

AUDIT COMMITTEE

Wednesday 19 September 2013 at 7.00pm

PRESENT: Councillors Murtagh (Chair), Ahmed (for Sabiers), Cowing, Langan, Potts, and Conrad Bryan (Independent Member).

Following introductions

1. Apologies for Absence

There were none

2. Urgent Matters

There were none

3. Matters to be Considered in Private

Items 8 and 11 contained confidential appendices. Whilst members took these in private it was not necessary to discuss confidential details within the reports.

4. Declarations of Interest

There were none.

5. Minutes of the Last Meeting

Resolved:

Following amendment to correct the spelling of Conrad Bryan's name, that the minutes of the meeting held on 27 June 2013 be agreed and signed as a true and correct record.

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

There were no matters arising.

7. Audit Committee Consideration of the Council's Annual Statement of Accounts

Ian O'Donnell, Executive Director, Corporate Services introduced the report which pertained to the 2012/13 annual Statement of Final Accounts together with the external audit report on these accounts (the Annual Governance Reports) prepared by KPMG which is proposing to issue an unqualified opinion on these accounts. He commented that this had been a huge undertaking involving complex processes and the finance team had worked extremely hard. He also thanked the auditors in advance of their presentation

Maria Christofi, Director of Finance, referred members to the recommendations stating that there was one small adjustment and one small issue with regard to the establishment of a separate bank account for Pension Fund monies. The report recognised the hard work of the team. Accounts had been prepared under the CIPFA code of practice. In summary, the Council's current financial position was strong.

Tony Crawley, Director KPMG, referred members to the Governance report and explained the framework which was similar to that used previously by the Audit Commission.

Section 2 summarised the headline messages. Tony Crawley highlighted some of these.

Proposed Audit Opinion – It was proposed to issue an unqualified audit opinion by 30 September. At the present time an objection has been received from a member of the public and the audit certificate cannot be issued until the potential impact of the objection had been considered.

Audit Adjustments – The financial statements did not identify any material adjustments.

Accounts Production and Audit Process – The Authority has good processes in place for the production of the financial statements and produces good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

VFM Conclusion - We expect to conclude that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2013. This is also subject to consideration of any objection to the financial statements.

Audit Certificate - An individual representing a resident is currently exercising his right to inspect the 2012/13 financial statements and Ealing officers are assisting him with his enquiries. The individual has now made an objection and we now need to consider the potential impact of the objection before an Audit Certificate is issued.

Pages 6 and 7 of the report sets out the findings relating to the key risks and page 9 referred to the declaration of independence. Letters of representation were awaiting to be signed by the Chair of the Committee and the Executive Director of Corporate Resources.

Pension Fund. Tony Crawley, Director KPMG, referred members to the Governance report Page 3 summarised the headline messages.

It was anticipated that an unqualified audit opinion would be issued and the audit did not identify any required adjustments. The Authority has good processes in place and good quality supporting working papers. Controls over the Fund's key financial systems are sound – one recommendation has been raised which is outlined in appendix 1.

This relates to the requirement for a separate bank account for all monies held. Although a separate bank account has been set up for the Fund, it is not used for all transactions and cash is still held within the Council's bank account. The Council are aware of this and have offered their reasoning for this decision. This will not be raised by KPMG again.

Page 6 refers to a declaration of independence details of which are set out in appendix 3

Councillor Potts noted that officers had been recognised for their work on fraud in December 2012. He commented that the last paragraph in the foreword to the accounts on page 3 on pensions needed clarity. Ian O'Donnell stated that it was sometimes difficult to provide a simplistic explanation of complex issues. Maria Christofi said that explanations would be simplified for next year.

In response to a further question from Councillor Potts about ringfenced balances on page 4 of the foreword Ian O'Donnell stated that the council had no control over school finances but it made sense to include information about them

Conrad Bryan asked for more information on the pension investment strategy. Ian O'Donnell explained that this was the strategy adopted by the Pension Fund Panel to address pension fund liabilities within a specified period. The strategy was developed in conjunction with actuaries who reviewed it every three years. Recently the Pension Fund Panel had agreed to place a proportion of funds in a property investment portfolio.

In response to a further question about the comparatively high interest rates for PFI, Ian O'Donnell said that the rates were higher because of the lower rates of return. PFI credits were received from Government but this then locked the council into the scheme. The BSF scheme was PFI led.

Maria Christofi added that there had been a big push from Government with accompanying benefits but the PFI credits were no longer available.

Councillor Cowing asked about the objection from a member of the public. Tony Crawley said that it was to do with car parking contracts and an issue had been raised with a number of London Boroughs. The objection had only just been received and KPMG were awaiting details of the context of the complaint and appropriate guidance on legal issues.

The Chair commented that it had been a very positive report overall and congratulated officers.

Resolved: That the Audit Committee

- i.) Approves the audited Statement of Accounts for 2012/13 for the London Borough of Ealing and London Borough of Ealing Pension Fund (Appendix 1) and authorises the signing thereof by the Chair of the meeting on 19th September.
- ii.) Authorises the Executive Director of Corporate Resources following consultation with the Audit Committee Chair/vice chair to make any final amendments to the Accounts arising from the external audit prior to the signing of the accounts by the external auditor by 30 September 2013.
- iii.) Approves the Annual Governance Statement for 2012/13 (Appendix 1).
- iv.) Considers the Reports to those charged with governance (International Standard of Auditing 260 (ISA 260)) 2012/13 for the London Borough of Ealing and the London Borough of Ealing Pension Fund issued by the Council's external auditors, KPMG and any findings and adjustments (Appendices 2 & 3).
- v.) Approves the letters of representation and for them to be signed by the Chair of the Committee and the Executive Director of Corporate Resources.
- vi.) Agrees the responses to the proposed action plan including the response to the audit of the Pension Plan.

8. Treasury Management Quarter 1 Update 2013/14

Nigel Watson Assistant Director of Corporate Finance, introduced the report which provided the regular quarterly update on the Council's borrowing and investment activities, for the first quarter of 2013/14 ending 30 June 2013.

Members' attention was drawn to the summary which set out the main points from the report

- All treasury management activities were effected by authorised officers within the limits agreed by the Council.
- All investments were made to counterparties within the Council's approved ending list.
- The Council's remaining investment of £407k (with Glitnir Bank) which is held in an Icelandic escrow has now increased in value to £407k and continues to earn interest at 4.2%.
- There was no long-term borrowing raised so far this year.
- Long term debt was reduced from £501.7M to £494.9M.
- The Council earned 0.555% on its lending, outperforming the actual rolling average 7 Day libid rate of 0.363%.
- The Council currently holds no investments with overseas financial institutions (apart from the balance of £407K retained in Iceland).
- The HRA debt is being managed separately from General Fund debt.

Referring to the economic background, over the quarter ending 30th June 2013

- The UK economy grew 0.7%, up from 1.5% in the same quarter last year;
- There was stronger household spending, both on and off the high street;
- Inflation remained above the MPC's 2% target;
- The MPC was in a state of flux ahead of Mark Carney's arrival as the Bank of England Governor in July;
- 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
- The Federal Reserve discussed paring the pace of asset purchases under Quantitative Easing 3 (QE3).

Over the 3 months to 30th June there was no temporary borrowing required. The table at 5.9 outlined the investments held at 30th June. Councillor Langan commented that a lot of money was deposited with Local Authorities and felt that there should be more detail about which authorities the money was invested with. Ian O'Donnell stated that it may be possible to provide a snapshot/sample in the report as there were about 20 local authorities invested with

In response to a question from Councillor Cowing it was confirmed that monies invested in Glitnir were still being held in an escrow account.

Ian O'Donnell asked the committee if they would still wish to continue receiving Treasury Management reports as it was not the role of Audit Committee to routinely monitor day to day activities in this area. He stated that regular reports are submitted to Cabinet.

Councillor Cowing stated that the Audit Commission had recommended that these reports come to Audit Committee as best practice. Conrad Bryant queried whether other committees might have the right structure to deal with this. Councillor Potts added that the Audit Committee was bi partisan

Resolved that the Audit Committee:

- i.) Note the Treasury Management activities and performance against target for the first quarter to 30 June 2013.
- ii.) Note the Council's current governance and reporting arrangements in line with CIPFA's best practice recommendations, as set out in paragraph 7.
- iii.) Note the Council's current lending list (set out in confidential Appendix 1);
- iv.) Note that the Council continues to operate a dual Treasury Management strategy for managing the General Fund (GF) and the Housing Revenue Account (HRA) debt.
- v.) Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the Council.
- vi.) Note the update on the Council's deposit retained in an Icelandic escrow account.

9. **Internal Audit Performance Report Q2 2012/13**

John Allsop Audit & Risk Manager introduced the item which reported on the work of Internal Audit for the period from 1st April 2013 to 31 August 2013.

The current audit plan consists of 118 audits which include 11 ICT audits, 11 Key Financial System reviews/ follow ups and 43 audits/follow ups within schools.

- The 3 audits which received 'Limited Assurance' all relate to schools.
- 3% of reports received 'limited assurance' and at this stage in 2012/13, the corresponding figure was 6%. This constitutes a 50% drop in 'limited assurance' reports issued in the period.

102 (129-27) reports were delivered in total of which 25 were issued with a 'limited assurance' opinion. A breakdown of these audits was reported to the Committee at the previous meeting.

Also set out below is a summary of the number of Priority 1 & Priority 2 recommendations made as part of the 2012/13 Plan. The current status of recommendations is 'Proposed' and follow up work to substantiate the implementation position is in progress. A detailed analysis can be found at Appendix B.

With regard to the 5 P1 recommendations which are 'Partially Implemented', work is ongoing in each case to fully implement the recommendations.

Referring to the Trend Analysis, key concerns related to

- Financial (34%) - Failure to perform reconciliations.
- Performance Management (26%) - Failure to follow agreed policies and procedures.
- Technological (13%) – Systems access and security settings.

- Contractual/Partnership (11%) – Non-compliance with agreed contract terms.

This information will be used to aid the targeting of resources, including training, to those areas of potential weakness.

In 2013/14, Internal Audit will carry out 43 reviews within schools as follows:

- 27 schools will be subject to a Probity audit.
- 10 schools (those with 'Limited Assurance') will be subject to follow up.
- 6 schools with limited assurance from the previous year will be followed up

Referring to the 3 Primary schools with 'Limited Assurance', issues were raised in relation to Value for Money Procurement, Asset Management and Bank Reconciliations.

Post 16/19 Education Funding Audits

Since 1 April 2010, the Council took over responsibility for commissioning and funding 'further education' services. As such, the Council is required to provide assurance that public money expended on Post 16/19 Education is used in accordance with the principles of regularity and propriety. Therefore, the aim of the funding audits is to substantiate learner existence/eligibility and to confirm that the submitted funding claim is not overstated and is supported by appropriate documentation.

All 8 schools in the Borough with Post 16-19 provision were audited in 2012/13 and two schools received 'Limited Assurance'. These two schools were subject to an extended follow up in 2013/14 and each received 'substantial assurance'.

Schools BACS

As previously reported to Committee, the Council successfully developed the use of BACS payments to suppliers. This method was introduced following a high level of cheque fraud when schools were transacting cheque payments to suppliers.

All schools now have access to this facility and currently 6 schools are using BACS on a daily basis, 6 others are awaiting sign off from the bank and 3 schools have registered an interest in the process.

Commentary

- All 10 schools with a 'Limited Assurance' opinion are currently being followed up.
- In addition, 6 follows ups delayed from the previous year, due to the Headteacher/Finance Officer not being in post, are also being followed up.

Head of Audit & Investigation (HAI)

The HAI resigned his position at the Council in late July 2013 and his duties are being fully covered within the Service until a new Head is appointed. The Council has commenced a comprehensive recruitment campaign and interim arrangements are to be announced in due course.

Audit Board

At the Audit Board meeting held on 21st August 2013, reports were submitted in relation to:

- Internal Audit Q2 Performance Report.
- Risk Management Q2 Performance Report and the Council's Strategic Risk Register
- Counter Fraud & Investigations Performance Report.

Members were referred to the commentary on the internal Audit Plan Performance in appendix A and the detailed analysis of performance in appendix B

Councillor Potts asked whether the limited assurance issues relating to schools could be due to the increased responsibilities of the school finance officers. John Allsop stated that this was partly the case. The Government was introducing a new position of School Business Manager in order to professionalise the role and hence raise standards.

Resolved: that the Audit Committee:

Note Internal Audit's performance and key issues arising during the period 1st April 2013 - 31 August 2013. (Appendix A)

10. Counter fraud, intelligence and investigation report to August 2013

John Allsop Audit & Risk Manager introduced the item and selected some of the headlines concentrates specifically on identifying and targeting the use of false identities to claim benefits.

Operation Rapport

- Result of Operation Rapport 1 has been previously reported to the Committee and Operation Rapport 2 commenced in January 2013. The second operation commenced as Intelligence suggested that fraudsters had changed their fraud profile.
- To date 49 claims have been identified as high risk and of these, 2 cases have resulted in fraudulent overpayments of £112 661.75.
- A new process to suspend suspect claims and reduce the amount of benefit paid is being discussed with the Adjudication Team.
- In order to progress Operation Rapport we are obtaining working contacts in the French, Portuguese and Italian Embassies. Effective liaison has already been established with the Home Office Forgery Team.

Document ID Checker

Audit and Investigation has piloted the use of an ID Document Checker which is used to scan passports and driving licences producing immediate real time verification on the validity of the documents. The results are displayed using a RAG system. The Council has two ID scanners and training is being rolled out to relevant teams and officers.

Three documents have been identified as suspicious and further checks are being undertaken.

Blue Badge

Five cases involving Blue Badge misuse were referred to Audit & Investigation between April and August 2013. Two cases were prosecuted, resulting in a suspended custodial sentence and a fine.

CIFAS

This is a Staff Fraud Database (SFD) and is a data-sharing agreement that enables responsible employers to file proven cases of staff fraud in order to prevent the perpetrator moving unchallenged to a new employer to commit further fraud.

Data Matching

Tenancy details for the Councils 13,000 properties were submitted to a private sector provider and matched against a number of data sources to provide a financial footprint. Up to 31st March 2013 eight properties were recovered as a result of this exercise. The matching exercise has been repeated for 2013/14 and results will be reported to future Audit Committees.

Track a Fraudster

Audit and Investigation proposed an initiative to match data across a number of West London boroughs. The initiative will result in a database of information relating to Housing Benefit, Tenancies and Waiting Lists. This will allow the comparison of information provided by individuals to neighbouring boroughs and enable a check across those boroughs.

Housing Fraud

Housing Fraud Steering Group comprising officers from Audit and Investigation and from Housing continues to meet. The Steering Group provides a strategic overview of Housing Fraud in the Council and tackles operational issues as and when escalated. This ensures best use of resources and the targeting of high risk areas.

Since April 2013, 9 Council properties have been recovered with 6 cases being prosecuted as set out in the report.

National Fraud Initiative (NFI)

The NFI data matching is carried out every two years. The current exercise used data related to 2012 and was submitted in October 2012. The matches have been analysed and the results were received in February 2013 and these are set out at Appendix B.

Enhanced Vetting (EV)

Ealing has a risk assessed process of EV for new recruits into sensitive posts. This is for both permanent and temporary staff and involves stringent checks to verify the validity of a candidate and their employment application. Reasons for failure have included false identity and counterfeit documentation, false qualifications & work history and benefit fraud.

EV now covers all Council departments and both temporary and permanent staff. The Vetting Officer has also been working with HR to ensure that EV is embedded into the process for interim and consultant recruitment.

Single Fraud Investigation Service (SFIS)

SFIS is initially a partnership between DWP, HMRC and LAs. National rollout is due to commence during 2014/15 with staff remaining employed by their current employer. If SFIS moves to a single employer at a later stage then consideration in respect of TUPE will be applied.

The Chair reported that the Enhanced Vetting scheme was highly regarded. The Audit & Investigation team had been invited to conferences to share their experiences.

Ian O'Donnell reported that 5% of successful permanent candidates had not taken up their post because of this and for agency staff the figure was higher at 10%. It was difficult to gauge potential savings and risk reduction achieved.

Councillor Potts expressed concerns that some private sector firms were not observing the law with regard to data protection. John Allsop confirmed that legal advice was sought whenever Council data was provided to external organisations for the purposes of data matching..

Resolved: That the Audit Committee

for the 5 month period 1st April – 31st August 2013, Audit Committee:

- i) Notes the work undertaken by the Counter Fraud, Intelligence and Investigation team.
- ii) Reviews team performance during the same period. (Appendix A)

11. Risk Management Performance Report Quarter 1 2013/14

John Allsop, Senior Auditor, introduced the item taking members through the headlines relating to the following paragraphs.

Contracts Register

The Risk Management software (JCAD) has been further developed to enable migration of the Council's contracts. Following the same principles as the risk register framework, contract registers will be maintained at a service level and escalated to the Directorate and the Strategic Contracts Register (SCR) as appropriate. The specific criteria for escalation will be agreed by the Procurement Strategy Board at its next meeting.

Bespoke contract register reports have also been developed as has a pilot program for the migration of the contracts onto JCAD. Corporate Resources and E&CS now have their contracts migrated and the other Directorates will follow in due course. As such this initiative is still very much 'work in progress'.

JCAD, which increasingly represents the Council's Risk Universe, is now the single repository and monitoring/reporting tool for the organisation's:

- Risk Registers including the Strategic Risk Register.
- Internal Audit reports and all recommendations.
- Critical Service Business Continuity Plan Risks.
- Contract Registers and Strategic Contracts Register.

Staff Training & Development

Training on the fundamental principles of Risk Management took place on 10 July 2013. Feedback from the course was very good with an average satisfactory rating of 4 out of 5.

Also Gallagher Basset, the Council's Insurers, will provide training on the Essentials of Enterprise Risk Management (ERM). ERM is an advanced risk methodology which can add significant value by promoting holistic and coordinated risk management activities across the organisation and thus a developed consensus regarding risk priorities.

Corporate Risk Management Forum (CRMF)

CRMF met on the 21 August 2013 and considered reports in relation to:

- Progress of the Council's Risk Management Framework.
- Insurance Update
- BCP Update
- Contract Register Update
- The current status of the Council's Strategic Risk Register

Strategic Risk Register

The table at para 3.6.1 summarises the movement in the SRR since it was last reported to Audit Committee. Appendix B sets out the SRR in detail.

Having considered the SRR in detail on a risk by risk basis, CRMF concluded that there were no changes to the Register this period.

There are a number of risks that have financial implications and these are articulated and managed through JCAD.

Members were referred to the relevant appendices including the confidential strategic risk register

Resolved: That the Audit Committee note

- i.) Progress of the Council's Risk Management Framework.
- ii.) The Strategic Risk Register (Appendix B) to assure itself that sufficient and appropriate actions are being undertaken to safeguard the Council's business and reputation.

12. Warren Farm – Decision to enter into Development Agreement with Queens Park Rangers

Conrad Bryan commented on the recent decision to enter into a Development Agreement with QPR relating to Warren Farm. He believed it was the responsibility for the Audit Committee to ensure there are robust financial and governance processes in place to safeguard the assets of the council, which includes processes around asset disposals.

He had become aware of reports by Brent River Canal that the Council is in the process of selling Warren Farm and that this may be at a deep discount to market value. Having received the valuation report dated 30 July 2013 from the Council to check this allegation he was concerned that the report does not refer to or reflect the fact that planning permission had already been granted for a professional football training ground complex and no reference has been made to the rental value of sites used for the purposes of a professional football training ground.

In the light of this he asked whether the Council can give assurances to the Audit Committee that all governance and control processes around safeguarding assets are robust and properly functioning with respect to this transaction and all asset disposals, including the internal review or verification of asset valuations."

The Chair responded setting out the following points:

The decision was taken on 7th August to enter into a development agreement with the preferred bidder on Warren Farm. The decision and paperwork relating to it was publicised in advance on the council's website, in full compliance with legal requirements.

The Warren Farm project does not fall within the remit of the Audit Committee, [ie. in the absence of any reasonable grounds for believing that the project has led to a problem with the council's assurance statements]. The appropriate committee to examine and review the Warren Farm decision is the Overview and Scrutiny Committee. OSC did in fact review the Warren Farm project decision in detail (including the confidential paperwork) at its meeting on 15th August 2013. OSC on 15th August held a long debate on the issue. Members of the public were able to participate in the OSC debate, and did so. OSC minutes (available on the council's website) include the following:

"..the key reason for the call-in was for the Committee to examine the financial aspects of the development agreement, and discuss the details of the agreement at length. ... The Chair said that he was satisfied the Committee had done so, and that the financial aspects of the agreement are in order, therefore he was proposing that the committee ... uphold the decision ... The committee unanimously agreed the Chair's proposal".

The Warren Farm site was professionally valued by the council's external property advisors (Cushman and Wakefield), who produced a full report on the value of the site. C&W certified that the value being obtained represents the best that can reasonably be obtained. Council officers are satisfied that the C&W report is comprehensive and OSC, having seen the confidential valuation report, expressed no dissatisfaction with it. The selection of QPR as preferred bidder was made following an open and competitive selection process.

In response to an earlier email received from Conrad Bryan the chair confirmed that neither the law nor best practice guidance suggests that Audit Committee members cannot also be members of any other particular council committees. This reflects the role and purpose of Audit Committee, and in particular that the role of Audit Committee is not to scrutinise the decisions of other council committees.

The law does specify that members of cabinet may not also be members of OSC. This legal requirement reflects the work of OSC, and the fact that OSC is the appropriate body to scrutinise council decisions.

Confidential papers of another committee are not normally provided to members (including independent members) of other committees, save where those other members properly need to see them as part of the business of that other committee. This is why it would not be appropriate for confidential papers on Warren Farm to be provided to Audit Committee members.

13. Date of the Next Meeting

Members noted that the next meeting was scheduled for 23rd January 2014

COUNCILLOR Tim Murtagh, Chairman

The meeting ended at 8.45pm