

Audit Committee

Wednesday 29th November 2017 at 7:00 pm

Present: Councillors Murtagh (Chair), Manro and Sabiers, Young and Mr Conrad Bryan (Independent Member).

In Attendance: Ross Brown (Director of Finance), Pat Main (Interim Head of Corporate Finance), Mike Pinder (Head of Audit and Investigations), Steve Lucas (External Auditor KPMG) and Janine Jenkinson (Democratic Services).

1. Apologies for Absence

An apology for absence had been received from Councillor Murray.

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Agenda items 6 and 10 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 to attendance - it was noted that Mr Conrad Bryan had been incorrectly recorded as 'Mr Conrad Bryant', and the 't' should be deleted. Mr Steve Lucas was incorrectly recorded as a representative of 'PWC', and this should be amended to read 'KPMG'. It was noted that '..and someone' should be deleted.

In relation to Item 8 - Internal Audit and Investigation Performance Report – Quarter 1 2017/18 – it was noted that the second sentence beginning 'He pointed out that the matters raised relating to Temporary Accommodation would be resolved by September' should be deleted and replaced with 'He advised that a report regarding the implementation of recommendations, in relation to temporary accommodation would be reported back to the Committee'.

In relation to Item 9 – Risk Management Performance Report Quarter 1 2017/18 - it was noted that the sentence beginning '? explained that the...' should be amended to read '**Mike Pinder** explained that the...'

Resolved: That subject to the amendments set out above, the minutes of the meeting held on 27 July 2017 be agreed and signed by the Chair, as a true and correct record.

6. Chair's Announcement

The Chair announced that Mr Conrad Bryan would be standing down from his position as Independent Member, after the meeting. He said it had been a pleasure and a privilege to work with Mr Bryan over the last six years, and wished him well.

The Director of Finance reported that a recruitment process to appoint a replacement Independent Member would be undertaken. Although there was no statutory requirement to appoint an Independent Member, it was considered best practice to do so. The position would be advertised appropriately, and candidates would be short listed and invited to interview. The process would be undertaken as swiftly as possible and it was hoped an appointment would be made early in the New Year.

The Chairman conveyed the Committee's thanks to Mr Bryan for his service over the last six year.

7. Treasury Management Mid-Year Update 2017-18

The Interim Head of Corporate Finance presented a report which provided an update on the Council's borrowing and investment activities for the six months ending 30 September 2017.

Members noted the following key points:

- All treasury management activities were executed by authorised officers within the parameters agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list and within agreed limits.
- Long-term borrowing of £5 million from Public Works Loan Board (PWLB) was raised during the period to 30 September 2017.
- The existing long-term debt decreased to £490.688 million; there were PWLB maturities of £11.393 million in the period to 30 September 2017.
- The Council earned an average investment return of 0.327% on short term lending, outperforming the rolling average 7 Day LIBID rate of 0.112%.

- 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 debt was managed separately from General Fund debt.

The Chair read out a number of questions that had been submitted by Councillor Murray:

The Chair, on behalf of Councillor Murray, asked what the rationale was behind the movements in the investments shown in the table presented at 5.7 of the report. In addition, he asked why there was such a large reduction in loans to other local authorities, from £82 million to £35 million, when such loans were high security and high liquidity.

The Interim Head of Corporate Finance advised that the movements related to day to day management of the Council's cash flow requirement. She explained that the Council generally invested in other local authorities for a fixed term. There was a requirement to keep cash readily available to manage day to day spending, so the move was towards using MMF to manage cash flow requirements, in circumstances where longer-term investments could not be committed to. She explained that MMF allowed flexibility, with the opportunity to invest and draw back at short notice. Members were advised that the information provided in the table at 5.7 of the report reflected the position as at 30 September 2017, and the position was continually changing.

The Chair, on behalf of Councillor Murray, asked why there had been a reduction in investment in Lloyds Bank from £19.6 million to £2.05 million. In response, the Interim Head of Corporate Finance explained that the information presented in the table at 5.7 of the report, was the position at 30th September 2017. She further explained that the Council took advantage of opportunities and favourable rates as they arose, and this was in-line with approved treasury management practice.

The Chair, on behalf of Councillor Murray, asked why there had been a reduction in Debt Management Office from £2.7 million to zero. In response, the Interim Head of Corporate Finance explained that this had been a short term, overnight investment. She further explained that MMF were less costly to administer than other investment opportunities, and provided flexibility at a reasonable return rate.

In relation to economic forecasts provided by Link Asset Services, Councillor Sabiers asked how often forecasts were provided and how reliable they were. The Interim Head of Corporate Finance explained that forecasts were provided on a monthly basis. Officers benchmarked a range of forecasts, giving consideration to the trigger rates, in order to determine the most appropriate time to borrow and draw down on investments.

Councillor Manro enquired about the Council's approach to long-term borrowing and debt repayment. The Director of Finance explained that debts were agreed for fixed durations, and the graph presented at 6.4 of the report showed the long term borrowing maturity profile as at 30 September 2017. He further explained that the table at 6.3 of the report, setting out loans repaid, represented loans repaid at the natural maturity date. The borrowing position was kept under constant review and new borrowing was considered in light of the availability of cash revenue, forecasts, and capital finance. The Council's long-term borrowing stood at £490.688 million as at 30 September 2017, and was within the anticipated year-end Capital Financing Requirement (CFR). Actual borrowing was behind the Council's CFR, and therefore there remained an element of internal borrowing.

Members noted that the Council's Capital Programme had been re-profiled to improve accuracy.

Resolved:

The Audit Committee noted the:

- I. Treasury Management activities and performance against targets for the six months to 30 September 2017;**
- II. Council's investment balance of £104.66 million as at 30 September 2017 of which £35.00 million was invested in other local authorities, as set out in Appendix 1 of the report;**
- III. Council's position on prudential indicators, as set out in Appendix 2 of the report; and**
- IV. Council's current lending list, as set out in Appendix 3 of the report.**

8. Annual Audit Letter and Progress Report (KPMG)

The Interim Head of Corporate Finance introduced the report, which presented the Council's external auditors Annual Audit Letter 2016/17 and the 2017/18 Audit Progress Report.

Members noted the following key findings of the Annual Audit Letter 2016/7:

- Unqualified opinion on the Council's and the Pension Fund's Statement of Accounts, for the year ended 31 March 2017.
- The Audit Certificate to confirm the completion of the 2016/17 audit, would not be issued until an objection received from a local elector had been resolved.

- The Council's Whole of Government Accounts pack was considered consistent with audited financial statements.
- Unqualified conclusion on the Council's arrangements to secure Value for Money for 2016/17.
- No high priority recommendations from the 2016/17 audit work had been raised.

The External Auditor reported that the Council had overspent early in the year. To address the overspend management had taken action by introducing spending controls, such as: a recruitment freeze, with any exceptions needing to be approved by the Director of Human Resources and the Director of Finance, a spending freeze on most goods and services with only Assistant Directors and above, being able to approve expenditure, and enhanced corporate controls relating to Purchase Orders. The arrangements were being tightly monitored and regular reports were presented to the Corporate Board to highlight levels of compliance and effectiveness.

Councillor Manro asked if Ealing Council was typical in this respect, and if other local authorities had faced similar situations. The External Auditor explained that increasingly local authorities had been overspending, however this year Ealing Council's overspend was higher than he had seen previously. He added that Ealing Council had managed its finances well, and through good planning, actions had been taken to reduce spend in-line with the budget. He highlighted the importance of implementing saving measures early in the year, to ensure planned savings were achieved.

Referring to page 39 of the report, Mr Bryan noted that it was recommended 'that best practice would be that a strong Project Board supported by a programme team is set up to co-ordinate the work', he asked if this sentence indicated that the Project Board was not strong enough at present.

The Director of Finance explained the Council was working to strengthen its approach to budget setting for 2018/19, with a focus on outcomes to be delivered, with nine priority outcomes and three distinct cross cutting transformational work streams. A reporting framework had been agreed by Cabinet, and it was vital that there were appropriate links between the nine outcomes and the three work streams to ensure that there was not any duplications of effort, given the cross cutting nature of the streams, or work streams concentrating on the same areas for savings. A dedicated programme manager had been appointed to track progress.

Members felt it would be good practice to circulate the Annual Audit Letter 2016/17 to all councillors.

The Committee also gave consideration to the External Audit Progress Report.

Resolved:

The Audit Committee noted:

- I. **the external auditors Annual Audit Letter in respect of the 2016/17 audit of the Statement of Accounts, set out in Appendix 1 of the report; and**
- II. **the 2017/18 External Audit Progress Report, set out in Appendix 2 of the report.**

9. Public Sector Audit Arrangements Update

The Interim Head of Corporate Finance introduced a report, which informed the Committee that the Public Sector Audit Appointments Limited had proposed the appointment of Deloitte LLP, as the Council's appointed external auditor, from 1 April 2018.

Resolved:

That the Audit Committee noted the proposed appointment of Deloitte LLP as the Council's external auditors from 1 April 2018.

10. Head of Internal Audit 2017-18 Quarter 2 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 2, 1 July 2017 – 30 September 2017.

Members' attention was drawn to the performance of the Audit and Investigations Team set out in section 10 of the report. The Head of Audit and Investigations explained that there was a need to review targets. Priorities focused upon proactive work, and the aim of preventing fraud before it occurred.

In relation to a query regarding bank reconciliations, the Head of Audit and Investigations reported that bank reconciliations were being completed on a monthly basis. Since April, the in-year figure had been successfully reconciled. The Banking Team had reviewed the position, and was confident of resolving the full position by the end of November 2017. The Head of Audit and Investigations agreed to confirm the position with the Interim Head of Corporate Finance, and to report back to the Committee.

In response to a query, regarding the format of the table set out in section 4.2 of the report, Members were informed that the column 'Final Reports to Audit Committee' would continue to be populated.

The Committee noted that the Audit and Investigation Team had participated in International Fraud Awareness Week, 12-18 November 2017. The Team

had undertaken a variety of activities including: holding a fraud awareness roadshow in Cafe Rendezvous for Council staff, publishing information on the Council's social media platform 'Yammer' to highlight fraud awareness, a tenancy drive to visit tenants, with a view to prevent and detect tenancy fraud, and circulating a spam email to Council employees, offering a chance to win a new iPhone X.

Mr Bryan highlighted that from May 2018, the Data Protection Act would be replaced by the General Data Protection Regulation (GDPR), a framework with greater scope and much tougher punishments for those who failed to comply with new rules around the storage and handling of personal data. Mr Bryan asked what work the Council was undertaking to protect personal data. The Head of Audit and Investigations explained that a project working group had been established to consider the implications of GDPR and to ensure the Council was fully compliant by May 2018. The project group was looking at the Council's systems and how data was held.

Councillor Sabiers noted that the 'Initial Evaluation Commenced' in relation to Blue Badge Parking Permits was 91; he asked if this figure was low and concerning. The Head of Audit and Investigations explained that this was a new report that had commenced later than the other reports.

Resolved:

That the Audit Committee noted the performance of the Internal Audit and Investigation Team and the key issues arising during the period 1 July 2017- 30 September 2017.

11. Risk Management Performance Report – Quarter 2 2017-18

The Head of Audit and Investigations introduced a report that provided the Committee with an update in respect of the review by the Council's Corporate Board of strategic risks facing the Council as at the end of Quarter 2, 2017-18.

Members were asked to consider the current Strategic Risk Register (SRR) to assure themselves 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.

The Committee noted that there had been no changes to the risk ratings since the end of Quarter 1.

In reply to a question regarding the Grenfell Tower fire and how the SRR reflected the effects of the fire, the Head of Audit and Investigations explained that the fire had highlighted the importance health and safety requirements, and this area continued to be monitored. In addition, Councillor Sabiers reported that the Overview and Scrutiny Committee had considered a report regarding housing and the implications of the Grenfell Tower fire at a recent meeting.

In reply to a question regarding the Council's policy for writing off bad debts, the Director of Finance explained that a variety of methods were used to recover outstanding debts and action was taken to pursue effective recovery. Ultimately, if a debt was unrecoverable, the Executive Director of Corporate Resources and the Director of Finance had the authority to write the debt off.

There was some discussion in relation to the Government axing the 'staircase tax' and the news that the London Borough of Tower Hamlets Council would have to repayment a bill for overcharging on business rates. Responding to a question about the ramifications for Ealing Council, the Director of Finance explained that the Government would reimburse the Council for any financial loss, albeit there could be a time delay for the receipt of compensation.

Resolved:

That the Audit Committee noted the current Strategic Risk Register, set out in Appendix A of the report and was satisfied 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 next meeting was scheduled for 7th March 2018 at 7.00 pm.

The meeting ended at 8.10 pm.

Councillor Tim Murtagh, Chair

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