinet.

(vi) Cllr Gray noted the limitations that were imposed on budget efficiencies by the requirement to provide statutory services such as housing persons who were homeless and the need to invest in initiatives intended to address problems such as homelessness.

(vii) Cllr Paul informed the Board that CIPFA had been engaged to undertake a health check of the Council’s finances and he proposed that the report produced by CIPFA be circulated to the Board as additional assurance that the information the Board was receiving from officers and from him as a Cabinet Member was correct.

(viii) Mr O’Donnell said that the answer to concerns about overspends in statutory services lay, in part, in adopting a different approach to the budget process, as well as finding better and cheaper ways of doing things. He stated that Grainne Siggins, as Executive Director for Commissioning, was very focused on improving controls within Children’s Services. However, there would also be very specific pressures on Children’s Services created by, for example, court decisions in relation to Looked After Children (LAC).

Mr O’Donnell went on to say that he was cynical about the (non) statutory division of services given that statutes rarely defined how and to what level services were required to be provided. However, as the major demand led services, Children Services and Adult Services, invariably put pressure on Council budgets, it was essential to challenge colleagues in those departments to make savings.

(ix) In response to a question by Cllr Blaney, Cllr Gray confirmed that the Newham Council was participating in the Mayor of London’s “Building Council Homes for Londoners” programme

Resolved: to note the report.
Motion to Extend the Duration of the Meeting

Cllr Paul, in accordance with Council Procedure Rule 32.1, moved, and was duly seconded, that the duration of the meeting be extended by no more than 30 minutes.

Resolved: To extend the duration of the meeting by no more than 30 minutes from 9.00 pm.


The Board considered a report by Alison Mackie (Pensions & Treasury Team). It was reported that the Council’s Treasury Management strategy for 2017/18 had been approved by Council on 27th February 2017 and the present report provided details of the outturn position for Treasury activities and compliance with Council policies.

Paul Thorogood (Director of Finance, oneSource), presented the report. In response to a question by the Chair, Mr Thorogood stated that loans that had been made to small businesses may not have been included in the report.

Resolved: to note the report

10. 2017/18 Outturn Report & Summaries of Audit Reports Issued in Quarter 4

The Board considered a report by Jeremy Welburn (Head of Assurance, oneSource), which advised Members of the Board of the work undertaken by the Internal Audit team during 2017/18 and the level of assurance on that work.

The report also incorporated a summary of all reports issued since the last meeting of the Audit Board. The Board was asked to note the report.

Mr Welburn presented the report. In the subsequent discussion, consideration was given to the following matters.

(i) Regarding financial reserves held by schools, it was noted that a consistent financial reporting (CFR) return was required at the end of each financial year from all schools maintained by the local authority. Mr Moore (Deputy Head of Assurance, oneSource) stated that, generally, local authorities could not withhold funding from schools that had surpluses within their accounts.⁹

(ii) In response to a question by the Chair, it was stated that significant recommendations in relation to procurement had emerged from the review of RMS and that, for the current financial year, there was an ongoing compliance review of procurement.

(iii) In response to further questions by the Chair regarding the Internal Audit report on OneOracle Interface Processing, for which the audit opinion was

---

⁹ Guidance for local authorities on school budget surpluses and deficits could be found in the Department for Education (DfE) publication “Schemes for Financing Schools: Statutory Guidance for Local Authorities”, March 2018
“Substantial Assurance”, it was stated that the focus of the audit was the OneOracle interface processing, and not any other part of the OneOracle system. The primary objective of the audit was to ensure the accuracy and completeness of transactions that were posted, reported or for onward processing within oneOracle from other systems which held the primary records such as Adult Social Care, Children’s Social Care and Housing.

Resolved: to note the report.

11. Draft Internal Audit Plan 2018/19

The Board considered a report by Jeremy Welburn (Head of Assurance, oneSource), setting out an approach to producing a draft Internal Audit Plan ("the Plan"). In producing the Plan, regulations required that an internal audit be undertaken to evaluate the effectiveness of the Council's risk management and control and governance processes, taking account of the Public Sector Internal Auditing Standards (PSIAS) and the requirement to produce an annual internal audit opinion and report that could be used by the Council to inform the Annual Covenant Statement.

Mr Welburn presented the report. In the subsequent discussion, the following points were made.

(i) In response to an observation by the Chair, Mr Welburn stated that each LBN Director was allocated parts of the Plan in accordance with perceived areas of risk. That it was possible to categorise items in the Plan in different ways and that the current draft Plan had been prepared, as in previous years, to correlate perceived risk and priorities.

(ii) It had not been clear to Members how items were selected for inclusion in the Audit Plan. If one of the major risks was that managers could subvert the audit process, Members were concerned that managers could do so by influencing which items were subject to review. In addition, there had previously been a lack of narrative to give a context as to why an area had been subject to audit review.

(iii) The Internal Audit officers were independent of management and, therefore, it was necessary to strike a balance in deciding which areas to audit based on the information provided by management, and an assessment of risk areas by Internal Audit.

Resolved: to note the report.

12. Annual Governance Statement 2017/18

The Board considered a report of Mike O’Donnell (Interim Executive Director of Financial Sustainability) which had attached to it the draft Annual Governance Statement for the Financial Year 2017/18.

The report stated that regulations required the responsible financial officer, no later than 30th June immediately following the end of the financial year, to sign

---

10 i.e. there was a robust framework of controls and appropriate actions were being taken to manage risks within the area reviewed: controls were applied consistently or with minor lapses that did not result in significant risks to the achievement of the system objectives.
and date the Statement of Accounts, and that the Annual Governance Statement must accompany the Statement of Account.

The Audit Board was asked to consider and approve the draft Annual Governance Statement 2017/18.\(^\text{11}\)

Radwan Ahmed (Financial Control & Corporate Business Systems, oneSource), presented the report.

In response to a question by the Chair regarding checks and balances on small businesses, Mr Ahmed detailed the various duties and responsibilities of directors and shareholders of these companies to submit financial statements and performance reports as well as requiring their attendance at small business meetings.

Ruth Glazzard stated she had a number of concerns regarding the transfer of services to small businesses and the incentives offered to managers as part of that process. To understand how the process worked, she proposed that a session on the Council Services to Small Businesses (CSSB) programme be arranged for Members of the Audit Board.

In response, the Chair stated he proposed that there be an additional meeting of the Board to discuss this and other matters of particular interest. It was noted that internal audits relating to the CSSB were included in the Audit Plan.

**Resolved:** to note the report.

**13. London Stadium – Independent Review by Peter Oldham QC**

Introducing this item, the Chair referred to the discussion that had taken place at Full Council on 16 July 2018 [in which the Mayor had announced the publication of this report]. The Chair proposed that, in response to the publication of the report, that there be a report back to the Audit Board.

Mr O'Donnell (Interim Executive Director of Financial Sustainability) stated that the Council would produce a formal response to the report. Once it had been determined how the Council planned to respond to the report, officers could then advise the Audit Board in accordance with the Board’s Terms of Reference.

**Noted**


**Resolved:** To exclude any members of the press and public who might be present during consideration of Agenda Items 15, and 16a) and 16b) which contained exempt information as defined by Part 1 of Schedule 12A of the Local Government Act 1972 (as amended), as follows -

1. Items 15 and 16a) & 16b): Paragraph 7: Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime

2. Item 17: not applicable

\(^{11}\) It was noted on the agenda front-page that "due to the length of the [annual governance] statement, this will not be printed but is available to view on the Council website..."
15. Non-Public Minutes of the Last Meeting of the Board

The Board approved the non-public minutes of its meeting held on 29th of March 2018 and authorised the Chair to sign them as a correct record.

16a) RMS Briefing Report & Action Plan

The Board –

(i) Received a report by the Director of Commissioning (Communities, Environment and Housing), Simon Letchford, briefing Members on the background to, and the present position of, investigations into the Council’s Repairs and Maintenance Service (RMS).

(ii) Noted the RMS Action Plan prepared and updated by the RMS interim operations manager, Graham Cox.

16b) RMS Reports – Progress against Recommendations

The Board deferred consideration of an Internal Audit follow-up report on in respect of RMS which summarised the current status of the recommendations made in the for reports submitted to the Audit Board at its meeting on 29th of March 2018.

17. Date of Next Meeting

It was noted that the next meeting of the Audit Board would take place on Wednesday, 12 September 2018 at 7 PM in Newham Town Hall, East Ham.

The meeting ended at 9:33 PM