

MINUTES OF THE MEETING OF THE GENERAL PURPOSES COMMITTEE HELD ON THURSDAY, 19TH JANUARY, 2023

MEMBERS: Councillors Mahym Bedekova, Ayten Guzel (Associate Cabinet Member (Non-geographical)), Nawshad Ali, Alessandro Georgiou (Leader of the Opposition and the Conservative Group), Joanne Laban, Elisa Morreale, Michael Rye OBE, Peter Nwosu (General Purposes Committee Independent Person) and Sabri Ozaydin (Chief Whip)

Peter Nwosu (General Purposes Committee Independent Person)

OFFICERS: Fay Hammond (Executive Director, Resources), James Newman (Director of Finance - Corporate), Olga Bennet (Director of Finance - Capital & Commercial), Terry Osborne (Director of Law and Governance), Gemma Young (Head of Internal Audit and Risk Management), Annette Trigg (Chief Accountant), Bola Tobun (Finance Manager, Pensions & Treasury), and Marie Lowe (Governance and Scrutiny Officer)

ALSO ATTENDING:

External Auditor, BDO, David Eagles (Partner, BDO LLP) and Sebastian Evans (Audit Manager)

1. WELCOME & APOLOGIES

No apologies for absence had been received for the meeting.

The Council's Chief Accountant, Annette Trigg, together with representatives from the External Auditor, BDO, David Eagles and Sebastian Evans joined the meeting remotely.

2. DECLARATIONS OF INTEREST

Cllr Nawshad Ali declared that he was a Member of the Council's Local Pension Board.

Cllr Sabri Ozaydin declared that he was a Member of the Council's Pension Policy and Investment Committee.

3. MINUTES OF THE PREVIOUS MEETING

The minutes of the General Purposes Committee meeting held on 1 December 2022 be **AGREED** subject to the following amendments:

- 3.1 Cllr Alessandro Georgiou asked that the minutes be amended to reflect his comments at the meeting that a standard invitation be extended to the Cabinet Member for Finance and Performance, Cllr Tim Leaver, to

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attend each meeting of the committee as the stakeholder and to answer any questions arising from the reports.

The Director of Law and Governance advised that whilst the minutes of the last meeting could be amended to reflect Cllr Alessandro Georgiou request, there was no requirement in the Council's Constitution for Cabinet Members to attend all meetings.

3.1 That Cllr Alessandro Georgiou asked that the minutes be amended to show that the reason that Cllr Elisa Morreale had been absent from the last meeting of the Committee, at which Cllr Hannah Dyson had substituted, was because she had attended a Ward Forum which was held on the same evening

4. UPDATE ON THE AUDIT OF THE 2019/20 AND 2020/21 STATEMENT OF ACCOUNTS AND PENSION FUND AND PROGRESS ON THE 2021/22 COUNCIL'S ACCOUNTS - INCLUDING BDO (EXTERNAL AUDITOR) REPORT ON STATEMENT OF ACCOUNTS

The Committee received a verbal update and PowerPoint presentation from the Director of Finance - Corporate update on the audit of the 2019/20 and 2020/21 statement of accounts and pension fund and progress on the 2021/22 Council's accounts.

The Director of Finance - Corporate, during his presentation, highlighted his concerns that the work undertaken by BDO on the 2019/20 audit to finalise the accounts had been further delayed, with a revised deadline for the completion of the review and any follow-up would now be the end of February 2023. The Committee noted that, following the information received from BDO advising of the new delays in preventing any further sign-off of the 2019/20 accounts, a conversation had been held with BDO regarding the critical path and the sizeable resources required to address the issues raised, not least the 123 additional comments.

The Director of Finance - Corporate informed Members that the bulletin issued by CIPFA on 11 January 2023 set out the requirements to address the Infrastructure Assets issues raised. The LBE Finance Team were reviewing the requirements and working with highways colleagues to complete the changes to the accounts, aiming to complete this work by late January 2023. This would then be submitted to BDO for review.

The Director of Finance also advised that there are still further issues which had been raised and was part of the 2020/21 audit. This was the testing of school asset valuations and was also likely to have a significant impact on the 2019/20 valuations and required an adjustment to the 2019/20 accounts and a prior period adjustment for 2018/19 comparatives. LBE staff had only been made aware of this issue two days before the meeting and were now working to establish the position and the values/assets impacted. This was going to further delay the signing-off of the 2019/20 Accounts.

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Members noted the update on the 2020/21 audit and that BDO had been asked to provide a date when the audit would be completed as the Council's LBE Finance Team would continue working on the audit until then. Due to delays in finalising the 2019/20 accounts this was now estimated that it would be taken to the meeting in May/June 2023. BDO had been asked to either confirm this date or to advise an alternative.

The Partner provided a verbal update and PowerPoint presentation on the progress on the 2019/20 and 2020/21 audits, together with an update on the International Standards of Auditing (ISA) 265 recommendations. The presentation also detailed the reasons BDO had been unable to progress the audit for 2019/20.

The Partner advised that there had been some residual tidying points to go through which were listed out and needed to be worked through. He considered there to be a couple of days' worth of tidying in terms of the 2020 roll forward position and this was where they were getting to the point to review the comparators by comparing the information, BDO held at 2019 to what was being used in 2020. This had been something that had not been taken into account or appreciated when the auditor had estimated how long it would take to complete that work. It was only when they started to go through that process, they realized that there had been an underestimation. BDO had pulled resource from the 2021 audit to provide some assistance to make this go faster and that was being worked on at the moment with a completion date of Tuesday next week, 31 January 2023, with a potential worst case scenario saying end of next week to complete that process and then it can be subject to a partner review and the final EQCR review.

The schools issue referred to by the Director of Finance and set that out in slightly more detail on the slide, which involved the school's valuation was that BDO had looked at variations between years. As mentioned previously, this is what BDO would normally do in respect of the housing valuations and provide some of the explanations for the variances between years. The floor plans, the areas, the build that that was being valued by the value for the 2019/20 audit and in fact 2020/21 had identified a number of changes to the sites for example extensions or new build, which had not been reflected in the previous valuations, nor would it be reflected in the floor plans that may have been used for that period. Therefore, this was not a valuation that they should not have a variance they should be looking at, but what it indicated as some of the previous valuations because some of these extensions and buildings go back to 2010. This should have been reflected in the previous year's accounts. Following some initial work on the chunk of valuations of schools that had been undertaken in 2019/20, and it was important to note that had been a change of evaluation approach for this as part of the Council's wider initiative to try and clear out once and for all the issues that were within the financial statements and some areas had been identified where this sort of additional building had caused issues. However, the calculation based upon the information held by BDO suggested it was only an understatement, about seven and a half million pounds, which was not material and therefore it was left as an unadjusted item. However, the work being undertaken on the next

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tranche of schools, the next sort of third or so, 19 schools in total had indicated a rather different pattern.

The particular sample, based upon the information they had extrapolated, showed an understatement of approximately £16 million, which in isolation was not material. However, if seven and a half million were added, which they had already identified for the third of schools that had been looked at previously. Then a material figure was reached because BDO's materiality was just under £20 million. This meant that, subject to checking of the various assumptions and facts held, BDO needed to undertake a further prior period adjustment within the 2019/20 because some of these most of these issues date back quite a long way and therefore should have been reflected in the positions reported previously.

Members recognised that this was not a trivial exercise but would take some time for LBE Finance Team to work through to get the exact figures. They had also had to look at the tranche of schools valued or revalued in 2021/22 because that may also include some more cases where the floor plans do not match reality. The auditor needed to work through that information to get the total figure for the three thirds of valuation and use that as a basis for making the prior period adjustment.

The Director of Finance stated that there remained a considerable number of figures that needed to be amended, not just in the primary statements, but also in the prior period, adjustments and LBE Finance Team had suggested that that could take until the end of February to work through. BDO would then need to make certain they were happy with the figures and events and get clearance for the prior period adjustment as they had done before for other areas.

The Partner considered that one potential silver lining was that if this was addressed now within the 2019/20 accounts, which would mean that the 2020/21 accounts could be appropriately amended to have a different sort of starting point and not need to have a prior period adjustment. A prior period adjustment was an indication that something was wrong with the records. Should the data be clear in 19/20 it would be correct going forward. This had been the aim all along, and then that would give the Council a cleaner position for 20/21 going forwards.

The Audit Manager confirmed that the Council's audit for 2019/20 was being prioritised, with a significant amount of resourcing prioritization meetings being held and resource from the 2020/21 audit was being redirected to make certain that the 2019/20 audit was completed first and before they started work on the NHS audit.

The Council's Chief Accountant, Annette Trigg, responded to further questions from Members and explained that the priority for the accounts was regarding the school's issue. Unfortunately, the time that LBE Finance Team had allocated that week to go through those 123 comments had been taken over by the schools' issue because that became an immediate priority in

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terms of what work had to be completed straightaway. This was in order that the assets affected could be identified, together with where the issues lay.

The Executive Director Resources explained that there were wider considerations to be taken into account, such as a 10-year-old finance ledger system, which the Council was reluctant to replace whilst the accounts remained open in case vital information was lost during the transfer. Currently it took a long time to obtain information requested by the Auditor.

The Chief Accountant confirmed that she had only be advised about the schools' issue on Tuesday this week and had met urgently with the Partner yesterday afternoon. This had been given priority. However, following an initial review, some points need further clarification with the Partner, in terms of what would be acceptable versus to what BDO would insist on what the Council made changes and a number of those areas. They were areas, based her professional opinion with many years of experience, that the Council could say that it was not going to make the change.

The Chief Accountant stated that it was the Council's responsibility to work on make the necessary improvements regarding processes, information and records held and to better plan.

One example given by the Chief Accountant, was with regards to the registration of housing and housing assets. Further understanding was needed regarding which properties they related to and then a discussion would be held with housing colleagues.

The Chief Accountant reassured the Committee that the Audit Manager at BDO was happy with work on the assets on the 2020/21 valuations. It was a thorough piece of work, and the Auditor was satisfied with what they had seen. This was because there had been an issue and that the work had continued to improve as the valuations had taken place. The work since 2019/20 had been a much more thorough and robust process as a direct result of some of the comments made by the auditors in the 2019/20 process.

Members of the Committee welcomed the comments and reassurances from Officers, regarding the positive and proactive approach being taken by LBE Finance Team Officers to progress the sign-off of the 2029/20 audit. However, Members expressed their continued frustration and disappointment that the accounts for 2019/20 were not ready for sign-off by this meeting as previously promised in December 2022 by BDO. Also, that two and a half years ago BDO had given their assurances that all the information they required had been provided by the Council and given their commitment that the accounts could be signed-off. They stated that they failed to understand why there had been continuous delays regarding the 2019/20 audit of the accounts, and that significant queries were still being raised which would require substantial resourcing from the Council, which would create further delays to the detriment of the Council without any consequences to BDO.

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Members expressed concern that the handouts of the slides had been tabled and not circulated well in advance of the meeting. They considered this to be too short notice for such a complex and detailed topic and **AGREED** that any information in relation to this item be circulated to the Committee a minimum of 24 hours prior to the commencement of the meeting.

AGREED that the report and verbal update be **NOTED**.

5. **CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA) REVIEW ACTION PLAN**

The report provided an update on the recommendations from the Chartered Institute of Public Finance and Accountancy (CIPFA)'s review of the General Purposes Committee, an overview of the updated guidance on the role of the Audit Committee and the proposed actions in response.

AGREED that the report and actions be noted.

6. **TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2023/24 TO 2032/33**

The report set out the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2023/24 to 2032/33, and Annual Investment Strategy (AIS) for the year ended 31 March 2024, together with supporting information for recommendation to Cabinet to review the Strategy and to Council to approve the Strategy.

Officers noted that a correction to page 26 – Table 3: Balance Sheet Summary and Forecast and paragraph 48, which referred to Table 2 as there was no Table 2 in the document pack.

The Monitoring Officer proposed that the recommendations should be amended slightly:

The Committee **AGREED** the amended recommendations:

1. That the Treasury Management Strategy Statement (TMSS) for the period 2023/24 to 2032/33, and Annual Investment Strategy (AIS) for the year ended 31 March 2024, together with supporting information **NOTED**; and
2. That the General Purposes Committee will be invited to
 - i. Receive, review and comment on the Treasury Management Practices, attached to the report as Annex B, annually, and

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- ii. Receive and review and comment on the quarterly Treasury Management monitoring reports.

7. AUDIT AND RISK MANAGEMENT SERVICE PROGRESS UPDATE

The General Purposes Committee were asked to note the work completed by the Audit and Risk Management Service during the period 1 April 2022 to 30 November 2022 and the key themes and outcomes arising from this work.

The Head of Internal Audit and Risk Management assured Members that although records in relation to the charges invoiced for CCTV for notice processing and cashless parking had not been evidenced for two or three years, robust processes had been put in place and testing was due to be conducted at the end of January 2023. A more robust Procurement Team had given added value to the work undertaken around contract procedure rules. The effect of which value was being seen across the organisation. The Annual Report on Procurement would be brought to Committee in June 2023 which would provide further details.

The Committee acknowledged that staff did change over time and expressed concern that rigorous control systems had not been in place and requested evidence that the control system had changed be reported back to the Committee, together with assurance of the existing processes regarding checks and processes.

The Executive Director Resources reassured the Committee that the challenges put by the Assurance Board to the Head of an under performing service were very demanding and Senior Officers had to provide detailed explanations and solutions when a service area was not performing as expected. It was right and proper for Officers to be called to account and challenged by the Assurance Board Members.

It was noted that the number of overdue audits for the Place and Resources Departments, were significantly high when compared with other Departments. Members requested that the Committee be provided with further details with regards to the overdue audits, particularly with regard to the number of overdue high-risk actions.

AGREED that the report be **NOTED**.

8. COUNTER FRAUD POLICIES

The report presented the following policy documents for approval by the Committee:

1. Counter Fraud Sanction and Prosecution Policy

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2. Whistleblowing Policy and Procedures (incorporating the Model Whistleblowing Policy and Procedures for employees and workers in maintained schools, PRUs, academies and others)
3. Anti-Money Laundering Policy & Guidance

AGREED that:

1. The Counter Fraud Sanction and Prosecution Policy, the Whistleblowing Policy and Procedures and the Anti-Money Laundering Policy and Guidance be **APPROVED**; and
2. The policies referred to above be reviewed by General Purposes Committee every three years or sooner should there be any major changes made.

9. UPDATE OF GENERAL PURPOSES COMMITTEE MEMBER TRAINING COVERED AND ATTENDANCE

Members **AGREED** that details of the General Purposes Committee Member training covered and attendance during the current Municipal Year 2022/23 be circulated by email.

10. DATES OF FUTURE MEETINGS

NOTED that the next meeting of the General Purposes Committee was scheduled to take place at 7pm on Thursday, 16 March 2023.

The meeting ended at 9.50 pm.