

Audit Committee

Wednesday 28th November 2018 at 7:00 pm

Present: Councillors Murtagh (Chair), Manro, Sabiers, Young and Mr Tommy Hyun (Independent Person).

Ealing Officers: Ross Brown (Director of Finance), Maria Campagna (Head of Corporate Finance), Mike Pinder (Head of Audit and Investigations), Ewan Taylor (Audit and Risk Manager), and Janine Jenkinson (Democratic Services).

In Attendance: Mr Stuart Brown (PwC) and Mr Jonathan Gooding (Deloitte LLP)

1. Apologies for Absence

There were none.

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Agenda Items 6 and 10 contained information that was exempt from disclosure by virtue of Paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The information was not considered in private, as it was not necessary to discuss the details of the exempt information provided.

4. Declarations of Interest

Councillor Young declared that his son worked for Deloitte LLP, however he was not involved in the audit work undertaken on behalf of Ealing Council.

5. Minutes

It was noted on page 7 of the minutes that Councillor Sabiers had highlighted that the table in section 8.5 of the report did not indicate which body the Treasury Management Performance (Q3) report would be presented to. The Head of Corporate Finance informed Members that the report would be presented to the Audit Committee in March 2019.

Resolved: That the minutes of the meeting held on 25 July 2018 be agreed and signed by the Chair, as a true and correct record.

6. Treasury Management Mid-Year Update 2018-19

The Head of Corporate Finance provided an update on the Council's borrowing and investment activities for the quarter ending 30 September 2018.

Over the reporting period, all treasury management activities had been carried out in accordance with the approved limits. Members were provided with information regarding the prevailing economic conditions over the reporting period. The Head of Corporate Finance highlighted that on 2 August 2018 the Bank of England had raised interest rates to 0.75%.

Members' attention was drawn to the following key points:

- All treasury management activities had been executed by authorised officers within the parameters agreed by the Council.
- All investments had been made to counterparties on the Council's approved Counterparty Investment list and within approved limits.
- Long-term borrowing of £15 million from Public Works Loan Board (PWLB) was raised during the reporting period to 30 September 2018.
- The existing long term debt to fund capital expenditure had increased to £546.138 million due to an increased PWLB borrowing and the amounts held on behalf of the Mortlake Crematorium Board.
- The Council had earned an average investment return of 0.865% on short term investments, outperforming the rolling average 7 Day London Interbank Bid rate (LIBID) of 0.312%.
- The Council currently held no direct investments with overseas financial institutions, although these were held indirectly through the Council's Money Market Funds (MMF) exposure.
- The Housing Revenue Account debt was managed separately from the General Fund debt.

Councillor Manro asked if the Council's investment performance and approach to risk was comparable with other local authorities.

The Director of Finance explained that the Council's performance was not measured against the performance of other local authorities; rather it was measured against the universally accepted bench mark of the 7 Day LIBID rate. With regard to risk, he advised that the approach adopted reflected the authority's appetite and was calculated from an Ealing perspective. The Director of Finance agreed to ask Asset Link to provide a list of comparable local authorities.

Councillor Sabiers noted in section 5.14 of the report, that there were some changes to the rules around MMF's due in 2019, which would mean that the constant Net Asset Value (NAV) MMF which the Council currently invested in would no longer be available. He noted that there would be three types of funds, a Variable NAV, a public debt constant NAV and a Low Volatility NAV MMF, and asked which of the three options the Council was considering.

The Head of Corporate Finance said it was currently too early to indicate.

In relation to investments with other local authorities, listed in Appendix 1 of the report, Councillor Sabiers asked why the Council was investing for a term of 730 days.

The Head of Corporate Finance explained that the Treasury Management Strategy allowed for a maximum term of two years, so the investments were in-line with the Strategy.

In relation to the changes to the rules around MMF's due in 2019, Mr Hyun asked when further information would be available.

The Director of Finance advised that the Treasury Management Strategy would form part of the Budget report which would be presented to Cabinet on 12 February 2019 and would then be submitted to Full Council on 26 February 2019 for approval.

Resolved: The Audit Committee noted:

- I. the Treasury Management activities and performance against targets for the period to 30 September 2018;**
- II. the Council's investment balance of £131.410 million as at 30 September 2018 of which £81.00 million was invested in other local authorities, as set out in Appendix 1 of the report; and**
- III. the Council's counterparty investment list, as set out in the confidential Appendix 3 of the report.**

7. Annual Audit Letter and Progress Report (KPMG)

The Head of Corporate Finance introduced the report, which presented the Council's external auditors Annual Audit Letter 2017-18 and an External Audit Update Report.

Members noted the following key findings of the Annual Audit Letter 2017-18:

- Unqualified opinion on both the Council's and the Pension Fund's Statement of Accounts for the year ended 31 March 2018.
- The Audit Certificate could not be formally concluded due to the outstanding query received from a local elector relating to 2016-17, which was being considered by the auditors.
- The Council's Whole of Government Accounts pack was considered consistent with audited financial statements.
- Unqualified conclusion on the Council's arrangements to secure Value for Money for 2017-18.
- No high priority recommendations from the 2017-18 audit work had been raised.

The Head of Corporate Finance reported that the final decision of the auditors regarding the objection raised by a local elector was due to be issued in December 2018.

Members' attention was drawn to the key points of the Update Report set out on page 48 of the agenda.

Mr Hyun asked if officers were aware of the auditors provisional decision regarding the objection raised.

The Director of Finance explained that officers did not know at this stage what the auditors' final decision would be.

Resolved: The Audit Committee noted:

- I. the external auditors' Annual Audit Letter in respect of the 2017-18 audit of the Statement of Accounts, as set out in Appendix 1 of the report; and**
- II. the External Audit Update Report, as set out in Appendix 2 of the report.**

8. Public Sector Audit Arrangements Update – reporting Accountant Appointment

The Head of Corporate Finance introduced a report, which informed the Committee that the Executive Director of Corporate Resources intended under his delegated authority, to approve the appointment of Deloitte LLP, as the Council's Reporting Accountant for a period of five years for the following: Housing Benefit Subsidy Audit; Teachers' Pension Return Certification; and Housing Capital Receipts Pooling Return Certification.

The Head of Corporate Finance introduced Mr Jonathan Gooding to the Committee. Mr Gooding advised that the timetable of work would follow that of previous years, with the final audits being completed in June/July 2019. He explained that a review of areas of significant risk would be undertaken and Deloitte would review KPMG's audit reports. Files from KPMG had already been requested and a meeting with KPMG auditors would be arranged.

Councillor Manro asked what arrangements were in place with the outgoing auditors, KPMG, to ensure a smooth transition period.

Mr Gooding explained that contractual terms required the outgoing auditor to provide the incoming auditor access to past audit records. He said there was a professional courtesy in transferring a contract to another auditor.

Councillor Sabiers noted in section 4.1 of the report that Deloitte's fees were currently being confirmed and were expected to be in-line with the fees charged by KPMG. He asked how likely it was that the fee would alter.

Mr Gooding explained that the fee was based on the level of work undertaken, and if audit errors were discovered the fee may be adjusted, although he anticipated the fee would be similar to that of the previous year.

The Head of Corporate Finance noted an omission on page 36 of the report in relation to Certification of Grant Claims fee, which did not include the Housing Benefit Subsidy certification fees, she reported that this would be rectified and reflected in future reports.

Resolved: That the Audit Committee noted the planned appointment of Deloitte LLP as the Council's Reporting Accountant for a period of five years for the following, commencing with the returns for 2018/19:

- **Housing Benefit Subsidy audit;**
- **Teachers' Pension Return Certification; and**
- **Housing Capital Receipts Pooling Return Certification.**

9. Head of Internal Audit 2018-19 Quarter 2 Internal Audit and Investigation Update Report

The Head of Audit and Investigations presented a report which provided an update on the work of Internal Audit and Investigations for Quarter 2, 1 July 2018 – 30 September 2018.

Members noted that during the period there had been six 2018-19 final reports issued. One of the final reports (cashiers) had a Limited Assurance opinion, as a high risk finding had been identified, whereby the daily counting and reconciling of cash received through the cashiers kiosk was typically performed by one individual, with no secondary review or signatory to observe the cash count. Members were informed that action had already been taken to address and mitigate this finding.

The Head of Audit and Investigations highlighted that a proactive tenancy drive had taken place in Quarter 2 2018-19 at Racecourse Estate. He reported that the Anti-Fraud Team had visited 105 properties and the outcomes were: 65 properties were verified; 38 revisits required, 2 potential sublet properties were identified and 1 referral had been made to the Department for Work and Pensions.

Members were informed that overall, good progress was being made against targets, the exception being the court ordered confiscation or compensation as a result of proceeds of crime work. Work was in progress on a number of cases, which would enable to team to meet the in-year target.

Councillor Manro asked about the management response in relation to cashiers high risk finding. In addition, he asked when the service had last been audited.

The Head of Audit and Investigations explained that sometimes behaviours slipped, particularly if the officer was an established and trusted member of staff. He agreed to find out when the last audit had been undertaken and to report this back to the Committee.

Councillor Sabiers commended the excellent work that had been undertaken by the Anti-Fraud Team. On behalf of the Committee, he asked that officers be congratulated for their good work.

Mr Hyun noted that the Workforce Planning audit had been carried over from 2017-18 and asked when the review would be completed.

The Head of Audit and Investigations explained that Human Resources had been reviewing its processes, and to optimise the value of the audit it had been agreed to delay the review until the new processes were in place.

Resolved: The Audit Committee noted the performance of the Internal Audit and Investigation Team and the key issues arising during the period 1 July 2018 – 30 September 2018.

10. Risk Management Performance Report – Quarter 2 2018-19

The Head of Audit and Investigations provided the Committee with an update of the review by Corporate Board of strategic risks facing the Council as at the end of Quarter 2, 2018 -19.

Members were informed that the current Strategic Risk Register (SRR) contained 17 risks, the total number of risks had remained the same during the quarter and there had been no changes to the residual risk ratings since the end of Quarter 4 2017-18. Five of the Strategic Risks control measure comments had been updated to reflect the current position; however, the risk scores remained unchanged since the last quarter.

The residual risk scores and medium risk ratings of 12 of the remaining 15 strategic risks were unchanged. In most cases actions were being taken by services to develop or enhance the control measures to mitigate the risks or the risks were being addressed as part of the Future Ealing Programme.

Members were informed that Brexit was currently undergoing a more quantified review, following a paper which had been considered by Corporate Board. An update to reflect this would be provided in the next Quarter 3 report.

Councillor Young queried why a risk relating to the Council's decision to establish a trading company to deliver environmental services did not appear on the SRR. The Head of Audit and Investigations reported that he would highlight this to Corporate Board and include the risk in future reports.

The Director of Finance explained that the company had not yet been formally constituted. A working group was currently considering the terms of reference for the company.

Councillor Sabiers explained that further details would be available at the next Audit Committee meeting.

Mr Hyun asked how targets were set and if Internal Audit was comfortable with the ratings of each risk identified.

The Head of Audit and Investigations reported that in three instances, although the ongoing controls being exercised by the service did not mitigate the residual risk to a below medium rating, no further cost effective enhancements to controls could be developed. In these circumstances, Corporate Board had agreed to tolerate the medium level risk rating. He explained that the risks were regularly revisited to ensure all possible measures were being taken to mitigate the risks.

In relation to CHR0002 – Recruitment and Retention Councillor Young noted that the review of pay scales for hard to fill posts had been due for completion by May 2018. He asked if the review had been completed.

The Director of Finance reported that the review had not yet been completed. The Head of Audit and Investigation agreed to provide an update regarding the risk at the next Committee meeting.

Councillor Manro highlighted the difficulty of recruiting planning officers.

With regard to TSR000 Councillor Sabiers asked how robust the calculations were in relation to the projected number of primary and secondary school places needed in the borough.

The Head of Audit and Investigations said he would challenge the relevant officers with this query and report the response back at the next Committee meeting.

Resolved: The Audit Committee considered the current Strategic Risk Register, as set out in Appendix A of the report, and subject to the inclusion of an update in relation to CHR0002 – Recruitment and Retention being presented at the next meeting, was assured that it included all appropriate strategic risks facing the Council and that all necessary and appropriate actions were being taken to safeguard the Council's business and reputation.

11. Date of Next Meeting

The next meeting was scheduled to be held on 6 March 2019 at 7.00 pm.

The meeting ended at 7.50 pm.

Councillor Tim Murtagh, Chair
