

## AUDIT COMMITTEE

Wednesday 20 March 2013 at 6.30pm

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

The formal meeting commenced following a training session on Treasury Investment delivered by David Whelan from the Councils Treasury Advisors, Sector, who responded accordingly to clarification questions from Members.

**i.) Apologies for Absence**

There were none

**ii.) Urgent Matters**

**iii.) Matters to be Considered in Private**

Items 8 and 11 contained confidential appendices but were not taken in private as it was not necessary to discuss the confidential information provided.

**iv.) Declarations of Interest**

There were none.

**v.) Minutes of the Last Meeting**

Resolved:

That the minutes of the meeting held on 23 January 2012 be agreed and signed as a true and correct record.

**vi.) Any Matters Arising from the Minutes of the Last Meeting**

There were no matters arising.

**vii.) External Audit Reports**

Andrea White, Director KPMG introduced the report sets out in detail the work to be undertaken for the audit of the 2012/2013 Council Accounts and the associated costs.

Members were referred to the introduction on page 2 which set out the structure of the report

Pages 3 and 4 detailed a number of significant risks identified including

- The new PFI scheme (School) – KPMG will review arrangements that are in place to determine the accounting entries and disclosure required in the financial statements for the new PFI scheme
- Property Plant & Equipment – KPMG will review the controls that are in place to determine the property plant and equipment balances including information issued to the Council's property valuer

- Pension Liability and Pension Costs – KPMG will review the controls that are in place to determine the pension balances including information provided to the Council's actuary
- Changes to the Code of Practice – KPMG will review arrangements that are in place to account for these in the council's financial statements

Section 3 on page 5 gave an overview of the structure of the audit approach and summarised the four key stages.

Referring to page 9 Whole of Government Accounts – Elector Challenge, Andrea White advised members that the costs incurred in responding to questions or objections raised by electors was not included in the overall fee.

With regard to the use of off shore audit resources it was confirmed that that robust processes were in place to control how data is accessed and used

Referring to the VFM audit approach Andrea White confirmed that the methodology remained unchanged from last year. The Audit team also remained unchanged.

The key deliverables as detailed on page 19 would be issued at each stage of the audit and each report discussed with officers before publication.

In conclusion the audit fees for 2012/13 show a 40% reduction based on a number of assumptions set out on page 21

Resolved that the Audit Committee note:

- i.) The strategy set out in the KPMG Audit plans
- ii.) The reduction in Audit costs

#### **viii.) Treasury Management Quarterly Update 2012/13**

Nigel Watson Assistant Director of Corporate Finance and Audit, introduced the report which provided the regular quarterly update on the Council's borrowing and investment activities, this one for the third quarter ending 31 December 2012.

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 lending list;
- The Council still has £380k investments held in an escrow account in Iceland after successfully securing virtually 100% of its investment in failed Glitnir.
- There has been no long-term borrowing raised so far this year.
- The Council earned 0.643% on short term lending, outperforming the actual rolling average 7 Day libid rate of 0.406%. However, this out performance is not due to officers taking additional risks, but is because the Council locked into relatively higher rates on some medium term duration investments mostly with local authorities, and all within the 1 year

duration.

- The council currently holds no investments with overseas financial institutions (apart from the balance of £380k on the Icelandic investment).
- The HRA debt is being managed separately from General Fund debt this year following the revised methodology agreed for the implementation of self-financing.

Nigel Watson further drew member's attention to Paragraph 4 Economic Background and the bullet points contained therein.

Members were referred to the table paragraph 5.8 which outlined the investments held as at 31.12.12. Ealing's priority is always the security of capital.

Paragraph 6 outlined the Council's long term borrowing strategy for the year. Borrowing is well within the Council's limits.

Resolved that the Audit Committee:

- i.) Note the refresher training on Treasury Management and related issues provided by the Council's Treasury Management advisors, Sector, at the beginning of the meeting.
- ii.) Note the Treasury Management activities and performance against targets for the quarter ending 31 December 2012.
- iii.) Note the Council's governance and reporting arrangements in line with CIPFA's best practice recommendations, as set out in paragraph 7.
- iv.) Note the Council's current lending list (Appendix 1), private and confidential.
- v.) 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 in response to revised HRA self-financing regime, as per Full Council's approval of the Treasury Management strategy on 28/2/2012.
- vi.) Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the Council.

ix.) **Indicative Audit Plan 2013/14**

John Allsop, Audit and Risk Manager introduced the item which outlined the planned work of Internal Audit for the year 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014 and a proposal to share the Head of Audit role with London Borough of Hounslow.

The third and final year of the Council's 3-year Strategic Audit Plan was used as the basis for the 2013/14 Plan. In addition, one to one meetings were held with Directors and Service Heads during December 2012 & January 2013 to:

- Identify the key risk to service delivery and the service areas to be audited.
- Assess the current systems of internal control and to highlight those requiring an increased audit focus.

- Develop provisional terms of reference and agree the timing and budget for each review.

Audits were further identified through discussions with Deloitte, a review of both strategic and operational risk registers, analysis of audit reports from previous years, advice from the Council's External Auditors and benchmarking of audit plans from other local authorities.

In February 2013, The Draft Audit Plan was subject to an extensive cross Council consultation exercise the rationale for which was to gain agreement from officers, reduce the number of audits being delayed, deferred or deleted and hence lead to a robust Plan that reflects the Council's assurance requirements and risk profile.

A summary of the plan is set out in the table on page 2 with a detailed analysis provided at appendix B

John Allsop reported further on elements of the plan including

Key Financial Systems (KFS)

Audits requested by ICT & Internal Audit

Schools Work

Delivery and Performance Targets

Proposed delivery and performance targets are set out in the table at paragraph 3.6. for Committee approval.

Shared Head of Audit

The Council has developed a proposal to share the Head of Audit and Investigation position with the London Borough of Hounslow (LBH). The proposal has two elements. In year one, the Internal Audit and Counter Fraud service will be delivered at Hounslow and Ealing under the control of the Head of Audit and Investigation, however, the service provision will be independent using officers from the related borough. During this time a full review of service provision will be undertaken and a business plan formulated to provide a shared management structure across the two boroughs and potentially an element of colocation of teams. Details of the proposal are set out at Appendix C.

Audit Committee is asked to approve the proposed arrangements to share the Head of Audit role with Hounslow for an initial period of one year from April 2013. Following this, Audit Committee will be provided with a further detailed proposal on sharing arrangements for April 2014 and beyond.

Sudhi Pathak informed members that this would be a pilot scheme for one year working 1.5 days per week at Hounslow and 3.5 days for Ealing. If at the end of the pilot all parties were happy proposals would be strengthened. There would be opportunities for savings for both Authorities, shared best practice and value for money. Audit Committee would be given regular updates.

In response to a question from Councillor Potts it was confirmed that Hounslow were happy with the proposed arrangement

Councillor Langan asked whether the pilot would be independently assessed, in the best interests of those participating in the scheme. David Ewart stated that it would

be the Director of Finance. The Chair suggested that overwork could be written into the risk analysis. Andrea White commented that this type of arrangement was an increasing trend and could yield benefits ie from benchmarking.

Councillor Cowing asked how the 1.5 days away from Ealing would be covered. Sudhi Pathak stated that during the last three years the managers in the section become more experienced and they have had exposure to a variety of work that Head of Audit undertakes. This helps with development of officers and also succession planning. The 1.5 days will be covered by a mixture of extra hours by the Head of Audit and also shared responsibility with the management team.

The Chair commented that this appeared to be a positive development for all parties.

Resolved: that the Audit Committee:

- i.) Approve the planned programme of work for 2013/14.
- ii.) Approve the proposal to share the Head of Audit role with London Borough of Hounslow (LBH) for an initial period of one year from 1 April 2013.

**x.) Counter fraud, intelligence and investigation report to December 2012**

Sudhi Pathak (Head of Audit and Investigation) introduced the item and selected some of the headlines from 'Appendix 1 – Counter Fraud Report'.

Referring to paragraph 3, Operation Rapport, benefit fraud involving false identities, a number of benefit frauds involving claimants using fake French Passports had been identified. Intelligence suggests that the fraudsters have changed their claim profile and a further 1451 "suspicious" claims have been identified that require further analysis.

Referring to paragraph 4, Document ID Checker, the pilot had been concluded and three tender proposals were being evaluated.

Referring to paragraph 5 Blue Badge, the pilot has now been completed and a VFM review

of the project has been undertaken to determine how best to take it forward.

The proposed solution is to keep the initial identification of Blue Badge abuse within the parking team. The Parking Monitoring Officer has received training in how to collect evidence and identify misuse of blue badges. This officer spends much of his time with Parking Enforcement Officers and also ensures that potential Blue Badge misuse is part of their agenda. Cases that warrant investigation or further action are forwarded to Audit and Investigation for further action

Referring to paragraph 6 CIFAS, There were a number of legal and data protection implications which have been addressed and the system went live in early November. Ealing is the first Local Authority in the country to sign up with CIFAS. Another three local authorities, Richmond, Brent and Hounslow have asked Ealing for information regarding this initiative with a view to joining CIFAS.

Referring to paragraph 7 Data Matching To date 7 properties have been recovered which results in a saving of £126,000. There are currently 5 cases still under investigation.

The matching exercise will be repeated for 2013/14.

Referring to paragraph 8 Track a Fraudster, 8 London Boroughs have signed up to take part in the exercise.

The operational issues have been addressed and the legal elements were signed off in December 2012.

Data was formally shared between boroughs on 28/02/13 and an analysis is currently underway to identify anomalies that will be investigated further.

The table on page 7 set out details of Housing Fraud Investigations from April to December 2012. Fraudulent homeless applications can lead to households accessing social housing and in 2012, the housing team carried out visits to housing applicants (members of the housing register) claiming to be living in an overcrowded condition. From a total of 425 applicants identified in May 2012, 203 who had been bidding actively with realistic prospect of securing social housing were visited between June and December 2012. As a result, 39% of the applicants have been suspended or removed from the housing register as they have either misrepresented their circumstances or failed to declare changes. Further visits are proposed in future. In addition 6 temporary accommodation units have been repossessed as a result of the work of the team.

#### National Fraud Initiative

The table on page 9 gave a summary of the matches for the 2010/11 data and the table on page 10 likewise for the 2012/13 data.

Enhanced Vetting. The table on page 11 detailed the Enhanced Vetting Activity for 1/4/12 to 31.12.12

Fighting Fraud locally. The National Fraud Authority (NFA) launched a new strategy called "Fighting Fraud Locally" in April 2012 after a wide consultation exercise and input from practitioners across the country

The current Counter Fraud Plan and Fraud response plan that were endorsed by Corporate Board and Audit Committee run till April 2013. In light of the new fraud strategy from the NFA, the head of Audit and investigation has refreshed the Ealing Counter Fraud Plan and Fraud Response Plan Audit Committee is asked to approve these.

(Appendix 2 and Appendix 3)

Resolved: That the Audit Committee

- i.) Approve the Counter Fraud targets for 2013/14
- ii.) Approve the Counter Fraud Plan 2013/15
- iii.) Approve the Fraud Response Plan 2013/15
- iv.) That the Audit Committee note the contents of the report and the work of the investigation team to December 2012.

**xi.) Risk Management Performance Report 2011/12**

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

**3.2 SSR Format**

The format of the SRR has been amended to include an 'Effective of Controls Column'. This Column has been added to provide assurance over the efficacy of the control environment in place for each risk within the Register.

This change will also and, for the first time, link both Internal Audit and Risk Management disciplines in one document and hence provide an holistic view of the Council's control environment.

**3.3 Risk Management Policy**

The RM Policy has been refreshed to help ensure that it reduces bureaucracy, increases efficiency and thus meets the needs of users and can be found on the Risk Management page of the Council's Intranet.

**3.4 Staff Training & Development**

The next training course on the fundamental principles of Risk Management has been arranged for 7 March 2013. This course is very popular with officers and the indications are that this event is fully subscribed.

**3.5 Institute of Risk Management Awards (IRM)**

At the recent IRM Awards in central London, the Council was 'Highly Commended' in the category of 'Innovation through Technology'. The Award recognised the Council's use of JCAD Risk Management software, which is used to identify, evaluate and to effectively monitor, follow up and report on the implementation of Internal Audit recommendations as well as it. From 1<sup>st</sup> April 2013, the use of JCAD will be further extended to enable recommendations from the Council's Counter Fraud reports to be also followed up.

The Chair congratulated officers on this achievement

**3.6 Corporate Risk Management Forum (CRMF)**

CRMF met on the 9<sup>th</sup> March 2013 and considered reports in relation to:

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

**3.7 Out of Risk Date Analysis**

The table at 3.7 summarises for each Directorate the percentage of all risks out of date and includes the number of red risks out of date. Appendix A provides a detailed analysis of performance. As can be seen, risks are within the agreed

target of no more than 10% being out of date. Also no High (Red) risks were out of date.

### **3.8 Strategic Risk Register**

The table at 3.8 summarises the movement in the SRR since it was last reported to Audit Committee. Appendix C sets out the SRR in detail.

When Corporate Board considered the SRR at its January 2013 meeting, they asked for further work to be undertaken in relation to ECC0051 and the Welfare Reform Act (WRA) 2012. Consequently, a project risk register has been developed which documents the key WRA risks to the Council and the mitigating controls in place/proposed across Directorates to address the risks.

Councillor Cowing commented that named officers had been assigned to various risks and asked if this could be expanded upon. Sudhi Pathak confirmed that this would happen when risks were properly evidenced. At the present time these were just judgements but they were recognised as potential risks.

Resolved:

- i) To note enhancements to the Council's Risk Management Framework.
- ii) To note 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.
- iii) To approve the Council's updated Risk Management Policy (Appendix D)

### **xii.) Draft Annual Governance Statement 2012/13**

Sudhi Pathak introduced the report which sets out the methodology for producing the Annual Governance Statement (AGS) for 2012/13 and provides an update on the status of the significant governance issues outlined in the 2011/12 AGS.

Significant issues for 2012/13 are circulated to the Annual Governance Statement working group for discussion. These issues are identified from

- Press releases
- Senior officer concerns
- Internal audit reports
- Reports from external agencies
- Risk Registers
- Letters of Representation

The flow diagram on page 6 detailed the sources of assurance and the methodology in place to formulate the AGS accompanied by the narrative on page 7.

The table on page 10 set out details of the governance issues identified, including a breach of the Data Protection Act, the use of consultants and Pupil Places.

The Chair commented that arrangements for appointment were now more robust than previously. He advised members that a further report would be submitted to the next meeting.

Resolved: that Audit Committee:

- xiii.) i) Note the attached Methodology
- ii) Note the update on the status of the 11/12 significant issues; and
- iii) Note the draft AGS.

**13. Date of the Next Meeting**

Members noted that the next meeting was scheduled for 27<sup>th</sup> June 2013 to be confirmed at Annual Council in May 2013

COUNCILLOR MIK SABIERS, Chairman

The meeting ended at 8:50 pm