



CITY OF WESTMINSTER

# MINUTES

## AUDIT AND PERFORMANCE COMMITTEE

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the Audit and Performance Committee held on **Wednesday 6<sup>th</sup> February 2013** at Westminster City Hall, 64 Victoria Street, London SW1E 6QP

**Members Present:** Councillors Tim Mitchell (Chairman), Lindsey Hall (Vice-Chairman), David Boothroyd, Jean-Paul Floru, Ian Rowley and Judith Warner.

**Officers present:** Anna D'Alessandro (Deputy Director of Corporate Finance), Naomi Stauber (Committee and Scrutiny Officer), Nick Byrom (Performance Business Analyst), Mo Rahman (Performance Analyst), Martin Hinckley (Head of Shared Service Centre), Chris Harris (Associate Director - RSM Tenon), Moira Mackie (Senior Manager - RSM Tenon) and David Whitehouse-Hayes (Counter Fraud Manager - RSM Tenon).

#### 1. MEMBERSHIP, MINUTES AND DECLARATIONS OF INTEREST

- 1.1 The Chairman with the assent of the Members present signed the minutes of the Committee meeting held on 21<sup>st</sup> November 2012.
- 1.2 There were no declarations of interest.

#### 2. WORK PROGRAMME

- 2.1 The Committee noted the work undertaken in response to the actions which arose from the last meeting. The Chairman noted that the actions relating to the Corporate Complaints Review 2011/12, and the request to receive the most recent Adult's and Children's Social Services complaints reports as well as information setting-out the formal scrutiny/monitoring arrangements for these reports, had been completed since the circulation of the agenda. No other actions were outstanding.
- 2.2 Councillor Lindsey Hall, Lead Member of the Benefit Fraud Working Group, noted the update on the work of the Group detailed the Work Programme and further informed Members that she had recently received a report produced by SOCA (Serious Organised Crime Agency) and would be incorporating the recommendations into the remit of the Group going forward.

- 2.3 Councillor Ian Rowley informed the Committee that he was now a member of the Commercial Property Review Board and would feed-in the work of the Board to the Committee for information going forward.
- 2.4 **ACTION:** The Committee considered the proposed Work Programme for the remainder of the 2012/13 municipal year and requested that a briefing note on the Local Audit Bill, which was at the pre-legislative scrutiny stage of the process in the House of Commons, be circulated for Members' information.
- 2.5 Members expressed concern that the Chief Operating Officer had failed to attend two consecutive Committee meetings.
- 2.6 **RESOLVED:**
- (1) That the Work Programme for the 2012/13 municipal year attached to the report as Appendix 1 be noted;
  - (2) That the progress of the Working Groups be noted; and
  - (3) That the work undertaken in response to the actions which arose from the last meeting, as detailed in Appendix 4, be noted.

### 3. **KPMG CERTIFICATION OF CLAIMS AND RETURNS ANNUAL AUDIT REPORT (AUDIT 2011/12)**

- 3.1 Martin Hinckley, Head of Shared Service Centre, introduced the KPMG report which summarised the outcomes of the certification work carried out by the previous external auditor (Audit Commission) in respect of the Council's claims and returns for the 2011/12 financial year. The Council's external auditor (now KPMG) is required annually to review the grants the City Council claims through the grants certification audit and the City Council is required to communicate the key messages from the audit with those charged with governance which, at Westminster, is the Audit and Performance Committee. The report detailed that five claims and returns with a total value of £1,762,288,833 were certified and the Audit Commission issued unqualified certificates for four claims and returns. However, a qualification was necessary for one claim. A qualification letter was agreed with the Council, extrapolating and reporting on the errors found on the Housing and Council Tax Benefit Scheme claim. No amendments were made to the claim for the errors identified. The claim was also subject to qualification in 2010/11, however the number of errors identified in this year's testing had increased.
- 3.2 Mr Hinckley informed the Committee that the number of recommendations in the report had reduced from 3 in the 2010/11 certification of claims and returns annual report to a single Priority 2 recommendation for 2011/12 in respect of the aforementioned Housing and Council Tax Benefit Scheme claim: "*Review the Housing and Council Tax Benefit Scheme qualification letter to determine whether any process or controls can be implemented to reduce the number of type errors identified in the testing*". Mr Hinckley recognised that the Council's performance in this area could be improved and this recommendation had therefore been accepted and will be taken forward. He noted that no other

specific recommendations had been issued by the Audit Commission. The Chairman noted the positive improvement in the reduction of recommendations on last year and informed Members that this was likely to be primarily due to the appointment of an officer to act as the Council's 'Grants Claim Co-ordinator', in accordance with a recommendation made by Audit Commission as part of last year's report.

- 3.3 Members cited the increase in the number of errors identified in this year's sample testing of the Housing and Council Tax Benefit Scheme claim (16 errors identified in the initial testing compared to 4 in 2010/11) and questioned Mr Hinckley on the steps he and his team would be taking to minimise such mistakes occurring the future. Mr Hinckley informed Members that the Housing and Council Tax Benefits Scheme claim is governed by more complicated regulations than the other claims and returns. Due to the complexity of the process almost all local authorities are subject to claim adjustments. Mr Hinckley reassured Members that the KPMG report states *"the Council has good arrangements in place for preparing our Housing & Council Tax Benefit claim / supporting evidence and the errors identified were similar to those found in previous years"*; and also noted that the qualifications relating to the Council are similar to those arising at other London boroughs. Mr Hinckley recognised that the occurrence of similar qualifications at other London Boroughs in this respect should not deter the Council from working towards the minimisation of systematic errors in processing information, but noted that the extent of the errors identified at the City Council in financial terms is very small – relating to circa £10k out of a £250M claim. Mr Hinckley therefore considered the qualification to be unsatisfactory but not a key issue.
- 3.4 Members questioned why, in respect of the Housing and Council Tax Benefit Scheme claim, the errors were reported by the Audit Commission to the DWP (Department for Work and Pensions) in accordance with certification instructions, but further sample testing was not undertaken. Mr Hinckley informed the Committee that the DWP takes a pragmatic approach and in recognition of the aforementioned complexity of the process tend not to pursue errors to claims in boroughs where the amendments are relatively small.
- 3.5 The Committee acknowledged the administrative nature of the certification of claims and returns errors identified by the work of the Audit Commission but also noted the wider importance of ensuring that the Council detects weaknesses in such systems prior to claims entering the system.
- 3.6 **ACTION:** Members noted that an amendment of £21,968 was made in respect of the pooling of housing capital receipts claim, to reduce management and administration costs, which were included in the original claim on the basis of estimates, to reflect actual costs. The Committee requested an explanation as to why estimates instead of actual costs were used in the first instance.
- 3.7 **RESOLVED:** That the report be noted.

#### 4. **INTERNAL AUDIT AND COUNTER SUMMARY MONITORING REPORT NOVEMBER – DECEMBER 2012**

- 4.1 Chris Harris, RSM Tenon, introduced the report which summarised the internal audit and counter fraud work carried out from November to December 2012. In respect of the audit work undertaken during the period Mr Harris informed the Committee that in the areas audited, internal control systems were generally effective with 79% of the audits completed receiving a positive assurance opinion. The Council was also found to be effective at implementing recommendations where problems were found and, where control improvements were required and compliance with agreed systems should be improved, action plans were in place to remedy the weaknesses identified. These will be followed up until they are considered to be complete. Mr Harris also highlighted that two Amber RAG audits had been completed with significant findings – relating to the resilience of customer facing systems and St Stephen's Primary School.
- 4.2 In the context of school audits generally, the Committee discussed the role performed by RSM Tenon in firstly, assessing whether schools have the appropriate and robust systems and controls in place for effective financial reporting and monitoring; and secondly the way in which RSM Tenon work with school finance officers and senior management teams to support schools in the implementation of recommendations to address the weaknesses identified. Moira Mackie, Senior Manager - RSM Tenon, explained how schools in Westminster have historically been assessed and informed the Committee that RSM Tenon works very closely with the respective school at all stages of the audit and organises forums with school management, headteachers and governors, to share information, experience and enable schools to adopt best practice approaches to financial management. The Committee noted that it is very rare for an audit involving a school to receive a Red RAG status and were informed that an example of an issue which could warrant Red RAG status are key weaknesses relating to CRB (Criminal Records Bureau) checks.
- 4.3 The Committee were informed that a number of audits were being undertaken in respect of services provided within RB Kensington and Chelsea (RBKC), LB Hammersmith and Fulham (LBHF) and Westminster City Council (WCC) under the tri-borough working arrangements, currently in the areas of Adult's Social Care, Children's Services and Libraries. These audits were being undertaken by either RSM Tenon, the external contractor to LBHF/RBKC or the in-house internal auditors at RBKC and are allocated, as far as possible, to the audit team for the respective borough leading upon the tri-borough shared service in question. However, this is not always possible and audits are otherwise allocated according to the resource available. Members noted that the completed outcomes of these audits will be reported to the Committee in due course.
- 4.4 In respect of the audit undertaken on the resilience of customer facing systems, Mr Harris clarified that the audit had been given an Amber RAG status on the basis that the systems were assessed and considered have key weaknesses around their resilience. The audit identified that there was a risk that poor availability of customer facing IT systems could result in a loss of service to customers and a loss of income to the Council and, in this respect, the systems were not considered to be best practice. However, there was no danger of the systems failing and did not therefore not warrant a Red RAG

status audit. Mr Harris confirmed that the recommendations issued to address key weaknesses had been accepted and taken forward for implementation. The results of the follow-up audit will be reported to the Committee at its meeting in June 2013. In response to questions from the Committee regarding the changes in IT systems in the private and public sector Mr Harris informed Members that, although private sector organisations tend to allocate more funds towards its IT systems the change process is generally no less difficult to implement and embed than at public sector organisations such as local authorities.

- 4.5 In respect of the fraud work undertaken during the period Mr Harris noted that Housing Benefit Fraud Investigations resulted in 7 prosecutions and 19 “Cautions” or “Administrative Penalties” being issued during the period which related to overpayments and fines totalling £338K. Furthermore, General fraud investigation work has resulted in 2 Council housing properties being recovered. In response to a query from the Committee regarding any trends which have emerged in respect of benefit fraud cases, David Whitehouse-Hayes, Counter Fraud Manager - RSM Tenon, confirmed that increasing values have been discovered in relation to identity fraud. Mr Whitehouse-Hayes informed Members that identity fraud is a growing problem – in both complexity and in terms of the scale of the cases. He noted that RSM Tenon had been successful in preventing cases of false identities through a process of cross-checking documents and references. However, cases of stolen identities are almost impossible to detect due to the in-depth research and resources required.
- 4.6 In response to a query from Members regarding the Council’s involvement in the emerging West London Fraud Hub, Martin Hinckley informed the Committee that the hub was developing but not yet live. He clarified that the City Council had concerns regarding data protection – specifically the sharing of confidential housing benefit data with a third party contractor. Members heard that the Council has a duty to ensure that the Information Commissioner is satisfied that sharing such data in the way proposed by the West London Fraud Hub would not breach data protection laws. RBKC is in the process of taking the case to the Commissioner and Westminster will await the Commissioner’s decision before progressing its involvement in the initiative.
- 4.7 **RESOLVED:** That the internal audit and counter fraud work carried out during the period be noted.

## 5. (QUARTER 3) FINANCE AND BUSINESS PLAN PERFORMANCE REPORT 2011/12

- 5.1 Anna D’Alessandro, Deputy Director of Corporate Finance, introduced the finance section of the report and highlighted the following key messages for Period 9: Service Areas were projecting a favourable variance of £2.2M against the net Budget position of £215.5M which was an improvement of £1.7M from Period 8. This improvement was largely driven by favourable movements in Adult Social Care, SEB & Strategic Support and Children’s Services. Closing General Fund Reserves were projected to be circa £25M-£27M. The Balance Sheet net asset position was £274.4M which had moved from £272.5M in Period 8. Capital Expenditure projected a net capital outturn

of £28.1M which was an underspend of £8.1M against the Budget of £36.3M (excluding HRA). Of this variance £4.7M was due to slippage and £3.4M (£4.2M and £3.4M respectively in Period 8) to projected underspend.

- 5.2 Members noted that the Debt Management Project was continuing to make good progress with both short-term and long-term improvements already identified in the area of Corporate Property. A more detailed update would be provided to the Committee at its next meeting in April.
- 5.3 In response to a query from Members regarding the Council's Reserves policy in the context of future change costs, Ms D'Alessandro confirmed that as Reserves increase the Council will consider creating Earmarked Reserves to cover change costs from significant programmes such as the Customer Programme. Members were informed that, although the Council needs to continue to build Reserves to (at least) its future target of £30M – £40M, the trajectory continues to be positive and it may therefore be prudent to Earmark Reserves prior to the achievement of this target amount to provide for the aforementioned change projects which will incur costs in the next financial year, but which will also pay dividends in forthcoming years. A view on any such strategy will be taken at Year-End whilst being mindful of the necessity to continue to build and strengthen General Fund Reserves.
- 5.4 **ACTION:** The Committee requested that the Cabinet Member for Finance and Customer Services be asked to confirm that a prudent level of General Fund Reserves for the City Council is considered to be £30M – £40M; and whether there is scope for fixing any such figure so that Reserves under the specified amount cannot be earmarked for future projects.
- 5.5 Mo Rahman, Performance Analyst, introduced the performance section of the report and reported the key messages on current progress with delivery against the business plans for 2012/13 at Quarter 3. The Committee were informed that overall performance against items in the business plans at Quarter 3 remained positive and delivery of the Council's business plans for 2012/13 had been successful over the third Quarter of this year. However there were also areas that required attention. Members commented upon the fact that although an overall high target level of deliverables and milestones had been achieved, a number of key targets had not been met.
- 5.6 The Committee cited the example of the City Management targets whereby 77% of priority measures had been met, but the most critical targets had been missed. In this respect Members raised concerns in the area of Waste and Cleansing – specifically citing the marked increase in the levels of litter, detritus and fly posting deposits on streets. As detailed in the report, the Council's independent surveyors found that 10% of streets sampled were assessed as having litter evident (against a target of 3%) and 5.9% of streets were found to have unacceptable levels of detritus (also against a target of 3%). Furthermore, the perception that rubbish and litter lying around on the streets is a problem has decreased by five points since last quarter and now measures 29%. Members noted that having clean streets is a key priority for Westminster residents and the Council should therefore be ensuring these deliverables are achieved.

- 5.7 Councillor Floru requested that it be formally recorded that Nick Byrom, Business Analyst, informed Members that, according to data ascertained through a benchmarking exercise undertaken informally by several London Boroughs, Westminster would hypothetically be projected to place in the bottom quartile for street cleanliness – 23 out of 25 London Boroughs.
- 5.8 **ACTION:** That the Committee receive a briefing on the issues surrounding the waste and cleansing failures detailed in the report; and the benchmarking data cited by Mr Byrom.
- 5.9 The Committee received an update on the progress, activities and decisions concerning Tri-Borough activities, including the Managed Services Programme which had reached a significant milestone by awarding a framework agreement to British Telecom (BT) to provide Finance and HR services; and the launch of a new scheme allowing library users to access books and all other facilities from across the three boroughs with their current library cards, making one million books available with one card.
- 5.10 In the area of Corporate Property Members noted that the annual capital receipts target of £133M had failed to be achieved and fundamentally questioned whether the disposal of the City Council's assets should be subject to a 'target' in the commercial property market in the first instance.
- 5.11 **ACTION:** That the Cabinet Member for Housing and Property be requested to provide the Committee with an explanation of the targets allocated to the disposal of the City Council's property assets and the overall property disposal strategy in this context.
- 5.12 **RESOLVED:** That the Quarter 3 Finance and Business Plan Performance Report be noted.

## 6. TERMINATION OF MEETING

- 6.1 The meeting ended at 9.00pm

CHAIRMAN \_\_\_\_\_

DATE \_\_\_\_\_