

Audit Committee

Wednesday 22nd May 2019 at 7:00 pm

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

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 Officer).

In Attendance: Mr Tim Hooper (PwC)

1. Apologies for Absence

An apology for absence had been received from Mr Hyun (Independent Person).

The Chair reported that Mr Hyun had submitted a number of questions and queries to be considered at the meeting. The Chief Finance Officer advised that he would provide a response to Mr Hyun's questions outside of the meeting and circulate the response to Committee members.

Resolved: That the Chief Finance Officer circulate a response to Mr Hyun's questions at the next Committee meeting.

2. Urgent Matters

There were none.

3. Matters to be Considered in Private

Agenda Item 8 contained information that was exempt from disclosure by virtue of Paragraphs 3 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

It was noted that on page 5 of the minutes, Item 8 – Treasury Management Quarter 3 Update 2018/19 that under resolution II. '£82,000 million' should be amended to read '£82 million'.

In response to a query raised under Item 9 - Draft Internal Audit Plan 2019-20, relating to cash payments, the Head of Corporate Finance presented the Committee with information regarding the Council's cash activity, which included a comparison of 2018-19 and 2017-18 financial years.

The information showed a reduction in the number of cash and cheque payers from the previous year. It was noted that the Council's cash office had been closed part way through the 2018/19 year.

Councillor Young asked where most of the Council's cash transactions took place. In addition, he asked if the Council's car parking income was included in the figures circulated.

The Head of Corporate Finance reported that the majority of cash payments were made through agents and there were a small number of payments made in Perceval House Cafe and Hanwell Zoo. She confirmed that car parking income was not included in the amounts stated.

The Head of Audit and Investigations advised that Audit had been undertaking work in relation to the Council's cashless agenda and an update report would be presented to the July Committee meeting.

Resolved:

- I. The Audit Committee noted the update provided.**
- II. That, subject to the amendment set out above, the minutes of the meeting held on 6th March 2019 be agreed and signed by the Chair, as a true and correct record.**

6. Draft Annual Governance Statement 2018/19

The Head of Audit and Investigations introduced a report which set out the methodology used to produce the Annual Governance Statement for 2018/19 and highlighted the pertinent governance issues.

It was the opinion of the Head of Audit and Investigations that there was reasonable assurance over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2018-19.

Members' attention was drawn to section 5 of the report which set out the issues assessed as being significant for the purpose of the 2017/18 Annual Governance Statement. Over the coming year, the Council would take steps to address the matters identified to further enhance its governance arrangements. Progress would be monitored throughout the year.

Councillor Sabiers noted issue 3 – Brexit and asked if the details provided in the report to Cabinet in March 2019 could be shared across the Council.

The Head of Audit and Investigations explained that a 'watching brief' continued to be exercised on Brexit. He said that all risks identified were scored and continually reviewed to ensure that ratings remained up-to-date. As part of the identification process 'unknown factors' were considered and formed part of the risk management assessment.

Councillor Manro asked if information and best practice were shared across local authorities.

The Head of Audit and Investigations explained that his role as Head of Ealing and Hounslow Councils' Shared Service allowed him to cross reference information and ensure that nothing was overlooked or omitted from the risk registers.

Resolved: The Audit Committee noted the Draft Annual Governance Statement for 2018/19.

7. Head of Internal Audit Opinion 2018/19 incorporating Quarter 4 Internal Audit and Investigation Update Report.

Members considered a report that set out the Head of Internal Audit's Report and Opinion on the Internal Audit work that had been completed in 2018/19, including an update on the work of Internal Audit and Investigations for Quarter 4, 1 January 2019 - 31 March 2019.

It was the overall opinion of the Head of Internal Audit that the Council's system of internal control, governance and risk management that reasonable assurance could be given that there was a sound system of internal control, designed to meet the organisation's objectives and that controls were applied consistently. Controls relating to key financial systems were overall concluded to be at a reasonable assurance level. This was borne out by the key financial systems work having received reasonable assurance level during the year.

Internal Audit work on other systems had also concluded that there was an overall reasonable level of assurance. During the year, three reports had been issued with limited assurance: cashiers/cash payments, data protection and the Better Lives Programme.

Members noted that the Peer Review of Internal Audit Against the UK Public Sector Internal Audit Standards had concluded that based on the work carried out, Internal Audit at the London Boroughs of Ealing and Hounslow generally conformed with the UK Public Sector Internal Audit Standards.

Councillor Manro asked if Internal Audit Officers were ever pressurised by senior officers or head of departments.

The Head of Internal Audit and Investigations explained that Internal Audit Officers reported directly to him. He explained that as Head of Audit he had independence from the Chief Finance Officer and had unfettered access to the Strategic Leadership Team, the Chief Executive and the Audit Committee. In addition, fraud or corruption could be reported directly to the police or a third party if appropriate.

Members' attention was drawn to the following highlights of investigation work undertaken throughout 2018/19:

- Notional and actual savings of £1,277,203 (compared to £801,156 for 2017/18)

- 69 sanctions (compared to 35 for 2017/18)
- Recovery of 19 council properties (compared to 18 for 2017/18)
- 24 priority waiting list cases prevented
- 9 homelessness cases prevented
- 31 vetting cases either failed or were prevented

The Head of Audit and Investigations reported that the Investigations team continued to undertake enhanced vetting work for all permanent and temporary employees to verify the validity of candidates and their employment applications. Reasons for failure to progress into a post had included Benefit and Council Tax fraud, housing fraud, false employment history, false references and false qualifications. The outcomes of the vetting work between 1 April 2018 and 31 March 2019 was that 31 cases had either failed or were prevented, this equated to nearly 6% of all cases reviewed. 16 cases had resulted in referrals either internally or to other organisations.

The Head of Audit and Investigations drew the Committee's attention to the Investigation team's performance to 31 March 2019, as set out in section 11 of the report. The number of cases closed following an investigation up to 31 March 2019 was 164. Of these the number of cases where fraud was proved, at least on the balance of probabilities was 72. The actual fraudulent loss incurred by the Council arising from these cases totalled £175,419.

It was noted that the exception to the good results achieved was the court ordered confiscation or compensation as a result of proceeds of crime work. Members were reassured that every effort was being made to recover ill-gotten gains and work was on-going on a number of cases.

Referring to a recent ICT incident the Council had experienced, the Head of Audit and Investigations explained that he would be meeting with the Head of ICT to ensure the correct risk measures were in place.

The Chief Finance Officer said the incident had demonstrated the Council's resilience and that robust risk measures were in place. The Council's ICT department had identified a potential risk early and actions had been taken to ensure the incident did not escalate.

Resolved: The Audit Committee:

- I. noted the performance of the Internal Audit and Investigation team and the key issues arising during the period 1 January 2019 – 31 March 2019;**
- II. noted the Head of Internal Audit's Annual Opinion for 2018/19;**
- III. agreed the changes to the Audit Charter, as set out in Appendix A of the report; and**

IV. noted the outcome and action plan from an external audit quality assessment of the service, as set out in Appendix B of the report.

8. Risk Management Performance Report – Quarter 4 2018/19

The Committee was provided with an update regarding the review by the Strategic Leadership Team of strategic risks facing the Council at the end of Quarter 4.

Members were informed that the current Strategic Risk Register (SRR) contained 17 risks. The total number of risks remained the same during the quarter and there had been no changes to the residual risk ratings since the end of Quarter 3 2018/19.

The residual risk scores and medium risk ratings of 11 of the 14 strategic risks remained unchanged. In three instances (ISR0004, ISR0006 and ISR0014), although there were on-going controls being exercised by the services, these did not mitigate the residual risk to a below medium rating, and no further cost effective enhancements to controls could be developed. In these circumstances, the Strategic Leadership Team had agreed to tolerate the medium level risk rating.

In relation to ISR0014 – a reduction in the supply and lack of availability of affordable housing in the Borough as a result of the implementation of the Welfare Reform – Councillor Manro asked if the Council's target of providing 2,500 affordable homes over the next four years assisted in reducing the risk rating of this item.

The Chief Finance Officer explained that given the limited supply of affordable housing and the rental market in London this item would continue to be a significant risk on the register.

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

9. Deloitte External Audit Plan 2018/19 – Pension Fund

Consideration was given to a report which set out how external audit would deliver the audit of the Pension Fund incorporated within the Statement of Accounts.

The Head of Corporate Finance drew members' attention to section 3.5 of the report which noted that before the start of the audit Deloitte had set a money materiality level for planning purposes. For 2018/19 this was £12 million for the Pension Fund, for 2017/18 materiality had been set for £15 million. Deloitte would report all audit differences over £0.6 million.

On completion of the audit work Deloitte would present a report to those charged with governance at the Audit Committee meeting in July 2019. Post

reporting activities would then be undertaken and final clearance on the final fund annual report and accounts would be provided in September 2019. This timetable was consistent with last year and complied with the early closing requirements that were now mandatory.

Members noted that the Pension Fund audit fee for the year ending 31 March 2019 was £16,170. This was a reduction from the 2017/18 fee (£0.021 million) and had been budgeted for in 2018/19.

Resolved: The Audit Committee noted Deloitte’s 2018/19 External Audit Plan for the Pension Fund as part of the closedown process.

10. Date of Next Meeting

The date of the next meeting is 25 July 2019.

The meeting ended at 7.50 pm.

Councillor Tim Murtagh, Chair

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