

## MINUTES OF THE MEETING OF THE GENERAL PURPOSES COMMITTEE HELD ON THURSDAY, 15TH OCTOBER, 2020

**MEMBERS:** Councillors Mahym Bedekova (Chair), Katherine Chibah, Lee David-Sanders, Joanne Laban, Bernadette Lappage, Dino Lemonides and Claire Stewart and Peter Nwosu (Independent member)

**Officers:** Fay Hammond (Executive Director Resources, Matt Bowmer (Director of Finance), Gareth Robinson (Head of Corporate finance, Bola Tobun (finance Manager, Pensions & Treasury), Gemma Young (Head of Internal Audit & Risk Management), Doug Wilson (Head of Strategy & Service Development), Des O'Donoghue ( Brokerage & Market Development Manager), Jeremy Chambers (Director of Law & Governance), Jayne Middleton-Albooye (Head of Legal Services) and Susan O'Connell (Governance Officer)

**Also Attending:** David Eagles (BDO), Francesca Palmer (BDO) and 1 member of the public

### 1. WELCOME AND APOLOGIES

The Chair welcomed everyone to the meeting. Apologies for absence had been received from Councillors Brett and Leaver.

The Chair agreed to amend the running order of the agenda to accommodate those in attendance. However for clarity the minutes are shown in the order of the published agenda.

### 2. DECLARATIONS OF INTEREST

There are no declarations of interest.

### 3. MINUTES

**AGREED** the minutes of the Member & Democratic Services Group meeting held on 30 June 2020 be approved.

**AGREED** the minutes of the General Purposes Committee meeting held on 23 July 2020 be approved.

### 4. 2019/20 FINAL ACCOUNTS UPDATE

Fay Hammond, Executive Director People, Matt Bowmer, Director of Finance and Gareth Robinson, Head of Corporate Finance introduced this report.

#### NOTED

1. Fay Hammond advised that although the accounts were out on time at the end of June, the lack of resources within the team has caused

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problems with the audit, so currently the council is not in the position that it would like to be in. Every effort will be made working with BDO to hit the November deadline, but this is at risk.

2. The accounts have taken place against the backdrop of Covid 19 and against the need for major change as noted in the October 2019 report to the previous Audit and Risk Committee.
3. The five key factors noted in that report were; the need for a new asset register; inconsistent set of accounts; inadequate quality control, financial system issues and HRA valuations of beacon properties.
4. There were serious concerns from finance and by BDO on the data contained within the Asset Register.
5. Inconsistent accounts due to no core trial balance which is often the basis of the statement of accounts itself
6. Lack of an adequate quality control process and a financial system which is difficult to interrogate so very difficult to response to auditors with the key documentation evidence that they require in a timely manner.
7. To resolve these issues a resourcing plan was put in place. This involved bringing in two temporary chief accountants with a specific remit on capital and revenue, as well as additional resources to partly backfill vacant posts to ensure that there were adequate resources to deliver the audit. Unfortunately, prior to closedown of accounts both agency staff left, and the Council was unable to replace them. On top of this one team member retired and two individuals left the team. Two new staff members at accountant level were recruited, unfortunately one of these had a bad injury and will be off work until early November and the other started 19<sup>th</sup> October 2020. The Council is reliant on two staff members for the main Accounts, although the main pension fund team is fully resourced. Moreover, the main accounts require specialised resource, preventing major reallocation of existing internal resources. There is a long-term plan as the Council has gone out to recruit to the role of Chief Accountant and trying to arrange a short-term contract as well.
8. The Council did meet the first deadline to produce the Accounts under revised timelines. However, it will require a significant extra push to meet the next deadline.
9. A new Asset Register has been successfully implemented and in the course of this implementation, the officers have discovered numerous errors in the records. The challenge for BDO is due to the delays on the other items, they have not been able to review the data migration on the asset register.
10. A new trial balance was produced for the accounts and the main statements are consistent but notes not linked to the Trial Balance have errors on them. BDO have raised these inconsistencies and working papers need to be updated, in line with their challenges.
11. There was a similar issue with regards to valuation documents, as many documents were not updated with the word 'Final' even though they were the final documents. Also, there was also a table with an incorrect total. These issues should have been picked up in the natural review process but instead were sent to the auditors, which wasted a

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lot of their time checking. This takes away from time that their junior officers would normally have spent on sampling.

12. All the major balances were reconciled to the end of August. However, the smaller balances have not been; these are potentially over £1m on any individual code. There was a specific issue relating to leaseholder debtors in that a detailed listing could not be produced that reconciled to the end of year balance. The listing of a debtor or a creditor details how much money is owed to or owing by or to the council, which is key supporting evidence. The auditors cannot test, validate and verify those balances. This evidence should be available to them when they arrive. This has led to delays in the audit process overall.
13. The financial system itself is clunky and challenging to interrogate but cannot be easily fixed. This creates a real challenge for auditors when sampling as each transaction cannot easily be followed through the system and is very time consuming to test.
14. The other major issue is the HRA valuations. Despite work undertaken to change processes the same situation has repeated itself. BDO received this late, the beacon sheets did not match the main valuations documents. These beacon sheets are the documentary evidence of the construction type and how the property has been valued and include 2-3 comparable properties. There are 400 core beacon values and more than 10k properties across the entire estate. Every beacon sheet should have 2 or 3 comparables and BDO need to test that these are appropriate comparables so that they can challenge the audit process. This checking process did originally take place. However, the information provided to the Council was an erroneous control sheet. Following BDO's query over 1200 documentary sheets had to be reviewed with the valuers in detail over three different periods. This caused delays in getting these backs to BDO of over one month and the Council missed a resourcing window of staff due to this.
15. BDO want to resolve all outstanding queries. The Council will need to undertake an additional process to check all the queries that we have submitted so there is quality assurance before BDO can audit.
16. Alongside the Meridian Water beacon valuations and the review IS19 calculations pension liabilities and the bad debt provisions are the main elements in the audit. There is probably 50% of the audit still to take place with the statutory deadline only six weeks away this will be very challenging to complete this on time.
17. In terms of the next steps the following three points were highlighted:
  - There has been successful recruitment over the summer of the system accountant, who then started although he had an unfortunate accident, leading him to being off work till early November and an asset accountant starting on the 19 October. The advert for permanent Chief Accountant also goes live on the 19<sup>th</sup> October and the Council are seeking agency cover for the period that it takes to recruit.
  - The council is working very closely with BDO, mindful of their resources as well as those of the council. A two-week pause has been agreed with BDO to allow for some leave to be taken and to clear down the existing queries and to ensure that the final

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pieces of work needed by BDO have been properly quality assured. If we are to achieve the deadline of the 30 November everything must be right first time.

- There has been good progress on the reconciliation work over the summer and there are reconciliations in place for all major accounts until the end of August. There is a monthly process in place, which has been facilitated by the trial balance that is now in place.

Questions, comments and queries raised:

- The Council has been in this position with the same issues being raised before several times what are we doing differently in the next steps. What's the deadline for recruitment? Officers advised that have gone for an agency Chief Accountant and are currently reviewing CV's if there is someone suitable, they should be in place within a couple of weeks. With regards to the permanent recruitment by the time the selection process has been completed it is likely to be January or February next year at least before someone is in post. Part of the strategy is if the permanent recruitment is unsuccessful, we will have an agency person that can see through the accounts for continuity. The job description has been rewritten and regraded to attract applicants and ensure that the right person with the right skills are employed. Similar issues to that in previous years currently as do not have a Chief Accountant in post in the Council, this person would normally pull all these issues together. Had the role have been in post, recruitment was attempted but was unsuccessful the council would be in a very different position. The main hiccup has been resourcing.
- What was the problem with Northern Trust? Northern Trust will be picked up under the pension fund items
- In terms of Meridian Water valuations there was previously an issue on industrial and residential values, and which was used. Why are there still issues with this? Officers advised that for Meridian Water a document has been commissioned from an outside specialist (on local government financial accounting) to review the classification of Meridian Water itself and this has been presented to BDO. BDO are closing off other queries before reviewing this. The valuers have provided different types of valuation for Meridian Water. The area of technical dispute of classification is why the accountancy document was requested to provide the evidence that BDO require. This was commissioned when it was realised that it was needed.
- Members commented that quality assurance has fallen down during the process. What has been put in place to address this moving forward if we end up with the same resource issues? With roughly 50% of the audit still to do in six weeks how confident are we that this can be achieved? Officers advised that the insufficient quality review has caused difficulty and resource challenges for both the council and BDO. The key focus of the two-week pause is to clear up outstanding queries and to make sure that the items that BDO still need to review for the closing part of the audit are given a thorough quality review

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before handing anything over to them. This deadline is a real challenging target and to achieve this must get things right first time.

- Following a request from a member to receive the technical valuation for Meridian Water to be shared with the Committee. Officers confirmed that this can be shared with the Committee members.

### 5. BDO- LBE AUDIT UPDATE REPORT

David Eagles from BDO (external auditors) introduced the report.

#### NOTED:

1. BDO covered the following two key points; to look at where we are and why we are where are and a technical point of reporting significant control deficiencies identified up to this point to the Committee which are directly relevant to the position of where we are.
2. The current position in terms of BDO's view of the situation is that the Council started out with recognition that the audit trail provided last year, the accounts productions process including valuations did not work and needed fundamental revision. Significant revisions to the process have been undertaken both in terms of commissioned valuations and the HRA beacons, the asset register and also some of the trail and mapping of the accounts.
3. There was also a clear view on the resourcing needed for the accounts. Losing two very key senior individuals before closedown of accounts and to lose other people put the Council in a very difficult position. Inevitably, this has led to some lack of focus on some of the trail as the processes push through to achieve the deadline. This has meant that some of the trail and the quality control has not taken place in the way it was originally intended.
4. BDO's view is that the Council would not be in the situation that it is currently in had the resourcing that was planned to be in place been there. There also had some bearing on support for the audit once BDO were virtually on site to ask questions and start challenging things to find the samplings and respond to queries. Due to the quality control issues there were more queries coming through than BDO would normally raise in a normal year as part of this process.
5. It will be incredibly challenging to meet the 30 November deadline; this will require a right first-time approach to things. When BDO request information it must be the right item for the right timeframe. This is part of the reason for this two week pause.
6. In terms of the control deficiencies BDO refer to two particular items reporting under ISA265 they are asked to report as early as possible. The control issues are detailed on page 40 onwards of the agenda pack, one relates to the preparation of the financial statements quality control and the second point relates to the significant risk of valuation, relates to some of the challenges that were unable to be completed to the original plan.
7. Nothing is finished as yet there are a number of things that BDO are working through with the Council to address.

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The Committee agreed to note the report.

### 6. BDO - PENSION FUND AUDIT UPDATE

David Eagles from BDO (external auditors) provided a brief verbal update

#### NOTED

1. BDO had hoped to bring the audit completion report for the pension fund audit report to this meeting, most of the audit is completed. However, the manager who was drafting the report has been off sick with Covid-19. This will now come to the November meeting of the Committee.
2. BDO sign off both opinions at the same time so the Pension fund accounts cannot be finalised until the main council's accounts are.

### 7. 2019/20 FINAL PENSION FUND ACCOUNTS

Bola Tobun, Finance Manager, Pensions and Treasury introduced the report.

#### NOTED:

1. The Council is expecting BDO to issue confirmation and report of the audit, unfortunately this is not available.
2. The account itself is on page 54 of the agenda papers. The accounts contain two statements; where we deal with members contributions from employers and employees. The second statement is the transactions showing how the money is invested and the return that is made- the Net Assets Statement.
3. The only change since draft account that the Committee received in July is on the returns from investment, the position has been revised as the pension fund banker/ custodian Northern Trust used the previous months valuation for five of our Fund's portfolios. This is because the prices and valuations of these portfolio's cannot easily be obtained on the stock market. The global pandemic has had an effect on the market asset hence most of the assets depreciated further by the 31<sup>st</sup> March 2020. When the draft account was presented back in July the closing net assets were £1.167bn but is now £1,149bn. The assets depreciated further from the previous year by a total by £35.7bn.
4. The fund has appreciated by almost £100m by the end of June 2020 to £1.267bn. Due to the effect the Covid 19 pandemic is having on the global economy a triennial valuation update was undertaken as at 31<sup>st</sup> March 2020, the detail of the outcome of this exercise can be found on page 48 of the agenda (section28). The fund was overfunded with funding level of 103% and surplus of £39m, when the triennial valuation was undertaken as at 31<sup>st</sup> March 2019. A valuation update undertaken as at 31<sup>st</sup> March 2020 indicates a reduction in funding level to 96% with corresponding deficit value of £50m.
5. Attention is drawn to the table comparing Enfield with other funds (page 48 section 27). One year to date Enfield is ranked at 10 out of 63 funds.

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6. The covering report was asking for approval from the Committee this is to be held back until BDO's ISA260 on the accounts. This has been delayed due to illness at BDO.

Questions, comments and queries raised:

- Clarity requested what the benchmark fund is and how it is arrived at? Officers advised that the benchmark in this case is the fund benchmark based on different targets, index and benchmark of each asset class or portfolio that made up Enfield total investments. Enfield pension fund benchmark is therefore a basket or aggregate of each of all our investment portfolios benchmarks. As we have a different index for each of our active global equities and for passive global equities, different index and benchmark for our bonds and private equity. The PIRC universe is the average return of all the 63 LGPS funds returns with this organisation called PIRC (Pensions & Investment Research Consultants Ltd) league table.
- In the report talks about a deficit but looking at the numbers looks like a surplus. The deficit figure of £50m is correct the liability is wrong, it should be (£1,219m). The error will be corrected this is only in the report for the committee and is not part of the pension fund accounts.
- Page 71 are in thousands of millions, is this correct? There are a series of checks that need to be made before these are signed off. Officers confirmed that this will be checked.

## 8. COMMISSIONING (BROKERAGE) UPDATE REPORT

Doug Wilson, Head of Strategy and Service Development introduced the report.

NOTED

1. The Brokerage service works in Health and Adult Social Care. As part of our statutory functions the council is required to support people to purchase care when they are unable to do this for themselves.
2. A Brokerage audit was undertaken as part of the 2018/19 Audit Plan. This service was proposed for audit to provide assurance that the brokers were working appropriately, and that there was appropriate oversight and governance.
3. The audit was completed in March 2019 with Reasonable Assurance. A couple of items were picked up; the process and policy for selecting care providers was not clear enough, the criteria applied was not clear, and the documentation and decision-making process was not clear.
4. Work has been undertaken to put the necessary work in place including policy documentation, processes and regular oversight processes.
5. A subsequent report came back to the previous Audit and Risk Committee covering the transition of service from one part of the council to another. The auditors were satisfied that the appropriate measures had been put in place and all the actions and recommendations within the report had been addressed, specifically

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around how the council determines which care providers are chosen. This information is detailed in the appendices on the agenda papers.

6. There is also a regular assurance process in place including regular staff supervision. As part of the supervision a sample of cases will be reviewed to ensure that the criteria for selection is clear and documented and that the outcome is as we would expect it to be.

The committee agreed to note the report.

### **9. RISK REGISTER UPDATES**

This was introduced by Gemma Young, Head of Internal Audit and Risk Management

NOTED:

1. The report includes the Corporate Risk Register, the COVID-19 Risk Register and the Brexit Risk Register.
2. The Corporate Risk Register has been circulated for review by DMT's and has been updated with two new risks being added. These are; Civil Unrest and Climate Change.
3. The COVID-19 Risk Register has been updated by the COVID-19 Recovery Group and by Silver with two additional risks. These are; Local Lockdown and Second Wave.
4. The Brexit Risk Register is currently being recirculated by the Brexit Panel. There are no major updates to this register. This will come back to the committee in November due to the closeness of the deadline. This will include a major update to ensure that this includes the most up to date risks.

The following query was raised:

The statutory deadline on the EU Settlement scheme is six months after the transition period. Is this issue picked up in the Risk Register? Gemma Young agreed to ensure that this is picked up in the major update of the Brexit Risk Register.

### **10. AUDIT AND RISK MANAGEMENT SERVICE PROGRESS REPORT**

This was introduced by Gemma Young, Head of Internal Audit and Risk Management.

NOTED

1. This item comes to every meeting to update the Committee members
2. On the 2020/21 Internal Audit Plan there are 58% audit assessment reviews commenced with 8% of these finalised. This compares to 54% commenced and 16% completed in September 2019. There was a slight delay to the start of the plan due to the impacts of Covid-19.
3. Since the plan was agreed in July 2020, no audits have been cancelled but one additional audit has been added to the plan. This is Enfield



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Stands Together, which was the council's fund-raising response to the Covid 19 crisis. This has been audited already

4. Five audits have been completed since the start of the year. Four of which were grant certifications or management letters where an assurance opinion is not required. The remaining audit was a Limited assurance opinion and is detailed within the agenda report.
5. In terms of tracking agreed actions from internal audit work, managers have implemented 82% of high priority and 54 % of medium priority which were due by the end of August 2020.
6. The report also summarises the work undertaken by the Counter Fraud Team with a particular focus on the business grants given out during the Covid-19 pandemic. Grants covering £1.4m have been withheld and recovered.
7. The Counter Fraud team has identified savings to date of £1.9m in the financial year so far.
8. £28k has been recovered under a Proceeds of Crime Act and a theft of £20k from the Council is being prosecuted by the Crown Prosecution Service.

The following query was raised:

- Following a query on overdue audit actions that have been outstanding for more than one year. Gemma Young advised that this has been a real concern. Part of the Annual Audit opinion last year picked up that there were quite a lot of outstanding actions. Having identified the issue of recommendations not being completed in a timely manner there are additional Assurance Boards being held. These are chaired by the Chief Executive of the Council and has a very senior focus. Gemma Young is also attending Senior Management Team meetings across the Directorates much more frequently. This position should improve further over the next six months.

The Committee agreed to note the work completed by the Audit and Risk Management Service during the period 1 April 2020 to 15 September 2020.

### **11. AUDIT & RISK COMMITTEE ANNUAL REPORT 2019-20**

The Chair Cllr Bedekova introduced the Audit & Risk Management Committee Annual Report 2019/20.

NOTED

1. The Audit & Risk Management Committee Annual Report 2019/20 is a summary of work the Audit & Risk Management Committee had achieved and oversaw the work of Internal Audit 2018/19.
2. This is the Chair of the Committee's report on the activities of the committee over the last municipal year.
3. This report is produced as a requirement of the council constitution and provides details of the previous work that the committee has undertaken.

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4. The summary of work is all detailed within the report on pages 249-254.
5. The Audit & Risk Management Committee has now been replaced by the General Purposes Committee and the terms of reference are detailed on pages 255-257 of the report.

**AGREED** that the Annual Report be approved for referral by the Chair onto Council at its meeting on the 18 November 2020.

### **12. GENERAL PURPOSES COMMITTEE WORK PROGRAMME**

The work programme for 2020/21 was noted with no additions.

### **13. DATES OF FUTURE MEETINGS**

The dates of future meetings were noted.

The meeting ended at Time Not Specified.