

## **Audit Committee**

Tuesday 29<sup>th</sup> November 2016 at 7:00pm

**Present:** Councillors Murtagh (Chair), Khan, G Stafford, Murray, Sabiers and Conrad Bryan (Independent Member).

**In Attendance:** Ross Brown (Interim Director of Finance), Steve Lucas (KPMG), Stuart Brown & Olesya Chikina (PWC) Maria Campagna (Strategic Finance Partner - Corporate). Matthew Hopson (Finance Manager) Jeremy Welburn (Interim Head of Audit & Investigations) Bridget Uku (Treasury & Investments Manager) Gordon Williams (Democratic Services Officer)

**1. Apologies for Absence**

There were none.

**2. Urgent Matters**

There were none. (The meeting was preceded by a training session on Treasury Management delivered by David Whelan, Capita ).

**3. Matters to be Considered in Private**

Items 7 and 11 contained appendices with confidential information in them. By virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 but were not taken in private as it was not necessary to discuss the detail of confidential information provided.

**4. Declarations of Interest**

There were none.

**5. Minutes**

**Resolved:**

That the minutes of the meeting held on 28<sup>th</sup> July 2016 be agreed as a true and correct record.

**6. Any Matters Arising from the Minutes of the Last Meeting**

Members had been sent an action sheet addressing matters arising from the minutes.

Ross Brown reported that the information on reconciliations would be in the first quarterly report for the next meeting.

**7. Treasury Management Mid Year Update 2016/17**

Bridget Uku (Treasury & Investments Manager) introduced the report which outlined the council's borrowing and investment activities for the six months ending 30 September 2016. Due to the timing of the meetings cycle the Treasury position as at 30<sup>th</sup> June was attached as Appendix 3.

The report also provided information on the prevailing economic conditions over the reporting period.

She drew members' attention to the key messages from the report

- All treasury management activities were executed by authorised officers within the parameters agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list and within limit.
- Long-term borrowing of £40m from PWLB was raised during the period to 30 September 2016.
- The existing long term debt increased to £503,853, there was a PWLB maturity of £7.805m in period to 30 September 2016.
- The Council earned an average investment return of 0.502% on short term lending, outperforming the actual rolling average 7 Day LIBID rate of 0.283%.
- The Council currently holds no investments with overseas financial institutions.
- The HRA debt is managed separately from General Fund debt.

Ealing was now investing in money markets which produced a greater yield than debt management. Brexit had not adversely affected markets thus far but would be monitored closely.

Councillor Sabiers asked why investment in Lloyds had decreased. Bridget Uku stated that there was no special reason.

In response to a question from Councillor Murray, Bridget Uku explained that Borrowing and capital expenditure were not directly linked rather that interest rates were looked at. At the present time there was no need to borrow.

In response to a question from Conrad Bryan about the Capital Spend it was explained that the cash flow was different to earlier months because of collection of council tax and capital expenditure.

**Resolved:** That the Audit Committee

- 1.1 Notes the Treasury Management activities and performance against targets for the six months to 30 September 2016.
- 1.2 Notes the Council's investment balance of £195.932m as at 30 September 2016 of which £140.302m was invested in other Local Authorities (set out in Appendix 1).
- 1.3 Notes the Council's position on prudential indicators (set out in Appendix2).
- 1.4 Notes the Council's current lending list (set out in confidential Appendix 4).

## **8. Annual Audit Letter & Audit Progress Update**

Matt Hopson introduced the report. He advised members that the Council's external auditors, KPMG, had concluded their audit of the 2015/16 accounts and had prepared the Annual Audit Letter for the Council which was appended to this report (Appendix 1).

The Annual Audit Letter summarised the key findings from the audit of the 2015/16 Statement of Accounts and highlighted the fact that the Council received an unqualified opinion for its Statement of Accounts.

Steve Lucas (KPMG) reported that this effectively closed the annual accounts and he was happy to report that an unqualified opinion for Ealing's Statement of Accounts had been issued meaning that the accounts were free from material error. Additionally all claims had been certified

### **Resolved:**

- (i) that the Audit Committee notes the performance of the Internal Audit & Investigations team and key issues arising during the period 1 April – 30 June 2016.
- (ii) That the Audit Committee congratulates finance officers for their hard work and diligence

## **9. Changes to Arrangements for Appointment of Auditors**

Matt Hopson introduced the report which summarised the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

There were three options

### **1. To make a stand alone Appointment**

#### **Advantages-**

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

#### **Disadvantages-**

- There is a significant cost in using officer time for recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract. The set up costs are estimated by the LGA to equate in the order of £15,000 plus on going any expenses and allowances.
- There may be difficulties in recruiting eligible and appropriate panel members.

- The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts would be taken by independent appointees and not solely by elected members

This option is not recommended

## **2. Set up a Joint Auditor Panel/local joint procurement arrangements**

### **Advantages-**

- The costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

### **Disadvantages-**

- The decision making body would be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel chooses a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

This option is not recommended

## **3. Opt-in to a sector led body**

### **Advantages-**

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation
- Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- The appointment process would not be ceded to locally appointed independent members. It would instead be a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA has set up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

### **Disadvantages-**

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known. However early survey indications show over 50% of councils have declared in interest in joining the SLB

### **Option 3 is recommended**

As regulations dictate an external auditor must be appointed by the end of December in the preceding financial year, the Council has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

In response to a question from the Chair about how arrangements would work and whether the Sector led body would choose one auditor or a number of auditors Matt Hopson said that it would depend on the number of member authorities. Steve Lucas stated that it would be likely that a number of firms would be invited to tender. In the event of a conflict of interest a different firm could then be used. Maria Campagna said that a number of authorities had still to confirm opting in. It was envisaged that the fees charged would be lower given the scale of procurement.

The Chair asked what could be done if Ealing was not satisfied with the auditor provided. Maria Campagna stated that there was not an expectation that authorities would pull out but there would be appropriate procedures in place.

Steve Lucas explained why fees were now lower than before and stated that option 3 would enable negotiation of fees from a stronger position..

It was confirmed that this would ultimately be a decision by full Council.

Resolved:

That the Committee:

- Notes the new arrangements for appointing external auditors.
- Recommend Full Council accepts the Public Sector Audit Appointments'(PSAA) invitation to 'opt in' to the sector led body option for the appointment of external auditors for 5 financial years commencing 1 April 2018.

## **10. Quarter 2 Internal Audit & Investigation Update Report**

Jeremy Welburn introduced this report, providing Audit Committee with an update with an update on the work of Internal Audit & Investigations for Quarter 2, 1 April – 30 September 2016 (To date for internal audit work).

He referred members to appendix A in respect of Assurance Mapping and the table at para 4.9 which showed progress against the revised 2016/17 Audit Plan.

In response to a query about new risks coming to light as a result of the mapping it was explained that assurance mapping built on risk assessment and the key was to understand where the assurances were coming from. It was confirmed that Brexit was a new risk that was being monitored.

In response to a query from Councillor Sabiers about the Child Sexual Exploitation being removed as a risk it was confirmed that this was because there were assurances in place.

Jeremy Welburn reported further on Counter Fraud and Investigations performance.

Three Investigation Officers successfully qualified as accredited financial investigators. They had been able to utilise these skills and obtained 3 confiscation orders, which will ultimately result in monies being returned to Ealing Council. These officers were continuing to promote their work across the shared service, which will lead to more confiscations and recovery action (some in its entirety) against those that have been involved in criminal . Also Ealing Council will be part of the pilot for the London Counter Fraud Hub (LCFH). The LCFH will use data provided by local authorities and other sources to increase the detection and prevention of fraud across London, using advanced data analytics and matching systems. CIPFA has been awarded the contract to run the LCFH.

In response to a question from Councillor Stafford about internal fraud it was explained that the enhance vetting programme had proved very effective at preventing the wrong people obtaining positions in the council.

Resolved:

That the Audit Committee notes the performance of the Internal Audit & Investigation team and key issues arising during the period 1 April – 30 September 2016 (to date for the internal audit team).

## **11. Risk Management Performance Report Quarter 2016/17 and Risk Management Policy & Framework**

Jeremy Welburn introduced this report, providing Audit Committee with an Update in respect of the review of risks completed at the end of quarter 2 and details of recently updated Risk Management Policy and Framework,

Two new risks had been added.

CRC0081, concerned with the effectiveness of control over pressures on expenditure by all service lines which results in unfunded overspends requiring corporate funding to address (Appendix A page 1). Controls are being put in place but, until they are established, the residual rating of this risk remains High; and,

CAA0042, concerned with the potential budget shortfall caused by an unavoidable rise in demand for children's social care (Appendix A page 3). This risk remains High

In addition to the current strategic risks, Directorates monitor emerging risks that have the potential to be included in a future Strategic Risk Register. The uncertainty that still remains of the potential impacts on the Borough of the Brexit vote is one such emerging risk. Two impacts in particular, which are being seen nationally, may have consequences for the Borough and are worth noting:

- The fall in the value of the Pound against the Euro and the US Dollar:
  - is reportedly working its way through to higher prices which may have a future impact on council expenditure; but,
  - has had positive consequence for export companies causing the value of shares to rise. This will have positive impacts on the value of council, and particularly pension fund, investments.
- There has been a reported increase nationally in the amount of hate crime since the Brexit vote taking the form of not only physical and verbal abuse but also an increase in racial graffiti. Given its diversity of nationalities, it is unlikely that the Borough will be immune to such criminal activity.

**Resolved:**

that the Audit Committee:

- (i) Having reviewed the current Strategic Risk Register (Appendix A) is assured that it includes all appropriate strategic risks facing the Council and that all necessary and appropriate actions are being taken to safeguard the Council's business and reputation; and
- (ii) Notes the updated Risk Management Policy & Framework (Appendix C) which has recently been reviewed and approved by Corporate Board.

**11. Date of Next Meeting**

The next meeting is scheduled for 28<sup>th</sup> February 2016 at 7:00pm

The meeting ended at 8:00pm.

Councillor Tim Murtagh, Chair

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