

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

AUDIT AND TRANSPARENCY COMMITTEE 8 MARCH 2021

REPORT OF THE CHAIRMAN OF THE AUDIT AND TRANSPARENCY COMMITTEE

The terms of reference of the Audit and Transparency Committee require that the Chairman provides an annual report to full Council on the activity of the Committee. This report covers the work of the Committee during the past 12 months.

FOR INFORMATION

1. INTRODUCTION

- 1.1 The Royal Borough has a history of strong corporate governance and scrutiny of which the Audit and Transparency Committee forms an integral part. The Committee comprises both Councillors and independent members. The Councillors are highly experienced, and the three independent members bring to the Committee a wealth of commercial and governance experience and have, over several years, contributed effectively to its work.

2. COMMITTEE ACTIVITY

- 2.1 The Committee's programme of work, agreed at the start of the year has been achieved.
- 2.2 The Committee's membership during 2020 was as follows:

Cllr Ian Wason	Chairman
Cllr Adrian Berrill-Cox	Vice-Chairman (until May 2020)
Cllr David Lindsay	Vice-Chairman (from May 2020)
Cllr Charles Williams	Member
Cllr Emma Dent Coad	Member
Mr Andrew Ling	Independent member
Ms Lorraine Mohammed	Independent member (until Feb 2020)
Mr Ian Luder CBE	Independent member (until Feb 2020)
Ms Liz Murrell	Independent member (from May 2020)
Ms Cosette Reczek	Independent member (from May 2020)

- 2.3 During 2020, two of our independent members, Mr Ian Luder and Ms Lorraine Mohammed stood down from the Committee. An external recruitment exercise was undertaken and Ms Liz Murrell and Ms Cosette Reczek were appointed following a recommendation to full Council in 20 May 2020.
- 2.4 I would like to take this opportunity to thank Mr Luder and Ms Mohammed for the significant expertise, insight and constructive challenge they both brought to the work of the Committee over a number of years.
- 2.5 The Committee was scheduled to meet on the following dates during the calendar year:
- 11 February 2020
 - 27 July 2020
 - 17 September 2020
 - 9 November 2020
- 2.6 The meetings were quorate on each occasion. The Executive Director of Assets and Resources and/or Director of Financial Management and the Shared Services Director for Audit, Fraud, Insurance and Risk were in attendance at each meeting, along with other executive directors and directors in respect of specific items on each agenda.
- 2.7 The meetings in 2020 considered the following areas of activity:
- 11 February 2020:
- Treasury Management Activity
 - External Audit Plan 2019/20
 - External Auditors Progress Report
 - Risk Management Update
 - Insurance Report
 - Draft Internal Audit Plan 2020/21
 - Internal Audit Progress Report
 - Local Code of Corporate Governance
 - Oral Report on IBC (Finance, HR, Payroll service provided by Hampshire County Council)
 - Chairman's Annual Report
 - Forward Programme and Action Tracker (Standing Item)
- 27 July 2020:
- Draft Statement of Accounts and Annual Governance Statement 2019/20

- Addendum to External Audit Plan in Respect of Covid-19
- Risk Management Update - Covid-19
- Treasury Outturn Report
- Update on IBC
- Management of the Property Portfolio
- Annual Report on Internal Audit and Internal Control 2019/20
- Anti-Fraud End of Year Report for 2019/20
- Anti-Fraud and Corruption Strategy Review

17 September 2020:

- Forward Programme and Action Tracker
- Treasury Management Activity to June 2020
- External Audit Findings Report (ISA 260)
- Final Statement of Accounts and Annual Governance Statement 2019/20
- Internal Audit Charter and Strategy
- Progress on Internal Audit Work 2020/21

9 November 2020:

- Forward Programme and Action Tracker
- Treasury Management Activity – Quarter 2
- Anti-Fraud Half-Year Report
- Anti-Fraud Policies Review:
 - Anti-Bribery Policy
 - Anti-Money Laundering Policy
 - Fraud Response Plan
- Progress Report on Internal Audit Work
- Risk Management Update

Review of Effectiveness

- 2.8 In July 2019 the Committee considered the effectiveness of its own arrangements, those of the internal audit function and the Director of Audit and Executive Director of Resources and Assets (as the Chief Financial Officer) against best practice standards and guidance published by the Chartered Institute of Public Finance and Accountancy. A further review of the above will be undertaken in 2021 with options for an external review of the Committee's effectiveness being considered.
- 2.9 In response to the 2019 review the Committee has implemented a forward plan/work programme and action tracker to ensure that actions they had requested had been implemented. In addition, the Committee held a separate private meeting with the external auditor, in line with good practice, which took place in July 2020.

- 2.10 In February 2020, the Committee reviewed and recommended the Local Code of Corporate Governance to be presented to full Council and to be included in the Council's Constitution.

Audit and Fraud Service Delivery Models

- 2.11 During 2020 the Committee received regular progress reports on Internal Audit's activity and progress against the agreed 2018/19 and 2019/20 Audit Plans. The Committee noted that there continued to be a single Audit function working across the three Councils with resources drawn predominantly from an in-house team supplemented by ad-hoc support from the service's delivery partners Mazars and PwC, including undertaking reviews in specialist areas. The Committee was pleased to note that the standard of audits had been maintained during the year.

Audit Plan

- 2.12 The Committee reviewed the 2020/21 Internal Audit Plan at its meeting in February 2020 and was satisfied it provided sufficient coverage of the Council's key systems and processes. The Director of Audit was able to assure the Committee that there was sufficient staff/contract resource to fulfil the plan, so as to provide sufficient evidence to support the Director of Audit's annual opinion and assurance report.
- 2.13 During the year the Committee received regular reports on the progress against the plan and on the outcomes from the individual audits undertaken. As a result, the Committee was satisfied that the plan was substantially completed by the year end, in line with recognised good practice.
- 2.14 The Committee was updated on the outcomes of follow up work where the original audits could only assign a '*Limited*' or '*Nil*' assurance rating and noted the relatively low numbers of audits receiving inadequate assurance ratings. The Committee noted that operational managers were taking appropriate actions to bring about the required improvement in controls.

Managed Services

- 2.15 The Committee continued to receive update reports in the Managed Services solution provided by Hampshire County Council (covering Finance, HR and Payroll systems and service which went live in December 2018) and steps being taken ensure that the new system and controls bedded down effectively.

Cumulative Assurance

- 2.16 In relation to its principal role in providing the Council with independent assurance on the Council's governance arrangements, including the risk management framework and the associated control environment, the Committee gained assurance from a number of sources. The Committee received the draft Annual Governance Statement (AGS) in July 2020, along with the annual accounts. The AGS established that there were no significant gaps in the Council's compliance with CIPFA/SOLACE's *Delivering Good Governance in Local Government Framework*. The AGS took account of a number of factors including assurances received from individual assurance statements and governance reports from each of the Directors for 2019/20.
- 2.17 The Director of Audit's annual report on Internal Audit's work and the Council's internal control arrangements for 2019/20 confirmed that overall satisfactory internal control arrangements and procedures remain in place across the Council, with 83% of audits receiving a positive assurance opinion for 2019/20.
- 2.18 The Committee gained a level of assurance from the External Auditor that, in their view, the Council continued to have a strong control environment in place. Unqualified opinions were provided on the Council and Pension Fund Accounts. The External Auditor raised two Medium priority recommendations arising from their work on the 2019/20 Council accounts and three Medium priority recommendations in respect of the Pension Fund accounts. Two out of seven recommendations made in 2018/19 were carried forward to be reviewed again in 2020/21.
- 2.19 During the year the Committee continued to challenge the Council's key systems and procedures and the associated management of risk in these areas and specifically requested follow-up reports, presentations or information from senior management on the following:
- To receive a report on the Council's insurance service and claims against the Council, including claims for accidents;
 - Further updates on the controls within the IBC solution (covering Finance, HR and Payroll);
 - Confirmation as to which officers were responsible for overseeing the implementation of the Hillsborough Charter and Charter for Public Participation and whether it was the Committee's role to monitor the Charters;

- A further report to be provided to the Committee once the Covid-19 crisis was over, so that lessons could be learned should there be a similar pandemic in future;
- Details regarding arrangements for Cyber Security insurance to be provided to the Committee;
- A report on Grenfell expenditure was requested;
- The external auditor was asked to set out the reason for not being able to provide a value for money conclusion in their draft opinion;
- The review of the treasury management policy to be undertaken at the appropriate time rather than waiting for the annual approval at full Council;
- That the £10,000 reporting threshold in the Money Laundering Policy be reviewed and explicit reference made to the possibility of criminal prosecution of tipping off offences;
- The Committee asked the Director of Adult Social Care and the Director of Finance to attend a future meeting to discuss the direct payments audit; and,
- That the National Risk Register be considered by officers when updating the Strategic Risk Register and the outcome reported to the Committee.

2.20 The Committee will continue to call in Cabinet Members, directors and senior officers where appropriate, to reinforce the need to strengthen controls and risk management processes and to implement agreed recommendations. The Committee took some assurance from the fact that the number of call-ins continued to be low during 2019.

Risk Management

2.21 The Committee received regular reports on risks across the Council throughout the year and noted the work being undertaken to enhance comprehensive risk management processes and supporting risk registers across all services, in particular in areas such as housing management.

2.22 Having received two reports on the management of risk in Housing in the previous year, the Committee considered two of the strategic risks being managed in Environment and Communities in February 2020, namely, safeguarding local residents in the event of a major terrorist attack, civil disorder or other significant event outside RBKC control and how the Council would respond effectively to another major incident (fire or other event), setting out the work being done to align the Council's practice with the Resilience Standards for London.

2.23 During 2020 the Committee focussed on the Council's emergency response to the Covid-19 global pandemic along with the preparations

for the UK's transition from the European Union at the end of December 2020.

- 2.24 The committee considered the short- and medium-term financial impacts of Covid, the robust approach to risk management through the emergency command structures and the steps being taken by the Council to help residents and businesses to recover from the effects of lockdown and ongoing restrictions arising from the pandemic. The committee also considered the implications of multiple event risks occurring simultaneously, in terms of Covid, winter flu and the EU exit arrangements.

Fraud Updates

- 2.25 The Committee continued to receive regular reports during the year on the Council's anti-fraud activity and welcomed the continuing high-profile focus of anti-fraud resources on illegal sub-letting and other tenancy fraud.

Statement of Accounts

- 2.26 The Committee is required, under its terms of reference, to recommend for approval the Council's Annual Statement of Accounts and to consider whether appropriate accounting policies have been followed. In relation to that role the Committee received reports from officers on the Statement of Accounts for 2019/20 during the year.
- 2.27 The Committee was encouraged that the External Auditor (Grant Thornton) continued to find the accounts and supporting working papers to be to a high standard with only two Medium and no High priority recommendations being raised in their Annual Audit Letter for 2019/20 which was presented to the Committee in September 2020.
- 2.28 The Committee noted that the External Auditor was not able to give a value for money conclusion due to the ongoing inquiry and investigation into the fire at Grenfell Tower in June 2017 and the fact that the previous external auditor had not issued its value for money conclusion on the 2017/18 annual accounts.
- 2.29 The Committee continued to receive regular reports on the Council's Treasury Management activity and noted the nature of the Council's investment strategies.

3. MEMBER CONDUCT

- 3.1 During the year the Committee received no issues regarding Councillor conduct or complaints which required its consideration or

attention. The Council is also supported by an Independent Ethics Panel which also produces an annual report covering its work.

4. INDEPENDENT COMMITTEE MEMBERS

4.1 The independent members play a vital role within the Committee, providing a strong external challenge to the Council's systems of internal control and to the audit process itself. The Committee has been fortunate to recruit two new professional independent members who, along with our continuing independent member, share extensive experience of the public and financial services sectors and of risk management. I would once again like to record my appreciation of their support and that of my fellow Councillors during what has been another busy year for the Committee.

5. CONCLUSION

5.1 The Audit and Transparency Committee continues to present a focused and professional challenge to the Council's systems of governance and financial reporting arrangements.

5.2 One of the Committee's roles over the next 12 months will be to ensure that the highest standards of internal control are maintained and are not compromised by budget cuts, that the Council continues to respond well to the challenges posed by the Covid pandemic and that the Council implements an effective recovery programme for residents and businesses which is aligned with the Council Plan.

5.3 The Committee will ensure, through the Annual Governance Statement, the internal audit plan, its consideration of the Strategic Risk Register and challenging directors on the management of risk that the Council has appropriate arrangements to manage risk and is able to provide robust assurance to residents and Members following the Grenfell Tower fire, taking account of work done by the Grenfell Public Inquiry and the Grenfell Task Force.

5.4 The Committee will also continue to monitor and challenge the management of risk at both a corporate and departmental level so as to ensure demonstrable best practice is in place across the Council.

5.5 The Committee will continue to monitor the implementation of recommendations raised in audit and fraud reviews to ensure a strong corporate governance framework remains in operation and to ensure that Cabinet Members and Senior Management are brought to account where standards in any area are considered to be inadequate or falling.

6. RECOMMENDATION

6.1 That the report be received and forwarded to full Council for information.

**COUNCILLOR IAN WASON
CHAIRMAN OF THE AUDIT AND TRANSPARENCY COMMITTEE FOR
2020/21**

Background papers: None other than previously published Committee documents

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