

# Audit Committee

Thursday 25 June 2015 at 7.00 pm

**Present:** Cllrs Murtagh (Chair), Sabiers, A Stafford and Murray. Mr Conrad Bryant (Independent member)

Apologies were received from Cllr Khan.

**In Attendance:** Mick Bowden (Interim Strategic Finance Partner), Maria Christofi (Director of Finance), Andrew Hagger (Committee Administrator), Steve Lucas (KPMG), Steve Tinkler (Head of Audit & Investigation) and Bridget Uku, (Group Manager, Treasury & Investments)

## 1. Apologies for Absence

Apologies were received from Cllr Khan.

Neil Thomas from KPMG also apologised for not being able to attend.

## 2. Urgent Matters

There were none.

## 3. Matters to be Considered in Private

Items 8 and 12 contained appendices with confidential information in them, which required those items to be considered in private.

## 4. Declarations of Interest

There were none.

## 5. Minutes

### Resolved:

That the minutes of the meeting held on Tuesday 17 March 2015 be agreed and signed as a true and correct record.

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

There were none.

At this point the Chair asked the Committee to agree a change in the order of the agenda, which would run 8, 7, 13, 10, 9, 11, 12.

## 8. Treasury Management 2014-15 Outturn

Bridget Uku, (Group Manager, Treasury & Investments) introduced the item, highlighting that risk management is at the heart of the Council's Treasury Management approach and that all activity is within the authorised limit. The Committee's attention was drawn to the prudential indicators outturn for 2014/15 set out in Appendix 2 and that the HRA debt is managed separately from General Fund debt. The report is an update on the treasury management final outturn at year end and this report will go to Full Council for noting.

Cllr Murray asked about a potential loan to Catalyst Housing and was informed that no loan had been made as the scheme proposed is still in the planning stages. The decision to extend the loan is not a Treasury management decision per se, but a decision to lend in support of a Council's policy objective.

Conrad Bryant asked about the West London Waste Authority's (WLWA) arrangement to invest with Ealing and was informed that Ealing invests on behalf of the WLWA, who receive an average return on investment based on the performance of all of Ealing's investments. There is a fee charged for carrying out this service and is an example of Ealing selling its Treasury Management services.

In response to a question from Conrad Bryant about prudential indicators, the Committee were informed that the authorised limit is where borrowing is allowed to go up to, but not what Ealing is actually borrowing. The organisation operates at a level below the limit so there is headroom if extra borrowing is required. Affordability is set by the cost of borrowing and is reviewed annually as part of the Treasury Management Strategy and the Medium Term Financial Strategy.

Officers also confirmed that the call account previously held with Lloyds TSB is now a fixed term investment with Lloyds Bank.

#### **Resolved:**

The Committee agreed to:

- 1.1 Note the Treasury Management activities and performance against targets for the 12 months to 31 March 2015.
- 1.2 Note the council's governance and reporting arrangements which is in line with CIPFA's best practice recommendations, as set out in paragraph 7.
- 1.3 Note the council's investments in other Local Authorities as at 31 March 2015 (set out in Appendix 1).
- 1.4 Note the Prudential indicators outturn for 2014/15 (set out in Appendix 2).
- 1.5 Note the council's current lending list (set out in confidential Appendix 3).
- 1.6 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.
- 1.7 Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the council.
- 1.8 Note (as previously reported) that through participation in an Icelandic Central Bank auction the council repatriated the remainder of the settlement received in respect of the impaired Glitnir investment that was retained in Iceland due to capital controls.

## **6. External Audit Reports**

Maria Christofi (Director of Finance) introduced the report, highlighting an error in paragraph 4.1, which should read:

"The planned cost of the 2014/15 audit fee has increased by £2,600 to £222,110 for the Council and £21,000 for the Pension Fund. Following the closure of the Audit Commission and efficiencies made by tendering audits, the main audit fee for 2015/16 will reduce by 25% to £166,583 and the Pension Fund Fee will remain at £21,000. The fee for the certification of grant claims in 2014/15 is £29,440 as a result of a reduction in the number of claims to be audited. The fee for the certification of grant claims for 2015/16 will decrease by £2,119 to £27,321."

Steve Lucas of KPMG then introduced KPMG's portion of the report, explaining that they had received a draft statement of accounts and had registered no new significant risks. The audit fee letter for 2015/16 explains the fees, which are set by Public Sector Audit Appointments (PSAA) and have reduced by 25% on 2014/15 levels.

In response to questions about the fee from Cllrs Murray and Sabiers, the Committee was informed that there was no chance of a further reduction on the 25% as there are a certain amount of technical tasks that have to be carried out during an audit. The 25% reduction has been achieved because of the retendering of 6 to 7 year old contracts with reduced costs due to improved audit efficiency. Additionally, the Audit Commission used to take a portion of the fee, but they have been disbanded and the fee taken by the National Audit Office is much smaller. Despite the reduction in fees there will still be the same level of time dedicated to carrying out the audit. The audit of the Teacher's Pension Return could be carried out by a different firm, but it is more efficient to use KPMG as they know Ealing's financial systems.

Conrad Bryant asked about whistleblowing and was informed that the Audit Commission had a dedicated whistleblowing hotline, which did occasionally result in referrals to internal audit who would investigate, with monitoring by external audit. Ealing has its own whistleblowing arrangements in place, although officers acknowledged that more work is needed to raise awareness and promote it.

**Resolved:**

The Committee noted the strategy set out in the KPMG audit plans and the progress to date.

**13. Draft Annual Governance Statement**

Steve Tinkler (Head of Audit & Investigation) introduced the report, highlighting that the Governance Statement forms part of the statement of accounts. Positive assurance was sought from all Executive Directors who were required to sign a letter setting out their responsibilities on corporate governance and risk management processes, with assurances from their direct reports also. These were then presented to the Chief Executive and Leader who also signed. The organisation has bought into this process and the importance of good governance which makes this a powerful document.

The Committee's attention was drawn to the identified governance issues, 2 of which (Emergency Accommodation and Budget Savings) had previously been identified and were continuing and the other (Heller House) which was being monitored closely with steps already taken to address it.

**Resolved:**

The Committee noted the Draft Annual Governance Statement 2014/15.

**10. Annual Statement of Accounts**

Mick Bowden (Interim Strategic Finance Partner) introduced the report, highlighting that the draft accounts had been produced 3 weeks ahead of the deadline, which is an excellent achievement by the team. The Committee's attention was drawn to the following:

- The format of the accounts is prescribed by the accounting code of practice and the Accounts and Audit regulations.

- The balance sheet on page 28 show that fixed assets have increased to £1.75bn, with around £100m of the increase relating to the capital programme and the rest of the increase largely due to revaluations of existing assets.
- At a national level there have been ongoing discussions around the presentation of foundation schools assets, with a decision that they will now be included on the balance sheets.
- The Movement in Reserves Statement with usable reserves of nearly £200m and earmarked reserves of just over £100m.
- The Pension Fund, which has a surplus of £100m and stands at just under £1bn.

In response to a question from Cllr Sabiers, officers informed the Committee that there has been a reduction in long-term interest rates, which has meant that the pension liability has gone up. This does not impact on day-to-day budget matters and have been included where they are in the accounts due to financial reporting standards. The actuarial valuation as considered by the Pension Fund Board determines the real cost to the Council. The outcome of the next valuation is not due for another 18 months, but the direction of travel with pensions is generally positive.

Conrad Bryant asked about where funding was coming from if external borrowing was down, as per the table on page 5. Officers informed the Committee that cash from internal resources such as reserves have been used instead of borrowing as it makes sense to deploy funds earning little interest as opposed to borrowing at a higher rate than funds invested are making. The ability to borrow remains if needed.

In response to a question from Conrad Bryant about the use of contingencies, officers explained that the allocated revenue contingency was deployed to meet an overspend in adult social services and housing benefit to balance the position. The budgets have been re-examined and officers expect that management activities will address overspends and deliver agreed savings.

#### **Resolved:**

The Committee noted the draft unaudited statement of accounts for the year ended 31 March 2015.

The Committee also congratulated Finance officers for completing the Statement of Accounts 3 weeks early.

## **9. Counter Fraud, Intelligence and Investigation Report**

Steve Tinkler (Head of Audit & Investigation) introduced the report, highlighting that it is a positive report demonstrating counter fraud activity, how the Council responds to risks including enhanced vetting for new recruits and results of cases (with case studies included). There has been a recent change with Housing Benefit Fraud, with a transfer of resource and responsibilities to the DWP for Housing Benefit Fraud. Referrals are passed on after they have been screened for intelligence as other fraud such as Council Tax related fraud often occurs at the same time as Housing Benefit Fraud.

Cllr Sabiers highlighted the lack of matches to actions for Payroll NFI and Housing Tenancy NFI and was informed that this was the position at 31 March 2015, but that matches have since been passed to services for action with an update on progress in the next report.

Cllr Murray drew attention to the Investigation Team performance in Appendix A, highlighting that the time from receipt of case to recommendation is 191 days. Officers informed the

Committee that cases are often large and complex, and can often be with the courts, solicitors or the police waiting for action on their part. Council work on it could have ceased or paused, but the case is still open so it is still measured. Time worked on a case by officers could be a better indicator.

In response to a question from Conrad Bryant about procurement fraud, officers informed the Committee that a 30 day internal audit on contracts and performance, including procurement, has just been carried out. Local authorities have progressed in terms of the level of scrutiny and decision making around procurement, with robust internal control processes that make procurement transparent. Assurance is provided through audit and a loop back in if fraud is identified to learn from it. There are plans to carry out larger, focussed audits and reviews.

Cllr Murray asked about the Internal Audit and Counter Fraud shared service with Hounslow. Officers informed the Committee that staff will be TUPE transferred over from Hounslow on 1<sup>st</sup> August. The shared service gives greater resilience to both organisations and the opportunity for shared learning. There will be separate audit plans for both Ealing and Hounslow Audit Committees and both have a defined level of resource to carry out their work programmes.

**Resolved:**

The Committee noted the work undertaken by the Counter Fraud, Intelligence and Investigation team.

**11. Head of Internal Audit Report 2014/15**

Steve Tinkler (Head of Audit & Investigation) introduced the report, highlighting that the statement of substantial assurance is derived from the work of the Internal Audit team. Auditors have become more challenging and have taken a harder line, but limited assurance reports are down with a small number of schools where limited assurance has been identified. The priority 1 recommendations have largely been implemented, it would be unrealistic to expect all audit recommendations have been implemented and the most important aspect is whether there has been timely implementation and that there isn't a large increase in recommendations not being implemented.

**Resolved:**

The Committee noted the Internal Audit performance and key issues arising during 1 April 2014 to 31 March 2015.

The Committee endorsed the use of the Head of Internal Audit Annual Opinion statement by the Council in support of its Annual Governance Statement.

**12. Risk Management Performance Report**

Steve Tinkler (Head of Audit & Investigation) introduced the report, highlighting that two new risks have been identified, CR0094 (Inability to attract or retain staff) and CRB/ID0016 (Cyber-attacks). All risks are considered to be within the Council's risk appetite.

In response to questions from Cllr Sabiers, officers emphasised that they have worked hard to challenge risk owners as to why risks are above the desired level, with risk management controls in place to manage risks down.

**Resolved:**

The Committee noted the Council's Risk Management Framework and the Strategic Risk Register.

Next meeting of the Audit Committee is on 8<sup>th</sup> September 2015.

Meeting closed at 20.15.