

Audit Committee

Wednesday 6th March 2019 at 7:00 pm

Present: Councillors Murtagh (Chair), Manro, Sabiers, and Young and Mr Hyun (Independent Person).

Ealing Officers: Ross Brown (Chief Finance Officer), Maria Campagna (Head of Corporate Finance), Mike Pinder (Head of Audit and Investigations), Ewan Taylor (Audit and Risk Manager), and Janine Jenkinson (Democratic Services).

In Attendance: Mr Ryan Gawley (Deloitte LLP), Mr Jonathan Gooding (Deloitte LLP) and Mr Tim Hooper (PwC)

1. Apologies for Absence

An apology for absence had been received from Councillor Tomlinson.

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Agenda Items 8 and 11 contained information that was exempt from disclosure by virtue of Paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972. This 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

The Head of Corporate Finance circulated two written updates relating to the queries detailed on page 2 of the minutes regarding benchmarking and the new regulations surrounding Money Market Funds (MMF).

The Investment Benchmarking update summarised the Council's investment performance in comparison to other local authorities. The Council had asked its treasury consultants, Link Asset Services, to provide a list of comparator local authorities in respect of investment performance. The information circulated showed that the Council's performance was in-line with the model Weighted Average Risk of Return (WARoR) and average in comparison to the benchmarking group.

The MMF Update summarised the new regulations surrounding MMF and outlined the Council's strategy to adapt to the changes.

Resolved: That the minutes of the meeting held on 28th November 2018 be agreed and signed by the Chair, as a true and correct record.

6. Deloitte External Audit Plan 2018-19

The Head of Corporate Finance introduced a report which set out in detail Deloitte's External Audit Plan 2018-19 and how it would deliver the audit of the financial statements.

Deloitte's External Audit Plan 2018-19, set out in Appendix 1 of the report, detailed the audit approach, including the audit planning work which had been carried out during early 2019. The audit was due to commence following the submission of the accounts on 31 May 2019. On completion of the audit work Deloitte would present a report to the Audit Committee in July 2019. This approach was consistent with previous years and complied with the mandatory early closing accounts requirements.

Members noted that the professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 were set out on page 17 of Appendix 1. The costs had been budgeted for in 2018/19 and showed an overall 20% reduction on the charge in 2017/18.

Mr Gooding reported that Deloitte's audit work was tailored to reflect local circumstances and assessment of risk. In relation to the audit for the year ending 31 March 2019, the following significant audit risks had been identified:

- Valuation of land and buildings
- Capital expenditure
- Management override of controls

Mr Gooding advised that work would continue to develop the risk assessment over the coming months as the planning procedures were completed. The Audit Committee would be informed of any changes to the significant risks identified.

In relation to Risk 1: Property Valuation - Members were advised that the valuation specialists, Deloitte Real Estate, would review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's land and buildings, including considering movements compared to those of other authorities performing valuations for 2018/19.

In relation to Risk 2: Capital Expenditure - Members were informed that audit would test the design and implementation of controls around the capitalisation of costs and test spending on a sample basis to confirm that it complied with relevant accounting requirements.

Councillor Manro asked what the handover arrangements had been with the outgoing auditors, KPMG, and if they had indicated what work they would have focused on for the forthcoming year.

Mr Gooding said that Deloitte auditors had met with KPMG to review and approve the files. He explained that although Deloitte auditors would take into

consideration the conclusions reached by the previous auditors, they would be forming their own views based on the work undertaken.

Mr Hyun asked if a property valuation would be carried out each year.

Mr Gooding said that property valuation was a specialist area and it was unlikely that this audit would be carried out each year.

Resolved: The Audit Committee noted Deloitte's External Audit Plan for the 2018/19 closedown process.

7. KPMG Annual Grants and Returns Report 2017/18 and Audit Conclusion

The Head of Corporate Finance presented a report which detailed the outcome of KPMG's Annual Grants and Returns Report 2017/18.

Members were informed that KPMG had audited the following three 2017/18 grant claims: Housing Benefit subsidy, Pooling of Capital Receipts return and Teachers' Pension return. It was noted that KPMG had issued an unqualified certificate for the Housing Benefits subsidy claim for the second successive year.

KPMG's work on the other grant assurance engagements had resulted in an adjustment to the Teachers' Pension return that decreased the amount payable to the department by £257,610. On both the Teachers' Pension return and Pooling of Housing Capital Receipts return they reported minor issues arising from the work they performed. Members were advised that the minor issues had no financial impact on the Council and KPMG had not raised any recommendations as a result of the audit.

Councillor Manro asked if the money arising from the adjustment to the Teachers' Pension return could be claimed back without there being a financial impact to the Council.

The Head of Corporate Finance confirmed that the funds could be claimed back and there would be no impact on the Council.

Members were advised that KPMG was in the final stages of concluding its 2017/18 audit work and due to issue a final decision regarding the objection raised by a local elector. The decision had been found in the Council's favour and the final audit certificates in respect of the 2016/17 and 2017/18 statements of accounts were due to be issued within the next two weeks.

Councillor Young noted that the objection raised by the local elector was the same objection a number of local authorities had received.

The Committee commended the work of officers in achieving an unqualified certificate for the Housing Benefits subsidy claim for the second successive year.

Resolved: The Audit Committee noted KPMG’s Annual Grants and Returns Report 2017/18 and that the final audit certificates in respect of 2016/17 and 2017/18 were due to be issued within the next two weeks.

8. Treasury Management Quarter 3 Update 2018/19

The Committee considered a report which provided an update on the Council’s borrowing and investment activities for the quarter ending 31 December 2018.

Over the reporting period, all treasury management activities had been carried out in accordance with the approved limits.

Members’ attention was drawn to the following key points:

- All treasury management activities had been executed by authorised officers within the parameters agreed by the Council.
- All investments had been made to counterparties on the Council’s approved Counterparty Investment list and within approved limits.
- Long-term borrowing of £15 million from Public Works Loan Board (PWLB) was raised during the reporting period to 31 December 2018.
- The existing long term debt to fund capital expenditure had increased to £558.504 million due to an increased PWLB borrowing and the amounts held on behalf of the Mortlake Crematorium Board.
- The Council had earned an average investment return of 0.668% on short term investments, outperforming the rolling average 7 Day London Interbank Bid rate (LIBID) of 0.48%.
- The Council currently held no direct investments with overseas financial institutions, although these are held indirectly through the Council’s MMF exposure.
- The Housing Revenue Account debt was managed separately from General Fund debt.

Members noted that that new rules relating to MMF’s had come into effect from 21 January 2019. It was explained that currently the Council would restrict its use of MMF’s to Government Constant Net Asset Value (CNAV) and Low Volatility Net Asset value (LVNAV) funds, although the authority could use Variable Net Asset (VNAV) MMF should this be deemed appropriate at a future date.

Councillor Manro said that investments seemed to be made on a relatively short term basis between three and nine months. He queried if this was a policy decision or due to the uncertain economic climate. He asked how investment maturity was calculated.

The Chief Finance Officer said the Council aimed to achieve the optimum return on investments commensurate with proper levels of security and

liquidity. He explained that the Council's cash flows were maintained through borrowing and investments. Long term investments were made in circumstances the Council's cash flow allowed.

Councillor Sabiers asked if the Council was using the correct benchmark to measure investment performance.

The Head of Corporate Finance referred to the Investment Banking update provided at the beginning of the meeting.

The Chief Finance Officer explained that the average 7 Day LIBID rate was the industry standard used to benchmark investment return.

Councillor Sabiers noted that paragraph 5.18 of the report stated that the Council would use VNAV MMF 'should this be deemed appropriate at a future date'. He asked how 'appropriate' was defined in this context.

The Head of Corporate Finance advised that this would be assessed in-line with the Treasury Management Strategy. Any new counterparties, including new MMFs were reviewed and assessed by the Council's Treasury Risk and Investment Board (TRIB) before being added to the approved counterparty investment list.

Resolved: The Audit Committee noted:

- I. The Treasury Management activities and performance against targets for the period to 31 December 2018.**
- II. The Council's investment balance of £119.310 million as at 31 December 2018 of which £82,000 million was invested in other local authorities, as set out in Appendix 1 of the report.**
- III. The Council's Treasury Management Strategy 2019-20 which had been approved by Cabinet and approved by Full Council on 26 February 2019, as set out in Appendix 2 of the report.**
- IV. The Council's counterparty investment list, as set out in confidential Appendix 3 of the report.**

9. Draft Internal Audit Plan 2019- 20

The Head of Audit and Investigation presented the draft Internal Audit Plan 2019-20 for the Committee's consideration.

The Internal Audit Plan was an indicative plan which was kept under review to ensure that it was agile and able to respond to emerging risks. The Plan was subject to revisions during the year with the approval of the Audit Committee.

The Plan set out the planning process along with a one year operational plan for the coming year. A strategic plan was provided, which included coverage from 2017/18, 2018/19 and potential areas to consider for 2020/21. Items included in 2020/21 were areas of coverage considered during the process, but that had been deferred for timing or resourcing reasons. These items had been recorded in the Plan to facilitate discussion for possible inclusion in future years. In future, the Plan would incorporate a broader history of audits, but would continue to be subject to revisions to remain responsive to the Council's evolving risk environment.

Mr Hyun noted that 'IT – Cyber', 'IT Applications' and 'IT Security' had been included as topics in the Plan but that other aspects of IT, such as social media did not feature. He asked if social media was considered a high priority risk. In addition, he asked if the Council had sufficient resources and expertise to manage risks relating to IT.

The Head of Audit and Investigation explained that IT was a rapidly evolving area and the associated risks changed quickly. He said that not enough focus had been given to this area in the past, but moving forward it would have higher priority. He reported that specialist services were bought in from PwC to undertake IT work.

In relation to Item 10 – Project Management, Councillor Manro noted that 'E.g. Delivery of 2000 affordable homes' should be amended to read 'E.g. Delivery of 2500 affordable homes'.

In relation to Item 8 – Cash Payments, Councillor Manro asked if it was the Council's intention to stop accepting cash payments. In addition, he explained that a number of agents and retailers accepted cash payments that could be transferred to the Council's account.

The Chief Finance Officer explained that the Council wished to reduce cash and cheque transactions to a minimum, so that the majority of payments were made electronically. However, he noted that for a small proportion of people, particularly for vulnerable residents there would continue to be a need to accept cash payments.

Councillor Manro asked approximately how many cash payments the Council currently received and suggested that in future residents wishing to pay by cash be encouraged to make payments via an agent.

The Chief Finance Officer explained that the Council continued to have the infrastructure to receive cash payments and he would find out the number of cash payments the Council currently received and report this back to the Committee.

The Chair thanked the Audit and Investigation Team for its hard work.

Resolved: The Audit Committee reviewed and approved the draft Internal Audit Plan for the period 1 April 2019 to 31 March 2020, subject to the amendment to the affordable housing figure detailed above.

10. Head of Internal Audit 2018/19 Quarter 3 Internal Audit and Investigation Update Report

The Head of Audit and Investigations provided the Committee with an update on the work of Internal Audit and Investigations for Quarter 3, 1 October 2018 – 31 December 2018.

Members noted that 74% of reports had been issued to draft and final stages. This was slightly ahead of the 70% target against the audit plan. The Audit and Investigation Team remained on target to complete all projects to draft stage by the end of March 2019.

Work on reactive investigations had resulted in £756,276 notional and £126,654 actual savings totalling £882,930 and 50 sanctions in Quarter 3. This included the recovery of 16 council properties, which would now be allocated to residents with a genuine need.

The Head of Audit and Investigations reported that the following proactive drives had taken place during Quarter 3 2018/19:

Phishing – A second phishing exercise had been undertaken with the ICT service. All employees had been emailed from a London Council's Digital. The email contained a competition to win £500 of Amazon vouchers and a link to a web page. The web page asked for an email address and password details. Members were advised that a number of employees had responded to the email. Each of the employees had been written to. The outcome of the exercise had been reported to the Strategic Leadership Team, with the request that teams be reminded to remain vigilant.

Housing Waiting List – A review of homelessness cases had been undertaken with the Housing Allocations Verifications Team. A list of applicants had been reviewed and as part of the project an enhanced verification process, unannounced visits and various other checks had been undertaken in order to confirm that the applicant had provided accurate information. A total of 15 cases had been reviewed, resulting in five on-going cases, seven cases being removed from the waiting list and three cases being closed, with no further action.

National Fraud Initiative – This was an exercise run by the Cabinet Office. The data match was undertaken every two years, it matched electronic data within and between public and private sector bodies to prevent and detect fraud. The matches had been released at the end of January 2019. Matches were currently being reviewed and prioritised. To date the work had resulted in 10 people being removed from the housing waiting list.

Members also noted the updates set out in paragraphs 7.9 and 7.10 of the report in relation to the tenancy drives undertaken at Racecourse Estate and Moreton and Rufford Towers.

The Head of Audit and Investigations drew the Committee's attention to the Investigation Team's performance to 31 December 2018, as set out in paragraph 9.1 of the report. Overall, good progress was being made against the target. The exception to this was the court ordered confiscation or compensation as a result of proceeds of crime work. On-going concerted efforts were being made to recover ill-gotten gains.

In relation to the phishing exercise recently carried out, Mr Hyun asked if there had been any penalty for the employees who had entered their email and password details. In addition, he asked how the Strategic Leadership Team could manage this risk and escalate its seriousness if necessary.

The Head of Audit and Investigations explained that the Council had now carried out a couple of similar exercises, but there was no plan to implement any sanctions on employees found to have responded to the emails. He reported that this type of exercise was not commonly undertaken by local authorities and the focus was on raising awareness and educating employees about the risks.

The Chair thanked the Audit and Investigations Team for its good work.

Resolved: The Audit Committee noted the performance of the Internal Audit and Investigations Team and the key issues arising during the period 1 October 2018 - 31 December 2018.

11. Risk Management Performance Report - Quarter 3 2018/19

The Head of Audit and Investigations provided the Committee with an update in respect of the review by the Strategic Leadership Team of strategic risks facing the Council at the end of Quarter 3.

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 2 2018-19. Four of the Strategic Risks control measure comments had been updated to reflect the current position. TSR0001 – Discharge of statutory duties, ISR0009 – Data Protection, CHR0002 – Recruitment and Retention, and ISR0002 – Environmental Impact of Policies.

The risk score for TSR0001 - Discharge of statutory duties, had changed from a residual risk score of 16 to 13 this was because the borough now had sufficient primary school places. The residual risk scores of the remaining three strategic risks remained unchanged since the last quarter.

The residual risk score and medium risk ratings of 11 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. In relation to Brexit, regular discussions were being held at Strategic Leadership Team. A Brexit working group had been established and was maintaining a ‘watching brief’ and working to understand the potential impacts.

In relation to the three risks which remained unchanged since the last quarter (ISR0009, CHR0002 and ISR0002) Mr Hyun asked when these risks would next be reviewed. In relation to ISR00010 (inability to provide critical council services in the event of a significant disruption) Mr Hyun noted that the medium risk rating would remain unchanged until the ICT enhanced disaster recovery arrangements were fully in place and asked if this would be reviewed in future.

The Head of Audit and Investigations said he regularly consulted with the Head of IT to ensure the correct risk ratings were set. He said he would seek assurance from the relevant manager to ensure this item was correctly rated.

Mr Hyun said it was difficult for Members to know if an item was missing from the Register and queried how the Committee could be assured that all appropriate actions were being taken.

The Head of Audit and Investigations said that actions were updated on the Register and Members would be able to see if an item had not been updated for an extended period of time.

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

12. Date of Next Meeting

The date of the next meeting was 22 May 2019.

The meeting ended at 8.00 pm.

Councillor Tim Murtagh, Chair

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