Audit Committee

Wednesday 25th July 2018 at 7:00 pm

Present: Councillors Murtagh (Chair), Manro, Sabiers, and Young.

In Attendance: Ross Brown (Director of Finance), Pat Main (Interim Head of Corporate Finance), Mike Pinder (Head of Audit and Investigations), Tim Hooper, (PwC), Steve Lucas (KPMG), Neil Thomas (KPMG), and Janine Jenkinson (Democratic Services).

1. Apologies for Absence

An apology for absence had been received in advance of the meeting from Councillor Tomlinson.

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Agenda Items 6, 8, and 9 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

There were none.

5. Minutes

In relation to Item 6 – Draft Annual Governance Statement 2017/18, Councillor Sabiers thanked the Head of Audit and Investigations for the further information provided regarding the Council Owned Companies Governance Board Action Plan. Members were advised that additional information would be reported in due course.

In relation to the recruitment of an Independent Member, the Head of Audit and Investigations explained that he would be short listing, and then writing out to candidates imminently, to invite them to interview. It was anticipated that an Independent Member would be in place for the next meeting.

Resolved: That the minutes of the meeting held on 30th May 2018 be agreed and signed by the Chair, as a true and correct record.

6. Risk Management Performance Report – Quarter 1 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 1, 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.

Strategic risks ISR0008 (Budgetary Management and Control) and ISR0010 (Organisational Resilience) had been assessed as having ‘high’ residual risk; the risk control measure comments had been updated on the SRR 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 also 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.

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 previously agreed to tolerate the medium level risk rating and these had been reviewed at the Corporate Board meeting held on 26th June 2018.

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 ask if the risk should be added.

Councillor Manro noted that additional funding to meet demand pressures had been allocated to Adults’ Services and Public Health as part of the 2017/18 budget. However, at the Cabinet meeting held in July 2018, it had been reported that the department was projected to have a significant budget overspend of £6.900 million. He asked why the over spend had occurred.

The Director of Finance explained that the over spend related to adult social care pressures, mainly due to placement expenditure. In addition, he reported that potential pressures had been forecast for Children’s and Schools Services, due to the academisation of two schools in-year, with deficit balances, that would be transferred to the Council, and High Needs Block pressure relating to Special Educational Needs placements.

Councillor Manro sought reassurance that the Council had set a realistic budget.

The Director of Finance reported that as part of setting the 2018/19 budget, the Council had recognised the cost pressures in Adult Social Care and Children’s Services and had built in growth to the budgets, including £19.5 million for Adult Social Care and £9.5 million in Children’s Services.

The Council was taking actions to monitor the position; including reviewing saving plans to remove those previously agreed that were unlikely to be delivered. In addition, the Council's Better Lives Programme aimed at addressing the increasing demand on services.

With regard to the Council's saving plan for 2018/19, members were advised that at the end of month 2, of the savings target of £16.2 million for 2018/19, £6.6 million in savings had been achieved from a target of £16.2 million over the course of 2018/19, £0.7 million was now red risk rated and the remainder of targets were on course.

Resolved: The Audit Committee considered the current Strategic Risk Register, as set out in Appendix A of the report, and 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.

7. Head of Internal Audit 2018-19 Quarter 1 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 1 1 April 2018-30 June 2018.

Members noted that the six reports outstanding at the end of 2017/18 had now been finalised and a summary was provided at section 4.3 of the report.

One of the final reports (Deprivation of Liberties) had a 'Limited Assurance' opinion, and a summary was provided in section 4.4 of the report. Members were advised that an update on the implementation of the recommendations would be reported at the next Committee meeting.

Members noted that the Counter Fraud and Investigations Team had carried out reactive investigations, which had resulted in notional and actual savings of £181,834 and a total of 11 sanctions for Quarter 1; this included the recovery of four properties, which would be re-allocated to residents in need of housing.

The Head of Audit and Investigations reported that the following proactive drives had taken place during Quarter 1 2018/19: A Fraud Roadshow, support to the London Counter Fraud Hub, the National Fraud Initiative and Idscanners.

Members noted that the Council Tax Single Person Discount 2017/18 National Fraud Initiative exercise was currently underway. The data match was designed to identify fraud and error in relation to single person discount. The data arising from this year's exercise had now been uploaded and the matches had now been reviewed. A total of 208 single person discounts had been removed, which represented additional billing of £26,372.

With regard to the Investigation Team's performance, the Head of Audit and Investigations reported that the targets for investigations had now been revised following a suggestion made at the Audit Committee meeting held on 30 May 2018. Officers had now agreed to review a three year average against the last year outturn. Performance of the team was set out in the table at 9.2 of the report and a comparison of three year outturn averages was set out in Appendix A of the report.

Councillor Sabiers asked if there were any further Fraud Roadshows planned, and suggested that officers could attend some of the Council's Ward Forum meetings.

The Head of Audit and Investigations reported that he planned to take the Roadshow to some smaller events and possibly some housing estates in the Borough.

Resolved: The Audit Committee noted the performance of the Internal Audit and Investigation Team and the key issues that had arisen during the period 1 April – 30 June 2018.

8. Treasury Management Quarter 1 Update 2018-19

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

Over the reporting period, all treasury management activities had been carried out in accordance with the approved limits. Members were also provided with information regarding the prevailing economic conditions over the reporting period.

Members' attention was drawn to the following key points:

- 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 Counterparty Investment list and within approved limits.
- No long-term borrowing was raised during the period reporting to 30 June 2018.
- The existing long term debt to fund capital expenditure had increased slightly from £530.963 million to £531.038 million due to an increase in the amounts held on behalf of the Mortlake Crematorium Board.
- The Council had earned an average investment return of 0.667% on short term investments, outperforming the rolling average 7 Day London Interbank Bid Rate (LIBID) rate of 0.120%.

- 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 (HRA) debt was managed separately from General Fund debt.

The Interim Head of Corporate Finance reported that the Council's treasury advisor, Link Asset Services anticipated that the first interest rate forecast would be in the final quarter of 2018. However, Capital Economics had forecast at least two interest rate increases before the end of the calendar year. Members were advised that officers would continue to monitor the position.

Councillor Manro asked if there were any opportunities for the Council to repay some of its loans.

The Director of Finance explained that movements in interest rates over time might present opportunities for the Council to replace existing loans with new loans at lower rates. However, repayment of existing loans usually attracted a premium depending on the prevailing market conditions. Debt rescheduling opportunities had therefore been limited in the current economic climate. Members were advised that there had been no debt rescheduling opportunities in the reporting period, as the cost of premiums to repay debt outweighed the savings that could be achieved from the lower Public Works Loan Board (PWLB) borrowing rates.

Councillor Sabiers noted that there were some changes to the rules around MMF's due in 2019, which would mean that the constant Net Asset Value MMF, which the Council currently invested in, would no longer be available. He asked if this presented a threat and if the Council had prepared for the change.

The Interim Head of Corporate Finance advised that officers would be considering the implications of the new regulations when confirmed and would adjust investment strategies accordingly.

Councillor Manro highlighted that the Council's internally managed funds had performed well and had outperformed the average 7-day LIBID rate. On behalf of the Committee, Councillor Manro asked that thanks be extended to officers in the Finance Team for their good work.

Resolved: The Audit Committee noted:

I. **the Treasury Management activities and performance against targets for the period to 30 June 2018;**

II. **the Council's investment balance of £107.480 million as at 30 June 2018 of which £ 65.000 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 2 of the report.

9. Treasury Management Outturn 2017-18

The Interim Head of Corporate Finance presented a report which outlined the Council's borrowing and investment activities for the financial year ending 31 March 2017.

Members' attention was drawn to the following key points:

- 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 Counterparty Investment list and within agreed limits.
- During the financial year, the Bank of England had increased its base rate from 0.25% to 0.50%. Further increases were anticipated in mid-late 2018/19.
- Long term borrowing of £45 million was raised during the year to March 2017.
- The existing long term debt to fund capital expenditure had increased from £496.806 million to £530.963 million during the financial year, of which £11.393 million related to PWLB maturities. The consolidated rate of interest on borrowing was 4.51%.
- The Council had earned an average investment return of 0.394% on short term investments, outperforming the rolling average 7 Day LIBID rate of 0.140%.
- The Council currently held no direct investments with overseas financial institutions, though these are held indirectly through the Council's MMFs exposure.
- The HRA debt was managed separately from General Fund debt but still fell under the responsibility of the Treasury Management function.

Members noted the summary of key economic conditions prevailing during the financial year 2017/18, as set out in section 4.1 of the report.

Due to the ongoing volatile economic outlook, the Council operated a restricted lending list throughout the year, mainly investing in the UK Government, other local authorities and some financial institutions, along with MMFs. The approved list of investment counterparties was subject to ongoing review by the Treasury Risk and Investment Board, which met monthly.

In relation to the table set out in section 8.5 of the report, which detailed the Council's reporting structure relating to treasury management, Councillor Sabiers noted that the table did not indicate to which body the Treasury Management Performance (Q3) report would be presented to. The Interim Head of Corporate Finance agreed to ensure that this was updated accordingly.

Resolved: The Audit Committee noted:

I. **the Treasury Management activities and performance against targets for the period to 31 March 2018;**

II. **the Council's investment balance of £93.790 million as at 31 March 2018 of which £49.500 million was invested in other local authorities, as set out in Appendix 1 of the report;**

III. **the Prudential Indicators outturn for 2017-18, which had all been maintained within the limits set by Full Council in February 2017, as set out in Appendix 2 of the report; and**

IV. **the Council's counterparty investment list, as set out in the confidential Appendix 3 of the report.**

10. Statement of Accounts 2017-18

The Interim Head of Corporate Finance presented a report which sought the Committee's approval of the 2017/18 Statement of Accounts and presented KPMG's External Auditor Report (ISA260) which confirmed its unqualified audit opinion.

A revised version of KPMG's External Auditor Report (ISA260) was circulated at the meeting. Members were informed that following the publication of the agenda, an unadjusted audit difference of £1 million had been identified at the end of the audit. Pages 4, 7 and 22 of the revised report had been amended to reflect this.

Steve Lucas (KPMG) reported that the draft ISA260 report for 2017/18 confirmed that there were no significant issues arising from the audit and KPMG proposed to issue:

- An unqualified audit opinion for the Council's Financial Statements 2017/18.

- An unqualified audit opinion for the Pension Fund Financial Statements 2017/18.

- An unqualified Value for Money conclusion for Ealing Council 2017/18.

Members' attention was drawn to pages 9 and 10 of the revised (ISA260) report, which set out the significant audit risks that required specific attention and procedures to address the likelihood of a material financial statement error in relation to the Council.

External audit had also focused on faster closedown. Steve Lucas explained that in 2016/17 the Council had missed the deadline to prepare its final audited financial statements by 31 July. He reported that this year the Council had produced the draft financial statements by 31 May 2018 in-line with faster closedown. The quality of the working papers and the low number of audit adjustments indicated that the overall quality of work was very good.

In relation to the audit of the Pension Fund, it was reported that external audit had test sampled investments to ensure they had been correctly valued by fund managers. The audit had concluded there were no specific matters to be brought to the Committee's attention.

Members were advised that external audit were not currently in a position to issue an audit certificate as:

- HM Treasury had recently issued its guidance for completing the WGA and issued the consolidation packs that authorities needed to complete. The audit deadline was 31 August 2018.

- The Pension Fund Annual report had been received by KPMG on 12 July 2018, and the aim was to complete the work in August 2018.

- There was an outstanding objection in relation to the 2015/16 audit year, and it was anticipated that KPMG would issue its provisional view in late July 2018.

In relation to Value for Money, the audit had concluded that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

External Audit was satisfied that the Council had addressed the recommendations raised in the ISA260 report in 2016/17. One new recommendation had been made as a result of the 2017/18 audit work relating to monitoring and delivering of saving targets.

Steve Lucas explained that after two months of the 2018/19 year, Adult Social Care had a forecast overspend of £6.9 million. The Council was taking action to manage the over spend and was monitoring the position. External audit had recommended that all original assumptions, forecasts, timings of expenditure and saving plans should be closely reviewed and controls implemented to ensure the Council did not experience a similar position in 2019/20, which was likely to be a difficult year, with £35 million of savings required to be identified.

Councillor Manro asked how Ealing Council's budget management compared to other local authorities.

Steve Lucas reported that some local authorities were experiencing extremely challenging financial situations, (such as Northamptonshire County Council) whilst other authorities seemed to be managing budgets well.

Councillor Young asked how the unadjusted audit difference of £1 million had been identified.

Steve Lucas explained that the unadjusted audit difference related to a lump sum pension contribution posted to financing and investment income and expenditure, rather than cost of services. He said the difference had been identified during the course of an audit and was essentially a 'book error'.

Councillor Sabiers noted the summary of fees charged by External Audit, set out on page 25 of the report, and queried the increased fees for 2017/18 in relation to the audit of controlled entities – Broadway Living Limited. In addition, he asked if these fees would increase, as Broadway Living increased its portfolio of properties.

Steve Lucas reported that in 2017 Broadway Living Limited had 12 properties, and an asset base of £1.5 billion, and as of 31 March 2018 it had 3,014 properties and an asset base of £8.6 billion. He explained the increase in the number of properties involved additional audit work and this was reflected in the increased fee.

The Committee expressed its thanks to the KPMG external auditors and the Council's Finance Team for their hard work.

Resolved: The Audit Committee:

I. **considered the revised KPMG report (ISA260), as circulated at the meeting, which confirmed its unqualified opinion for the Statement of Accounts (including Pension Fund Accounts) for 2017-18;**

II. **approved the audited Statement of Accounts for 2017-18 for the London Borough of Ealing and for the London Borough of Ealing Pension Fund, as set out in Appendix 2 of the report, and authorised the Chair of the Audit Committee to sign the documents at the end of the meeting;**

III. **approved the Annual Governance Statement for 2017-18, as contained within the main Statement of Accounts, set out in Appendix 2 of the report; and**

IV. **approved the Letter of Representation, as set out in Appendix 3 of the report, and its signature by the Chair of the Audit Committee and the Executive Director of Corporate Resources.**

11. Date of Next Meeting

The next meeting was scheduled for 28 November 2018 at 7.00 pm.

The meeting ended at 8.00 pm.

Councillor Tim Murtagh, Chair

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