

Audit Committee

Wednesday 7th March 2018 at 7:00 pm

Present: Councillors Murtagh (Chair), Manro, Murray, Sabiers, and Young.

In Attendance: Ross Brown (Director of Finance), Pat Main (Interim Head of Corporate Finance), Mike Pinder (Head of Audit and Investigations), Neil Thomas (External Auditor KPMG), Ewan Taylor (Audit and Risk Manager), Steve Lucas (External Auditor KPMG), Tim Hooper (External Auditor KPMG) and Janine Jenkinson (Democratic Services).

1. Apologies for Absence

There were none.

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Agenda Items 6 and 11 contained appendices which held 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. The appendices were 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

In relation Item 8 – Annual Audit Letter and Progress Report (KPMG) the Director of Finance reported that the Annual Audit Letter 2016/17 had been circulated to all councillors on 7th December 2017.

In relation to the recruitment of an Independent Member, the Director of Finance explained that the position had been advertised on 1 March 2018, the closing date for applications being 19 March 2018. He explained that applications would be long listed, and an interview process would follow. Applicants would be interviewed by himself, the Head of Audit and Investigation and the Chair of the Audit Committee. It was anticipated that interviews would be held week commencing 9 April 2018.

Resolved: That the minutes of the meeting held on 29th November 2017 be agreed and signed by the Chair, as a true and correct record.

6. Treasury Management Quarter 3 Update 2017-18

The Interim Head of Corporate Finance presented a report which provided the Committee with an update on the Council's borrowing and investment activities for the quarter ending 31 December 2017.

Over the reporting period, all treasury management activities had been carried out in accordance with the approved limits. The report also provided information on the prevailing economic conditions over the reporting period.

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 agreed limits.
- No long-term borrowing had been raised during the period reporting to 31 December 2017. Borrowing had since been raised in February 2018.
- The existing long term debt decreased from £496.806 million to £490.788 million; there had been Public Works Loan Board (PWLB) maturities of £11.393 million in period to 31 December 2017.
- The Council earned an average investment return of 0.359% on short term investments, outperforming the rolling average 7 Day London Interbank Bid Rate (LIBID) rate of 0.121%.
- The Council currently held no direct investments with overseas financial institutions, though these were held indirectly through the Council's Money Market Funds (MMF) exposure.
- The Housing Revenue Account (HRA) debt was managed separately from the General Fund debt.

In relation to recommendation 1.3 set out in the report, the Interim Head of Corporate Finance pointed out that the date of the Council's Treasury Management Strategy had been incorrectly printed as '2017-18' and should instead read '2018-19'.

Members' attention was drawn to Table 1 set out in section 4.10 of the report, which listed Interest Rate Forecasts. The Interim Head of Corporate Finance reported that Link Asset Services had undertaken its last review of interest rate forecasts on 13 February 2018, after the quarterly Bank of England Inflation Report and Monetary Policy Committee meeting.

In relation to the overall Treasury Cash Flow position as at 31 December 2017, the Committee noted that the Council's cash flows were maintained through borrowing and investment activities on the wholesale money market and the net investment position as at 31 December 2017 was £82.340 million.

Temporary borrowing of £20.000 million was raised during the period to cover short term cash flow requirements. There were no repayments during the period therefore; £20.000 million of temporary borrowing was outstanding at 31 December 2017.

Members were advised that the Council continued to place investments with several local authorities; the investments were considered to be of high credit quality and were therefore on the Council's approved list of counterparties. The Council had nine investments placed across several councils totalling £32.000 million as at 31 December 2017, details were set out in Appendix 1 of the report.

The Interim Head of Corporate Finance reported that total long term borrowing stood at £490.788 million (including Mortlake Crematorium Board Loan) as at 31 December 2017. General Fund and HRA borrowing had decreased by £4.423 million overall for the period ending 31 December 2017.

In response to the Bank of England Base Rate increase, the Council had raised an additional £15.00 million of new long term borrowing to take advantage of the low PWLB rates before the central banks return to a more normal monetary policy which would see an increase in Gilt yields and PWLB rates.

Councillor Manro asked if Mortlake Crematorium was currently operating at a financial loss. In response, the Director of Finance advised that the crematorium was a separate legal entity, which held its own accounts. He agreed to provide an update to the Committee on the background to the Mortlake loan arrangement.

In relation to paragraph 5.14 of the report Councillor Sabiers asked when the Committee would be provided with an update regarding the changes to the rules around Money Market Funds. In addition, he noted the Council's new long term borrowing to take advantage of the low Public Works Loan Board, and asked if the Council would run into any difficulties if the central banks did not in future return to a more normal monetary policy.

Responding to the points raised, the Director of Finance explained that with current market conditions starting to shift, the borrowing position was under constant review and the Council would consider new borrowing at appropriate times.

Councillor Manro asked if the Council sought to take on new borrowing, once an existing debt matured. The Director of Finance explained that the Council did not prematurely repay loans, as the costs of the premium to repay debt usually outweighed any savings that could be achieved.

In light of Northamptonshire County Council issuing a Section 114 notice, Councillor Sabiers asked how the Council ensured its investments with other local authorities were secure and that the Council did not invest in 'financially shaky' authorities. The Director of Finance explained all investments were continually risk assessed and other local authorities were deemed relatively risk free counterparties. The Council relied on the credit rating provided by asset managers, rather than independently assessing individual councils. Overall, local authority deposits were deemed to offer high security and liquidity.

Resolved: The Audit Committee noted the:

- I. Treasury Management activities and performance against targets for the period to 31 December 2017.**
- II. Council's investment balance of £102.340 million as at 31 December 2017 of which £32.000 million was invested in other local authorities, as set out in Appendix 1 of the report.**
- III. Councils Treasury Management Strategy 2018-19, which had been approved by Full Council on 20 February 2018, as set out in Appendix 2 of the report.**
- IV. Council's counterparty investment list, as set out in confidential Appendix 3 of the report.**

7. KPMG External Audit Plan 2017 - 18

Neil Thomas, (External Auditor KPMG) introduced the report which set out KPMG's External Audit Plan 2017/18 and the details regarding how the audit of the financial statements would be delivered.

Councillor Manro noted the Council's forecast overspend for 2017/18 of £12.3 million and asked what work external audit would be undertaking to ensure the Council was achieving value for money.

Mr Thomas explained that external audit would review the arrangements the authority had in place to ensure financial sustainability. This would include a review of how cost pressures, income projections and other sources of income had been considered in planning the 2018/19 budget and the longer term medium term financial strategy. External audit would also consider the processes in place to ensure that identified savings were realistic and achievable within the planned timeframes.

Councillor Manro sought assurance that Council's Pension Fund had undergone a robust valuation process. In response, Mr Thomas explained that as part of its work external audit would gain an understanding of the effectiveness of controls operated by the Pension Fund to manage data required for the calculation of the Council's net pension liability. This would

include consideration of the process and controls with respect to the assumptions used in the valuation.

External audit would obtain direct confirmations from Fund Managers, London Collective Investment Vehicle and custodians, and audit the reconciliations between them. A review of Fund Managers compliance reports would also be undertaken to confirm satisfactory controls were in place. It was explained that an error tolerance level was established, however if multiple errors were discovered the issue would be referred to the Director of Finance.

Resolved: The Audit Committee noted KPMG's External Audit Plan for the 2017/18 closedown process.

8. KPMG Annual Grants and Returns Report 2016-17

The Committee gave consideration to a report which presented the outcome of KPMG's audit work.

During 2016-17 KPMG had audited the following three grant claims:

- Housing Benefit subsidy claim.
- Pooling of Capital Receipts return.
- Teachers' pension return.

The outcome of the audit was set out in KPMG's Annual report on Grants and Returns 2016-17, which was attached to the report as Appendix 1. KPMG had issued an unqualified certificate for the Housing Benefits subsidy claim. Members noted that this was the first time for over five years the claim had been unqualified.

KPMG's work on the other grant assurance engagements also resulted in unqualified assurance reports being issued. The Pooling of Housing Capital Receipts had three adjustments which did not impact on the total housing capital receipts subject to pooling. Members noted that KPMG had raised no recommendations as a result of the audit.

Councillor Manro queried the number of cases sample tested. Mr Lucas explained that for each case, every change in circumstance was scrutinised, and this involved numerous changes per case.

The Director of Finance reported that extensive checks and balances had been established, and were continually reviewed and refined to ensure a robust monitoring system was in place.

On behalf of the Committee, Councillor Manro thanked officers for the report and asked that thanks be extended to the relevant officers for their hard work in achieving an unqualified certificate for the Housing Benefits subsidy claim.

Resolved: The Audit Committee noted KPMG's Annual Grants and Returns Report 2016/17.

9. Draft Internal Audit Plan 2018-19

The Head of Audit and Investigation presented the draft Internal Audit Plan 2018-19 for the Committee's consideration.

Councillor Manro asked how the Audit Plan and programme of work had been scheduled. The Head of Audit and Investigation explained that he could independently determine the schedule of work, although he often received input from the Director of Finance. The operation plan remained reasonably fluid to allow areas of emerging risk to be adopted during the year, where necessary.

Members were advised that updates to the Plan would be reported to the Council's Corporate Board and the Audit Committee throughout the year.

Resolved: The Audit Committee reviewed and approved the draft Internal Audit Plan for the period 1 April 2018 to 31 March 2019.

10. Head of Internal Audit 2017-18 Quarter 3 Internal Audit and Investigation Update Report

The Head of Audit and Investigations presented a report which provided a progress update on the work of Internal Audit and Investigation for Quarter 3, 1 October 2017 – 31 December 2017.

Members noted that Key Performance Indicators (KPI) had been established to measure the delivery of the audit service. The KPIs for delivery against the Audit Plan for each quarter were based on draft reports issued. At the end of Quarter 3, a total of 54% of reports had been issued in draft or as final. The Head of Audit and Investigations advised that whilst this was 11% behind target, there were a number of projects in progress and all of the remaining projects for the year had been scheduled in.

Members were informed that during the period there were three reports issued with a limited assurance opinion:

- No resources to public funds, direct payments
- Special Educational Needs
- Direct payments

The Head of Audit and Investigations reported that during the period, the first phase of Continuous Auditing and Monitoring over the Council's key financial systems for 2017/18 had been completed.

Councillor Manro noted that 14 council tenancies had been recovered following investigation and this provided a notional saving of £252,000.

On behalf of the Committee, Councillor Manro thanked officers for the report and asked that thanks be extended to the relevant housing officers for their hard work to recover the fraudulent council tenancies.

Resolved: The Audit Committee noted the performance of the Internal Audit and Investigation Team and key issues arising during the period 1 October 2017 – 31 December 2017.

11. Risk Management Performance Report – Quarter 3 2017-18

The Head of Audit and Investigations provided the Committee with an update in respect of the review by Corporate Board of strategic risks facing the Council as at the end of Quarter 3 2017/18.

Members were informed that the current Strategic Risk Register (SRR) contained 17 risks. The total number of risks remained the same as Quarter 2, however during the quarter the following risks had been changed:

- A recruitment and retention risk had been added to the SRR, with a residual rating of medium.
- The complete or part failure of the ICT provision as a result of delays in implementing the post Secro contract transition had been removed, due to it being no longer current.

Members noted the updates provided in the SRR in relation to risks ISR0001 and ISR0008. These two strategic risks continued to have a high residual risk rating; however the risk scores remained unchanged since the last quarter.

The residual risk scores and medium risk ratings of 12 of the remaining 15 strategic risks were unchanged. In most cases, either 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.

The Head of Audit and Investigations reported that in three instances, although the ongoing controls being exercised by the services did not mitigate the residual risk to a below medium rating, no further cost effective enhancements to controls could be developed. In these circumstances, Corporate Board had agreed to tolerate the medium level risk rating.

Councillor Sabiers highlighted the importance of regular monitoring to ensure work continued to mitigate the risks. In addition, he queried if the Council had suitably considered the implications of Brexit and measures to mitigate risk. In response the Head of Audit and Investigations explained that work was ongoing to mitigate the risks associated with Brexit.

Resolved: The Audit Committee reviewed the current Strategic Risk Register, as set out in Appendix A of the report, and was assured 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

Members expressed thanks to Councillor Murtagh for his work as Chair of the Committee.

The next meeting was provisionally scheduled for 30 May 2018 at 7.00 pm.

The meeting ended at 8.05 pm.

Councillor Tim Murtagh, Chair

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