

## **Audit Committee**

Tuesday 28<sup>th</sup> February 2017 at 7:00pm

**Present:** Councillors Murtagh (Chair), Khan, G Stafford, Murray and Sabiers.

**In Attendance:** Ross Brown (Interim Director of Finance), Steve Lucas (KPMG), Neil Thomas (KPMG), Maria Campagna (Strategic Finance Partner - Corporate), Jeremy Welburn (Interim Head of Audit & Investigations), Bridget Uku (Treasury and Investments Manager), Gordon Williams (Democratic Services Officer) and Anthony Jackson (Democratic Services Officer). Stuart Brown and Olesa Chikina (PWC)

**1. Apologies for Absence**

Apologies for absence were received from Conrad Bryan (Independent Member).

**2. Urgent Matters**

There were none.

**3. Matters to be Considered in Private**

Items 7 and 12 had appendices that contained confidential information by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. Item 7 was not taken in private as it was not considered necessary to discuss the detail of the confidential information provided. In relation to item 12, the observer was asked to leave the room while the content of these appendices was discussed.

**4. Declarations of Interest**

There were none.

**5. Minutes**

**Resolved** – That the minutes of the meeting held on 29 November 2016 be agreed as a true and correct record, subject to the word “enhance” being amended to read “enhanced” under item 10 on page 6.

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

There were none.

**7. Treasury Management Q3 – 28 February 2017**

Bridget Uku (Treasury & investments Manager) introduced the report and answered questions from Members on points of detail. The report provided an update on the Council’s borrowing and investment activities for the quarter ending 31 December 2016.

Ms Uku drew attention to the key messages from the report – that:-

- 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 agreed limits.
- No long-term borrowing was raised during the period to 31 December 2016.
- The existing long-term debt decreased to £499.957m, there was a PWLB maturity of £6.855m in period to 31 December 2016.
- The Council earned an average investment return of 0.576% on short term lending, outperforming the rolling average 7 day LIBID rate of 0.229%.
- The Council currently holds no investments with overseas financial institutions.
- The HRA debt is managed separately from General Fund debt.

She also confirmed that there had been economic growth despite Brexit and confirmed that the Council managed its investments in-house and invested with institutions on the Council's approved lending list (detailed in Appendix 4 to the report). Ms Uku also stated that, following the global financial crises and persistent uncertainties, the Council remained relatively risk averse and operated a restricted lending list. A summary of the institutions which the Council could invest were listed as follows:

- The UK Government directly (Debt Management Office)
- The UK Government (Treasury Bill via King and Shaxson)
- RBS and Lloyds (because of the UK government's stake in these institutions) Lloyds limit was reduced in recognition of the Government's significantly reduced stake.
- The Council's banker (Lloyds)
- HSBC
- Standard Chartered Bank (Certificate of Deposit via King & Shaxson)
- Barclays Bank
- Nationwide Building Society
- Local Authorities
- AAA rated Money Market Funds (MMF)

Members drew attention to a typographical error in paragraph 5.14 of the report, namely that the date should read 31 December 2016 and not 31 December 2017. Members also referred to the fact that the Counterparty list had been extended to include MMFs and the fact that those funds were AAA rated with strong sponsors. Members then asked for confirmation on which foreign investments sponsorship had been secured. Ms Uku confirmed that JP Morgan and Legal & General had secured strong sponsors, with good SP ratings and financial standing. Members asked for full details of foreign investments into MMFs to be circulated to Members of the Committee.

**Resolved** – That the Audit Committee:

- (i) notes the Treasury management activities and performance against targets for the period to 31 December 2016;

- (ii) notes the Council's investment balance of £174.130m as at 31 December 2016 of which £107.100m was invested in other Local Authorities (set out in Appendix 1 to the report);
- (iii) notes the Council's current lending list (set out in Appendix 2 to the report).
- (iv) notes the Council's current lending list (set out in confidential Appendix 3 to the report).

## **8. External Audit Plan 2016-17**

Maria Campagna introduced the report which set out in detail how KPMG would deliver their financial statements audit work for the Council's accounts and pension fund. She confirmed that KPMG used a risk-based audit approach to satisfy themselves that the Council's accounts complied with the latest statutory requirements and that proper accounting practices had been observed in compiling them. Ms Campagna also confirmed that KPMG's External Audit Plan 2016/17 outlined the audit approach and the detailed audit planning work which had been carried out during early 2017.

Neil Thomas (CPMG) reported further highlighting key areas in the work that KPMG would be undertaking. In particular he drew members' attention to two new risks that would require attention

- LGPS Triennial Valuation (Both Authority and Pension Fund)
- Restatement of CIES, EFA and MIRS (disclosure, Authority only)

In response to a question from Cllr Stafford it was explained that all authorities were set against expenditure and savings were becoming harder to find.

**Resolved** – That the Audit Committee notes the strategy set out in the KPMG audit plan for the 2016/17 closedown process.

## **9. KPMG Certification of Grants Report**

Maria Campagna, Strategic Finance Partner – Corporate, introduced the report. She confirmed that KPMG had concluded their audit on grant claims and had presented their findings to the Audit Committee as part of their Certification of claims return which is appended to the report as Appendix 1.

Steve Lucas, KPMG, explained that their audit report included the work they had completed under the Public Sector Audit Appointment certification arrangements in addition to work they had completed on other returns under separate engagement terms. He also confirmed that, under the Public Sector Audit Appointments arrangements KPMG certified the Council's 2015/16 Housing Benefit Subsidy claim, which had a value of £277 million. Mr Lucas also stated that the claim was subject to a qualification letter in relation to the following two items:

- one error identified on the allocation of an overpayment between Local Authority error and claimant error; and

- one underpayment to a claimant of £138.32 which did not impact on the housing benefit subsidy claimed.

Mr Lucas confirmed that there were two errors in relation to separate assurance engagements:

- Teachers' Pension Return (£24 million); and
- Pooling of Housing Capital Receipts (£12 million).

Mr Lucas stated that he thought that the above two errors had been picked up and explained that when dealing with capital receipts, there were likely to be some errors given the volume being dealt with.

**Resolved** – That the Audit Committee notes the Certification of claims returns 2015/16 (attached to the report at Appendix 1).

#### **10. Annual Internal Audit Strategy and Indicative Plan 2017/18**

Jeremy Welburn, Interim Head of Audit and Investigations, introduced the report and, together with Ross Brown (Director of Finance) answered questions from Members on points of detail. Mr Welburn explained that the report detailed the Internal Audit Strategy and the proposed operational Internal Audit plan for 2027/18.

Members referred to Appendix A to the report, specifically in relation to temporary workers and contractors (number 3 in Appendix A to the report), and asked what steps were being taken by the Council to prepare for the introduction of IR35 and how the new legislation was likely to affect the Council. Mr Welburn responded that the Council had been working closely with London Councils and that the legislation had been identified as a key risk given the Council was heavily reliant on agency staff. Mr Welburn confirmed that they had liaised with suppliers to ensure that costs in relation to PAYE and National Insurance were passed back to the Council. Mr Welburn also stated that they had been challenged by agency staff who inquired as to why it was necessary to enforce so strictly. He confirmed that the Council's response was to explain that a uniform approach was desired for all London Councils.

Members then asked whether there was any indication that Councils would reduce agency staff in crucial areas. Mr Brown stated that the risk of losing quality staff was low but conceded that it was a risk nevertheless. Mr Brown explained that IR35 offered more flexibility to the individual and that every agency would have to comply with the legislation by April 2017. He also confirmed that he would ensure that a breakdown of senior officers subject to IR35, including Directors and Executive Directors.

**Resolved** – That, in accordance with the PSIAS requirements, the Audit Committee reviews and approves the strategy and proposed Internal Audit Plan for the period 1 April 2017 to 31 March 2018.

**11. Quarter 3 Internal Audit and Investigation Update Report**

Jeremy Welburn, Interim Head of Audit and Investigations, introduced the report which provided an update on the work of internal audit and investigations for quarter 3 (1 April to 31 December 2016) and confirmed that all audits, as detailed in the table in paragraph 4.4 of the report, was scoped or in progress.

Maria Campagna, Strategic Finance Partner – Corporate, explained that the High Risk opinion provided for the General Ledger and Cash section of the continuous audit monitoring report relates to back reconciliations. She confirmed that there was an in-year unreconciled variance each month and that an action plan was in place and monitored by management for bank reconciliation improvements.

Mr Welburn confirmed that a new Head of Audit & Investigations had been appointed – Mike Pinder.

**Resolved** – That the Audit Committee notes the performance of the Internal Audit & Investigations team and key issues arising during the period 1 April – 31 December 2016 (to date for the internal audit team).

**12. Risk Management Performance Report – Quarter 3 2016/17**

Jeremy Welburn introduced the report, which provided an update in respect of the review of strategic risk facing the Council as at the end of Q3 2016/17.

Members referred to the possible impact of the new legislation IR35 and whether it should be highlighted, from short to medium term as a risk. Mr Brown responded that it was proper to consider any risk that might impact on the Council, however, he confirmed that officers did not consider the issue to be a significant risk. He also confirmed that the risks were set out in respective directorates and it was up to each of them to set out the potential risks.

In response to a question from Members in relation the risks associated with business rates, Ms Campagna confirmed that there was a consultation expected on the subject and, until it was received, the exact level of risk could not be determined. Mr Brown confirmed that much of the associated risks with business rates depended on the type of business within the borough and were specific to the individual needs of each borough.

Members expressed concerns that if a business goes into liquidation that many people would become unemployed. They described the implications as potentially being significant. Ms Campagna stated that the Council had regular contact with business about the potential impact of business rates and confirmed that the smaller businesses were nervous about the situation. Members suggested that to have a meaningful discussion about the subject, a

more appropriate forum was required, such as the Ealing Business Partnership.

**Resolved** – That the Audit Committee is assured that the current Strategic Risk Register (Appendix A to the report) 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 and are documented.

**13. 2017-18 Fraud and Corruption Strategy and Plan**

Jeremy Welburn, Head of Interim Head of Audit and Investigations, introduced the report which provided the Committee with the Fraud and Corruption Strategy and Plan for 2017-18. He referred to the fact that Ealing Council would be part of the pilot for the London Counter Fraud Hub (LCFH), who would use data provided by local authorities and other sources to increase the detection and prevention of fraud across London, using advanced data analytics and matching systems. Mr Welburn confirmed that there were five London boroughs taking part in the pilot and that the Council's involvement would provide access to a huge amount of data.

Members asked whether there were arrangements in place for publicising the strategy and for whistle-blowing. Mr Welburn confirmed that web pages were kept updated with the latest information and that the Council used housing association newsletters to publicise the strategy. He also stated that internal fraud alerts were utilised to make Council staff aware.

Members asked whether any Memorandums of Understanding had been set up with partner organisations and whether information was shared with other authorities. Mr Welburn confirmed that information was shared with other London boroughs and the Metropolitan Police.

Members inquired as to whether the Council has any statutory powers to enter the dwelling of perpetrators in terms of fraud. Mr Welburn confirmed that the Council did not have the power to enter properties, however, stated that they do receive intelligence in terms of names and addresses and as a result could knock on doors.

**Resolved** – That the Audit Committee approves the Fraud and Corruption Strategy and Plan for 2017-18.

**14. Date of Next Meeting**

The next meeting is scheduled for 24<sup>th</sup> May 2017, preceded by a training session provided by Finance officers which will commence at 6.30pm.

The meeting ended at 8:05pm.

Councillor Tim Murtagh, Chair

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