

AUDIT COMMITTEE

Wednesday 14th January 2015 at 7:00pm

PRESENT: Councillors Murtagh (Chair), Sabiers, Murray, A. Stafford, and Conrad Bryan (Independent Member).

IN ATTENDANCE: Steve Lucas and Tony Crawley (KPMG).

Following introductions

1. Apologies for Absence

Apologies were received from Councillor Khan.

2. Urgent Matters

The Chair thanked Steven Tinkler, Head of Audit and Investigation, for running a training session about the effective role of an audit committee before the meeting.

The Chair brought three amendments to the agenda to the Committee's attention. Several pages at the end of Item 7 had been printed in error, were unrelated to the Committee meeting and should be disregarded, and the appendix to Item 9 had been omitted from the agenda. Amended agendas were handed out to Members, and copies of the appendix to Item 9 were distributed to all. The Chair also noted that the 2nd bullet point on page 6 of Item 10, beginning "LBE Head of Audit..." should be disregarded as it had not yet been determined.

3. Matters to be Considered in Private

Items 7 and 12 contained confidential appendices but were not taken in private as it was not necessary to discuss the detail of the confidential information provided.

4. Declarations of Interest

There were none.

5. Minutes

Councillor Murray drew the Committee's attention to page 2, where a sentence beginning "Tony Crawley advised Members that" was cut off at that point. Tony Crawley, KPMG, explained to the Committee what was discussed at that point.

The Committee noted a typing error on page 1 where “Septembere” should read “September”.

RESOLVED:

That the minutes of the meeting held on 23rd September 2014 with above corrections/additions be agreed and signed as a true and correct record.

6. Matters Arising from the Minutes

Conrad Bryan drew the Committee’s attention to his question on page 4 regarding waste transfer notes. He enquired about the level of missing waste notes and wanted to look at the value at risk. Maria Christofi, Director of Finance, offered to explain the issue outside of the meeting.

7. Treasury Management Mid-Year Update 2014/15

Maria Christofi, Director of Finance, introduced this report, providing an update on the Council’s borrowing and investment activities for the six months ending 30th September 2014 and providing information on the prevailing economic conditions over the reporting period. The report also identified investment balances, and how much investment was on the lending list. Recommendations for the Committee were set out in paragraph 1 of the report.

The key messages from the report were that:

- All treasury management activities were executed by authorised officers within the parameters agreed.
- All investments were made to counterparties on the Council’s approved lending list and within agreed limits
- The Council’s remaining investment of £0.407m with the Glitnir bank that is still retained in an Icelandic escrow account has now increased in value to £0.441m as a result of interest being accrued.
- There was no long-term borrowing raised during the period to 30th September 2014.
- The existing long-term debt reduced to £486.418m following a PWLB maturity of £6.702m in quarter 1 2014.

- The Council earned an average investment return of 0.569% on short term lending, outperforming the rolling average 7 Day Libid rate of 0.347%.
- The Council currently holds no investments with overseas financial institutions (excluding the balance of £0.441m of the retained Icelandic investment).
- The HRA debt is managed separately from General Fund debt.

The report contained a proposed change to the Authority's Minimum Revenue Provision (MRP) policy. The full Treasury Management Strategy will be going to Cabinet, and would give a more detailed explanation of the changes. Maria Christofi also drew the Committee's attention to a recent administrative error by Lloyd's Bank which had seen Ealing exceed its counterparty limit. Lloyd's had taken full responsibility for the error and had reimbursed the Authority for the penalty charges incurred, with an additional sum as compensation. It was confirmed that Ealing had followed their own practice correctly and measures were being taken to ensure it would not happen again.

In response to Councillor Murray's query as to whether the changes to MRP policy would be examined by auditors, Maria Christofi said that both MRP and Capital Financing Requirement (CFR) would be looked at by Audit. Tony Crawley added that KPMG would assess the proposed changes with officers.

Conrad Bryan drew the Committee's attention to the Prudential Indicators attached as Appendix 3 to the report, and enquired about the gap in estimates between the Authorised Limit and Operational Boundary. Maria Christofi replied that the Private Finance Initiative (PFI) has been added as a year-end actual, and a simplified table will be provided to Audit Committee. At this point the Committee requested that the whole agenda have page numbers in future to make reference easier.

Councillor Sabiers asked what the cause of the banking error by Lloyd's was and whether it might happen again. Brian Thompson, Head of Financial Control and Reporting, explained how the error had been made by Lloyd's. Additional procedures had been put in place to prevent this type of error in the future.

RESOLVED:

That the Audit Committee

- i) Notes the Treasury Management activities and performance against targets for the six months to 30th September 2014.
- ii) Notes the Council's investment balance of £215.691m as at 30th September 2014 of which £38m was invested in other Local Authorities (set out in Appendix 1).
- iii) Notes the Council's current lending list (set out in confidential Appendix 2).
- iv) Notes the Council's position on prudential indicators (set out in Appendix 3).
- v) Notes the proposed change to the Council's Minimum Revenue Provision (MRP) policy to enable the Council not to set aside MRP in respect of capital expenditure incurred from loans made to a third party where it is anticipated that the capital receipt will be used to repay the loan.
- vi) Receives refresher training from the Council's Treasury Management advisors Capital Asset Services.
- vii) Notes that an administrative error on the part of Ealing's bankers Lloyds led to the Lloyds bank limit being exceeded by £36m overnight on the 19th November 2014.

8. KPMG Certification of Grants Report

Maria Christofi introduced this report, presenting the concluded audit of grant claims by external auditors KPMG. KPMG had audited three grant claims that the Council made in 2013/14, these being; Housing Benefit subsidy claim; Pooling of Capital Receipts and Teachers Pension return. The Certification of claims returns for 2013/14 was attached as Appendix 1.

KPMG had issued an unqualified certificate for the Pooling of Capital Receipts grant, and an unqualified qualification opinion in respect of the Teacher's Pension return. KPMG had acknowledged many improvements in the Council's Teachers' Pension return for 2013/14 which had been qualified in previous years. There had been a lot of work done by officers to take the recommendations from auditors in previous years on board. There was a decrease in the number of errors in the Housing Benefits Subsidy Claim, from 17 down to 3 in the 60 cases that were tested. The net effect of the errors found was positive for the Council, and as a result an increase of £170,000 of subsidy would be received.

Steve Lucas, KPMG, pointed out that although the Housing Benefit Subsidy Claim was qualified it was positive that significantly fewer errors had been found this year, and that work had been done to improve on previous years. The Teachers' Pension had improved significantly.

Councillor Stafford enquired about the errors made in previous years. Brian Thompson explained that up to 22 errors had been made in previous years and so this year's 3 errors was a significant improvement. The Housing Benefits Subsidy Claim reached a total of £270m, and the extrapolated value of errors made up a very small percentage of this amount. Maria Christofi added that officers were assured that the errors were isolated incidents and that controls were strengthening within the system. Officers were pleased that the number of errors had been brought down to just 3.

RESOLVED:

That the Committee notes the Certification of Claims Returns for 2013/14 (Appendix 1).

9. Annual Audit Letter and Audit Progress Report

Tony Crawley introduced this report, presenting the reports from the Council's external auditors, KPMG, following the conclusion of their audit of the 2013/14 accounts. The report confirmed to the public the output from the external audit and documented the related discussions.

The headlines of the Annual Audit Letter were set out on page 2. There were no issues arising from the audit of the Pension Fund, and there were no objections, so the audit for 2013/14 was considered to be closed. The audit fees were set out on page 4 of the Annual Audit Letter. This included a reduced Certification fee as less work had needed to be done. The work that had been done was explained in the letter. KPMG had finished their work on the 2013/14 audit, and were pleased to be able to sign it off.

Councillor Murray congratulated officers on the results they had achieved, and asked about queries and objections from the public. Tony Crawley explained that there were no objections from the public as such, but a query from a local elector that was followed up and checked for any mistakes or inappropriate actions. Auditors looked at the queried issue and decided reasonable decisions had been made throughout. Auditors had explained their view on the matter and no further action was taken.

Councillor Murray asked about the £10,000 fee charged by KPMG for tax advice, listed amongst the audit fees as 'Other Services'. Steve Lucas explained that the work was connected to VAT and Leisure services, was carried out outside of the audit, and was meant to demonstrate KPMG's independence. Tony Crawley added that KPMG had clear guidelines with benchmarks regarding their work. Any non-auditing work had to be approved

beforehand, and there was a strong framework behind that part of their service.

RESOLVED:

That the Audit Committee

- i) Notes the external auditors Annual Audit letter in respect of the 2013/14 audit of the Statement of Accounts (Appendix 1).
- ii) Notes the Audit Progress report (Appendix 2).

The Chair proposed and the Committee offered a vote of thanks to officers for their work during the 2013/14 year, and also to Tony Crawley in thanks of 2 years of working with Ealing.

10. Internal Audit Performance Report Q3 2014/15

Steven Tinkler introduced this report, providing the Committee with an update on the work of Internal Audit since the September meeting up until the end of quarter 3. The report also provided the Committee with details regarding the proposal to extend the existing arrangements with regard to the sharing of the Head of Internal Audit role, to the creation of a more formalised Shared Audit and Counter Fraud service.

The Council's strategic audit partner Mazars were delivering the required performance, however the percentage of Plan completion as at 31st December 2014 was slightly below target. Mazars directors were confident that this would be rectified and the Plan would be up to speed by the end of the audit year, and completed on time.

A report regarding the Internal Audit and Counter Fraud Shared Service would be going to Cabinet on 21st January 2015. Discussions were ongoing over the creation of a shared service, hosted by Ealing, with Hounslow and Brent, which would provide resilience and flexibility in Internal Auditing and Counter Fraud, through shared expertise. The shared service arrangements were seen as an effective approach to deliver efficiencies within service delivery and a positive approach for responding to the financial pressures faced by the public sector. Aspects of the partnership agreement such as the delegation of roles and leadership were still in development, and all details were being worked on ahead of discussion and decision from Cabinet.

RESOLVED:

That the Audit Committee

- i) Notes Internal Audit's performance and key issues arising during the period 1st October – 31st December 2014 (Appendix A).
- ii) Notes the current options being explored with regards to the creation of a shared service for the delivery of Internal Audit and Counter Fraud services hosted by the London Borough of Ealing.

11. Counter Fraud, Intelligence and Investigation Report to November 2014

Steven Tinkler introduced this report, describing the work of the Counter Fraud, Intelligence and Investigation team for the period 1st September 2014 to 30th November 2014. The report identified the level of work undertaken by the department over the period. Investigation team performance and enhanced vetting statistics were provided in the appendices to the report, along with case studies provided for context.

In response to the Chair, Steven Tinkler confirmed that overpayment sums were identified during the recovery stage, and added that although it was difficult to recover money lost as a result of fraud, the department strived to maximise recovery.

Councillor Sabiers asked about the recent transferral of responsibility for investigating benefit fraud to the Department for Work and Pensions (DWP). Steven Tinkler replied that it was difficult to assess the transfer at this early stage, but that the transfer had gone smoothly. Fraud referrals would continue to be dealt with by the Intelligence team, as they were a useful intelligence tool.

Councillor Murray enquired about the Data Matching exercise that had been undertaken on the Council's 13,000 properties. The exercises had detective and preventative functions, and as the demand increased for housing such exercises were very important.

Councillor Stafford enquired about the purpose of the Document ID checker in use by the Council. Steven Tinkler explained that the scanner was for tracking fraudulent IDs and were common in London. The scanners were a useful tool for checking people's right to work or benefits. Maria Christofi added that they provided a great deterrent against fraud.

RESOLVED:

That the Audit Committee

- i) Notes the work undertaken by the Counter Fraud, Intelligence and Investigation team.
- ii) Were satisfied after reviewing the team's performance (Appendix A).

12. Risk Management Performance Report

Steven Tinkler introduced this report, describing the progress of the Council's Risk Management Framework for Q3 2014/15, and providing Members with an update on the key strategic risks facing the Council. The Committee noted that there were a total of 490 risks identified across the Council's risk registers, and these were subject to regular review.

Councillor Sabiers commented that the data made available in the appendices was useful, and good for picking up and analysing change. He noted that a lot of strategic risk was continuous.

RESOLVED:

That the Audit Committee

- i) Considers the progress of the Council's Risk Management Framework.
- ii) Considers 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.

At this point the Chair brought it to the Committee's attention that the meeting would be Nigel Watson's last meeting. Nigel Watson, Assistant Director of Corporate Finance, announced to the Committee that he would be leaving the Council at the end of the month after 15 years at Ealing. He added that he was proud of the Finance department at Ealing and he had enjoyed his time at Ealing.

The Chair proposed and the Committee offered a vote of thanks to Nigel for his years of excellent service.

13. Date of the Next Meeting

The Chair suggested moving the date of the next meeting from Tuesday 17th March 2015 to Thursday 19th March 2015, but would look into possibly

changing the date and would suggest other dates for March 2015 to Members and officers by email outside of the meeting.

Councillor Tim Murtagh, Chair

The meeting finished at 8:00pm.