

AUDIT COMMITTEE

Wednesday 27 June 2013 at 7.00pm

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

Following introductions

1. Apologies for Absence

There were none

2. Urgent Matters

3. 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.

4. Declarations of Interest

There were none.

5. Minutes of the Last Meeting

Resolved:

Following amendment to reflect that Councillor Murtagh was present, that the minutes of the meeting held on 20 March 2013 be agreed and signed as a true and correct record.

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

There were no matters arising.

7. External Audit Reports

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

He outlined a summary of the work proposed over the next quarter and informed members of staffing changes. Tony Crawley had been appointed as the Director replacing Andrea White who had left in April 2013 He had met with The Chief Executive Officer and Executive Director Corporate Resources.

In response to a question from Conrad Bryan relating to the PFI scheme he explained that the figures from the accounts received were checked to ensure that they correspond to the model and the related liabilities.

Resolved:

That the committee note the strategy set out in the KPMG audit plans

8. Treasury Management Outturn 2012/13

Nigel Watson Assistant Director of Corporate Finance, introduced the report which provided the regular quarterly update on the Council's borrowing and investment activities, for the financial year ending 31 March 2013.

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 parameters agreed by the Council.
- All investments were made to counterparties within the Council's approved lending list.
- The Council's remaining investment of £380k (with Glitnir Bank) which is held in an Icelandic escrow has now increased in value to £407k.
- There was no long-term borrowing raised during the year to 31 March 2013.
- Long term debt was reduced from £501.7M to £494.9M.
- The Council earned 0.609% on short term lending, outperforming the actual rolling average 7 Day libid rate of 0.394%.
- The Council currently holds no investments with overseas financial institutions (apart from the balance of £407K on the Icelandic investment).
- The HRA debt is being managed separately from General Fund debt following the revised methodology agreed for the implementation of self-financing.

Members were referred to the table paragraph 6.4 which detailed the long term borrowing standing at £494.9M and setting out the split between General Fund and the HRA.

The table at paragraph 6.18 showed the investments held as at 31st March 2013. The Council continued to take a prudent attempting to strike a balance between optimum return on investments with the proper levels of security and liquidity. Investment in Treasury Bills had been approved during the course of 2012/13.

In response to a question from Councillor Potts on the Icelandic investment currently held in an escrow account, Nigel Watson undertook to advise Members on which bank the escrow was held with. It was also reported that the LGA was continuing to work on expatriation of the funds to the UK and it was hoped that this would be achieved in the near future.

Councillor Potts asked why there were not more investments in Local Authorities rather than banks. Nigel Watson stated that it was becoming more difficult to place monies with Local Authorities and that the returns were not so good.

In response to a question from Conrad Hilton about School's PFI, Nigel Watson confirmed finance would consider how the next update report could best report figures relating to the interest at the next meeting.

Resolved that the Audit Committee:

- i.) Note the Treasury Management activities and performance against targets for the 12 months to 31 March 2013.

- ii.) Note the Council's governance and reporting arrangements in line with CIPFA's best practice recommendations, as set out in paragraph 7.
- iii.) Note the Council's current lending list (Appendix 1), private and confidential.
- iv.) Note the Prudential indicators outturn for 2012-13 (Appendix 2).
- 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.
- vi.) Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the Council.

9. **Head of Audit Annual Report 2012/13**

Sudhi Pathak, Head of Audit & Investigations introduced the item which reported on the overall adequacy and effectiveness of the control environment over the year and provided an opinion, in accordance with the CIPFA Code of Practice for internal audit.

The 2012/13 Audit Plan which was agreed by Audit Committee in March 2012 consisted of 1059 days and 129 audits. The Audit Plan is split into two key areas. Key systems and other audits. One key financial systems audit, Asset Management, was completed with limited assurance.

The key indicator is % of Plan Completion as at 31 March as measured by the issue of draft reports. The target was set at 95% which is the minimum which must be attained to provide a sufficient basis for the development of the 2012/13 annual opinion.

Audits have been conducted both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK, 2006. (Appendix 4)

The opinion statement is derived from the work of internal and external audit, risk management, review agencies, inspectorates and the representations from senior managers in respect of the control systems for the areas under their responsibility.

It is Internal Audit's opinion that we can provide reasonable assurance that the system of internal control that has been in place at Ealing Council for the year ended 31 March 2013 accords with proper practice. In addition, that corporate governance arrangements comply with proper practice.

Additionally, there were no significant control weaknesses identified by Internal Audit as the result of its work carried out during the period 1 April 2012 - 31 March 2013.

Members' attention was drawn to table 2 on page 8 setting out the schedule of limited assurance reports. Officers would be following up action plans.

The table at appendix 3 showed the internal audit performance measures as at 31 March 2013. In general a positive direction of travel was noted for the set of performance

indicators over the 3 year period. In terms of the draft reports being issued 12 days after fieldwork this was due to disagreements between the auditor and auditee

Appendix 4 set out some aspects of Quality Assurance relating to the CIPFA Code of Practice

In response to a question from Councillor Potts about St Gregory's Primary School it was confirmed that a response had been received from the GB which had been fed into the action plan for checking. The report was being finalised.

In response to a question from Councillor Sabiers about weaknesses in schools it was reported that Audit targeted areas where weaknesses had been found ie procurement

John Allsop added that it was not always the fault of schools as there had been a number of systems changes introduced by the DFE. Councillor Potts added that schools finance committees usually only met once a term and quite often there was a lack of personnel

In response to a question about Free Schools it was confirmed that these were funded directly from Government.

Resolved: that the Audit Committee:

Approve the use of the opinion statement by the Council in support of its Annual Governance Statement included with the statement of accounts for the year ended 31 March 2013.

10. Counter fraud, intelligence and investigation report to March 2013

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, which had now concluded outcomes of cases investigated are

- The use of false identities in 20 benefit claims. Of these 5 claims were stopped from entering into payment and 15 were referred for adjudication.
- £344,926.04 of fraudulent overpayments were identified.
- 2 claimants were successfully prosecuted.
- 2 cases referred to UKBA
- As a result of the work on operation rapport and the cancellation of benefit claims an annual saving of £167,817 has been made.

Processes have been implemented to ensure such claims are suspended as soon as they are identified and referred to A & I.

A new Operation Rapport commenced in January 2013. Intelligence suggests that the fraudsters have changed their claim profile. Analysis of claims using this new profile identified 1451 "suspicious" claims requiring further analysis.

To date 801 cases have been checked identifying 36 high risk claims.

In order to progress these cases officers are obtaining working contacts in the French, Portuguese and Italian Embassies. Where contacts have not yet been established we are using UKBA contacts to assist us.

Document ID Checker. The pilot concluded in January 2013. A tender was undertaken and after evaluating three tenders a three year contract was awarded. The Council now has two ID scanners and training is being rolled out to relevant teams and officers.

Blue Badge. The initial identification of Blue Badge abuse resides 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.

CIFAS. To date 58 searches have been carried out on the SFD by the Enhanced Vetting Team. Training and awareness is being rolled out to Human Resources so that they can also access the database

Data Matching. In 2012/13 7 properties have been recovered using the data match which resulted in a saving of £126,000.

The matching exercise has been repeated for 2013/14 and results will be reported to future audit committees.

Track a Fraudster. Data was formally shared between boroughs on March 2013. The data analysis identified the following anomalies that will be investigated further.

- 208 scenarios where someone has a tenancy in one place, and claiming HB at another property
- 6 internal HB cross overs – i.e. someone claiming HB at different addresses within Ealing
- 2 cases of someone with a tenancy in another borough and claiming HB from Ealing
- 1 case of someone claiming HB from another borough and also from Ealing

The data continues to be refined and the database updated at monthly intervals with input of data from each borough.

Housing Fraud. Properties possessed to date (period April 2012- March 2013 (not including cases still at court) is 21.

Enhanced Vetting. The Enhanced Vetting Service now covers all departments in the Council and both temporary and permanent staff. The table on page 10 details enhanced vetting activity from April 2012 to March 2013.

In conclusion Sudhi Pathak outlined some examples of cases (page 15) that had been concluded. In response to a request from Councillor Cowing it was agreed that this would be a regular feature of future reports.

In response to a question from Councillor Potts it was confirmed that while not all fraudulent claimants were found the fraudulent claims were shut down. Successful prosecutions were published on a regular basis.

Resolved: That the Audit Committee

Note the work of the investigation team to March 2013

11. Risk Management Performance Report Quarter 1 2013/14

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

3.2 Welfare Reform Act

As has previously been reported to the Committee, Corporate Board asked for further work to be undertaken in relation to 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.

3.3 Letter of Representation

One of the key elements in obtaining the required internal controls assurance for the Annual Governance Statement is the completion of annual letters of representation by senior officers. Consequently, the LoR were sent to 21 senior officers. The response rate was 100% and an analysis of officers' responses to questions relating to Risk Management is set out in the table (page 2)

3.4 Staff Training

The next training course on the fundamental principles of Risk Management has been arranged for 10 July 2013. Feedback from the previous course in March 2013 was very good with an average satisfactory rating of 4 out of 5.

3.5 Corporate Risk Management Forum

CRMF met on the 19 June 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

Also, the membership and scope of CRMF is to be extended to include scrutiny of the Council's Data Protection framework. This is in line with the Information Commissioner's requirements relating to robust governance arrangements

3.6 Out of date Risk Analysis

The table at 3.6 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, one Directorate needs to address those risks which are out of date as soon as possible.

3.7 Strategic Risk Register (SRR)

The table at 3.7 summarises the movement in the SRR since it was last reported to Audit Committee. Appendix B sets out the SRR in detail. Members' attention was drawn to the confidential appendices

Risks Added/Upgraded

- CA0045 - Inadequate Budget Provision in Adult Social Care. Residual Likelihood risk rating uprated from 2 (Unlikely) to 4 (Very Likely). This was due to an expected overspend in the budget.
- SRR0073 - Implementation of the Welfare Reform Act 2012 results in a negative impact on Council services, finances and reputation. Residual Impact risk rating uprated from 2 (Significant) to 3 (Serious). This was due to uncertainty caused by changing Government policy and the financial impact on the Council of the WRA.

There had been rising demands in social care which in turn had impacted on the budgets.

Resolved: That the Audit Committee note

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

12. 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.

The report is an update from the previous meeting

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.

Significant issues for 2012/13 are circulated to the Annual Governance Statement working group which includes senior officers, for discussion. Sudhi Pathak briefly ran through the issues.

Following breaches of the Data Protection Act the Data Protection Team have engaged with identified key work streams across the Council working on a risk based approach launched in January 2013 and improvements had been made.

The Annual Governance Statement would be signed off in September by the CEO and Leader of the Council.

Resolved: that Audit Committee:

- 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. Quarter 4 Internal Audit Report 2012/13

The minutes should be read in conjunction with the agenda for the meeting. They are subject to approval and signature at the next meeting of this Committee.

John Allsop introduced the report which detailed the work of Internal Audit for the period 1 April 2012 to 31 March 2013.

Internal Audit Plan Amendments

Since approval, the Plan has been affected by audits which were:

- Added to address emerging risks
- Scheduled to a different period at the request of the sponsor
- Deleted as being no longer applicable.

Consequently, net Plan days has reduced by 177 to the current total of 882 days. A summary of Plan changes is set out below with a detailed analysis set out at Appendix B.

- The 12/13 Plan consisted of 102 (129-27) audits which included 7 ICT audits and 40 audits/follow ups within schools.
- 5 audits were still in progress as at 31 May as follows:
 - Programme Management
 - Asset Management
 - Freedom Passes/ Blue Badges
 - Bed & Breakfast Accommodation
 - Recruitment Processes inc. Implementation of e-recruitment
- 12 KFS audits were undertaken which comprised 6 full reviews and 6 follow ups.
- 1 KFS audit, Pensions Administration, was deferred to Q3 2013/14 at the request of the Head of Service due to work undertaken on the Actuarial Valuation.
- One KFS audit, Asset Management, received limited assurance as set out below at p.3.5.
- Appendix C sets out the 24 (24%) audits which resulted in a limited assurance opinion.
- The Chart on page 3 sets out the number and profile of limited assurance reports from 2008/9 to date.

Schools - In 2012/13, Internal Audit carried out the following work within schools:

- 25 schools subject to a Probity audit.
- 6 schools (those 2011/12 reports with 'Limited Assurance') subject to follow up. This includes Lady Margaret Primary School where the follow up was delayed.
- 1 schools wide audit in relation to the use of BACS for the payment of suppliers.
- 8 Schools subject to a Post 16/19 Education Funding Audit

The tables on page 4 of the report set out the status of the Schools Internal Audit Plan

- In total, 40 (42-2) audits were planned within schools in 2012/13.
- Details of the 9 'limited assurance' reports can be found at Appendix C

Internal Audit will follow up all schools audits paying particular attention to those schools which received a negative assurance opinion.

Schools Financial Value Standard (SFVS)

All eligible schools (83) submitted their completed SFVS assessment and this was reported to DfE in May 2013. The Council's 2 Pupil Referral Units (PRUs) were not required to complete the Standard due to not having a delegated budget. However, the PRUs will be required to complete the Standard in 2013/14.

Councillor Potts commented that it might be worth reminding schools that OFSTED would be looking at financial and probity issues.

Schools BACS

Currently, 12 schools have signed up to enable payment of suppliers via BACS of which 6 have successfully implemented the process.

3.1 2011/12 Internal Audit Plan Follow-up

Set out on page 4 is a summary of the Council's performance in implementing agreed recommendations arising out of the 2011/12 Internal Audit Plan. A detailed analysis can be found at Appendix D. The table on page 5 sets out the performance in implementing agreed recommendations.

3.8 Public Sector Internal Audit Standards (PSIAS)

New Internal Audit Standards, which came into effect on 1 April 2013, replace the Government Internal Audit Standards and are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. Appendix E provides further details and sets out how the Council intends to comply with the Standards. Appendix F sets out the Council's updated Internal Audit Strategy and Appendix G the updated Internal Audit Charter

Resolved: That the Audit Committee:

- i.) Notes Internal Audit performance and key issues arising during the period 1 April 2012 - 31 March 2013. (Appendix A)
- ii.) Adopts the new Public Sector Internal Audit Standards (2013).

14. Date of the Next Meeting

Members noted that the next meeting was scheduled for 19th September 2013

COUNCILLOR Tim Murtagh, Chairman

The meeting ended at 8.45pm