

Audit Committee

Thursday 28th July 2016 at 7:00pm

Present: Councillors Murtagh (Chair), Seema Kumar, Murray, Sabiers and Conrad Bryan (Independent Member).

In Attendance: Steve Tinkler (Head of Audit & Investigation), Ross Brown (Interim Director of Finance), Steve Lucas (KPMG), Neil Thomas (KPMG), Maria Campagna (Strategic Finance Partner - Corporate). Gordon Williams (Democratic Services Officer)

1. Apologies for Absence

There were none .

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Items 7 and 9 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

Members identified corrections and amendments to be made to the minutes of the previous meeting held on 24th May 2016.

The Committee agreed that a question asked by Conrad Bryan about whether the risks associated with Brexit had been mitigated against, be included in the minutes

Resolved:

That, pending the above corrections, the minutes of the meeting held on 24th May 2016 be agreed as a true and correct record.

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

Councillor Murray asked whether the electrical and gas inspections referred to had been implemented. She stated that she had not received a clarifying note on the matter as promised.

It was agreed that points raised by members which required an answer prior to the next meeting be circulated to officers for action.

7. Treasury Management Outturn 2015/16

Maria Campagna (Strategic Finance Partner - Corporate) introduced the report which outlines the council's borrowing and investment activities for the financial year ending 31 March 2016. The report also provides information on the economic conditions prevailing in the final quarter of 2015/16.

She drew members' attention to the main points 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.
- There was no long-term borrowing raised during the year to 31 March 2016.
- Long term debt reduced from £484.128m to £471.384m as a result of the maturity of loans
- The council earned 0.565% on short term lending, outperforming the actual rolling average 7 Day LIBID rate of 0.372%.
- The council currently holds no investments with overseas financial institutions.
- The HRA debt is managed separately from General Fund debt.

The council's Treasury Management Strategy for 2015/16 was approved on the 24 February 2015 by Full council. The strategy comprehensively outlined how the treasury function would operate throughout the financial year 2015/16. Paragraph 3.1 sets out what the strategy covers.

The table at paragraph 5.13 set out investments held as at 31st March 2016. Appendix 1 gave the investments in Local Authorities in more detail.

The council continues to invest with a number of local authorities and is within its benchmark.

Appendix 2 detailed the prudential indicators providing the measures of affordability and prudence reflecting the council's Capital Expenditure, Debt and Treasury Management.

The confidential appendix (on gold paper) shows the approved lending list.

The Chair reminded members that there would be refresher training in November and Steve Tinkler added that there would be training for members across the shared service provided by PWC.

Councillor Sabiers asked whether the approved lending list might need to be adjusted to mitigate knock on effects of Brexit risk.

Maria Campagna stated that the lending list was reviewed annually and Brexit would be a consideration in terms of risk.

In response to a question on investments with Banks, Maria confirmed that all investments and lending were made in line with the Treasury Management Strategy.

In response to a question from Councillor Murray about the management of the Pension Fund Cash Flow it was confirmed that this is held separately from the council's cash to fund asset relocation.

Responding to a question from Conrad Bryan about borrowing, Ross Brown explained that this was to fund Capital needs. Capital expenditure was funded through debt (borrowing) although some funding had come through cash balances.

Ealing looked to secure long term low cost borrowing below capital finance replacement. These decisions were made by the Executive Director of Corporate together with Finance and Treasury officers.

Councillor Seema Kumar asked how the investments in local authorities were assessed. Ross Brown stated that a number of brokers were used who speak to investment partners who had been approached by Local Authorities needing money and Ealing invests prudently with those authorities, commensurate with the level of risk.

Resolved: That the Audit Committee

- 1.1 Notes the Treasury Management activities and performance against targets for the 12 months to 31 March 2016.
- 1.2 Notes the council's governance and reporting arrangements which is in line with CIPFA's best practice recommendations, as set out in paragraph 7.
- 1.3 Notes the council's investments in other Local Authorities as at 31 March 2016 (set out in Appendix 1).
- 1.4 Notes the Prudential indicators outturn for 2015/16 (set out in Appendix 2).
- 1.5 Notes the council's current lending list (set out in confidential Appendix 3).
- 1.6 Notes that the council continues to operate a dual Treasury Management strategy for managing the General Fund (GF) and the Housing Revenue Account (HRA) debt.
- 1.7 Notes the position on Pension Fund investments, since Pension Fund cash is being invested separately from the council.

8. Internal Audit & Investigation Update Report for Quarter One 2016

Steve Tinkler introduced the report which provides the Audit Committee with an update of the work of Internal Audit & Investigations for the period 1 April – 30 June 2016.

He reported that PriceWaterhouseCoopers (PWC) had been appointed as the new audit provider across the shared service. A key objective would be to continue to develop the quality of the internal audit process.

Steve Tinkler reported on the internal audit activity further as set out on pages 38 and 39 of the report:

Assurance Mapping

Assurance Mapping is a tool to ensure key risks are assured across an organisation – driving out gaps and overlaps in the assurance jigsaw and ensuring that audit work is aligned to the assurance requirement and audits focussed on the risks that matter. This will identify any gaps or duplication in the assurance framework leading to efficiencies.

Key Financial Controls

PWC would deliver a continuous monitoring programme focussing on key controls. Councillor Murray asked whether this would include bank reconciliations. Steve Tinkler said it could be designed to provide checks but that it was more systems driven. Conrad Bryan said that it would be helpful in providing assurances to Audit Committee if quarterly updates could be given on cash reconciliations.

IT Risk Diagnosis

There would be a series of internal workshops to look at the processes and controls in place and perform an assessment of controls maturity against a set of standard criteria defined within the PWC IT Risk Diagnostic toolkit.

Resolved:

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.

9. Risk Management Report – Quarter 1 2016/17

Steve Tinkler introduced this report, providing Audit Committee with an update in respect of the review of risks completed at the end of Q1 2016/17.

He drew members' attention to para 3.2.4 relating to the Brexit vote.

Though that vote has now occurred, there still remains much uncertainty regarding the sort of relationship the UK will have with the EU and consequently what the potential impacts could be for the Borough. In the immediate aftermath of the vote, falls in the value of shares and in the property market are, separately, exposing the Council to threat (with the fall in the value of Pension Fund investments) and providing the Council with opportunity (with the possibility of availability of more affordable accommodations). However, the outcomes of neither of these events are sufficiently advanced to enable them to be crystallised into specific risks for which, other than keeping a watching brief, mitigating actions are needed. Until there is greater clarity on the consequences of the Brexit vote for the Borough, all the potential impacts will be kept under review and any which are significant may be included in future Strategic Risk Register

A second emerging risk referred to at the last review concerned Academisation. Following the government's decision not to pursue this as a mandatory course of action for schools, this is no longer viewed as a potential strategic risk for the Borough.

Councillor Murray commented on the increase in hate crime since Brexit and asked whether the potential impact on the community should be on the Risk Register. Steve Tinkler stated that the Risk Register should reflect risk in the widest sense and that he would raise this issue with Corporate Board

Resolved:

That Audit Committee having considered 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.

10. Statement of Accounts 2015/16

Maria Campagna introduced the report for approval by the Audit Committee, including the 2015/16 Statement of Accounts together with the external audit report on these accounts (ISA260) prepared by KPMG, which is proposing to issue an unqualified opinion for the Statement of Accounts 2015/16.

The accounts provide details of the overall financial position in the Balance Sheet, details of the revenue activities for the General Fund, the Pension Fund, the Collection Fund, the Housing Revenue Account and the Annual Governance Statement (AGS).

Neil Thomas (KPMG) went through the Governance Statement summarising the headline messages in particular the key financial statements audit risks. Two additional risks had been identified.

- The valuation of land and buildings including council dwellings
- The valuation of the Pension liability

KPMG have worked with officers throughout the year to discuss these key risks and the detailed findings are reported in Section 3 of the report. There are no matters of significance arising as a result of audit work in these areas. He congratulated officers on their accelerated closedown timetable which puts the council in a strong position for the future

As required, he confirmed that KPMG had complied with the requirements on objectivity and independence. Additionally he confirmed that there were no significant VFM risks identified despite global and local pressures and it was anticipated that an unqualified VFM conclusion would be issued.

Members were referred to issues identified around bank reconciliation (page 77). Bank reconciliations are now being prepared and reviewed monthly

In conclusion , the Authority delivered to their accelerated closedown timetable this year. The draft Statement of Accounts were prepared and published four weeks before the draft statutory deadline and eight days earlier than last year. The draft Statement of Accounts and working papers were prepared to a good standard.

The Chair commented that the narrative statement in the Statement of Accounts was a change from previous years. Maria Campagna said that this was a government initiative to make the accounts more readable. The previous report covered much of the same information.

The Chair additionally noted that the Council's valuers had changed and asked whether this had led to changes in valuations.

Maria Campagna stated that this had not affected overall valuations as it had been counterbalanced within components.

In response to a further question from the chair relating to changes in the net assets it explained that this was due to a reduction in pension liability and a rise in the value of property, plant & equipment.

In response to a question from Conrad Bryan about the methodology of the accounting format in the table on page 112 it was explained that it was the difference in the application of accounting standards in the public sector.

Councillor Seema Kumar asked whether Audit Committee should be looking at contracts/tenders. Ross Brown stated that all contracts above a certain amount were referred to Cabinet but this could be looked at further.

The Chair proposed a vote of thanks to officers for their diligence in producing the accounts in advance of current statutory deadlines.

Resolved:

That Audit Committee having considered matters raised in the attached report by KPMG that provides an unqualified opinion for the Statement of Accounts (including Pension Fund Accounts) for 2015/16:

- 1.1 Notes the report to those charged with governance (ISA 260) for the London Borough of Ealing issued by the Council's external auditors, KPMG and any findings and management responses by Officers (Appendix 1).
- 1.2 Approves the audited Statement of Accounts for 2015/16 for the London Borough of Ealing and London Borough of Ealing Pension Fund (Appendix 2) and authorises the signing thereof by the Chair of the Audit Committee at its meeting.
- 1.3 Approves the Annual Governance Statement for 2015/16 (contained within the main Statement of Accounts pack at the rear of Appendix 2).
- 1.4 Approves the letters of representation (Appendix 3) and for them to be signed by the Chair of the Committee and the Executive Director of Corporate Resources.

- 1.5 Records a vote of thanks to officers for their efforts and hard work in producing the accounts in a timely fashion in advance of current statutory deadlines.

11. Date of Next Meeting

The next meeting is scheduled for 29th November 2016 at 7:00pm

The meeting ended at 8:00pm.

Councillor Tim Murtagh, Chair

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