



CITY OF WESTMINSTER

# MINUTES

## Audit and Performance Committee

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit and Performance Committee** held on **Thursday 12th May, 2016**, Rooms 3 & 4 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

**Members Present:** Councillors Jonathan Glanz (Chairman), Lindsey Hall (Vice-Chairman) and David Boothroyd

**Also Present:** Steve Mair (City Treasurer), Paul Dossett (Grant Thornton), Elizabeth Olive (Grant Thornton), Moira McGarvey (Shared Services Director of Audit, Fraud, Risk and Insurance), Moira Mackie (Senior Audit Manager), Andy Hyatt (Tri-Borough Head of Fraud), Steve Barry (WCC Fraud Manager) and Reuben Segal (Senior Committee & Governance Services Officer)

**Apologies for Absence:** Councillor Judith Warner

#### 1 MEMBERSHIP

1.1 It was noted that there were no changes to the membership.

#### 2 DECLARATIONS OF INTEREST

2.1 Councillor Glanz declared in respect of item 7 that he was a school governor of St Joseph's Roman Catholic primary school at the time that the report relates to.

#### 3 MINUTES AND MATTERS ARISING

3.1 **RESOLVED:** That the minutes of the meetings held on the 3 and 11 February be signed by the chairman as a correct record of proceedings.

3.2 **ACTION:** The Committee requested that the outstanding action from the last meeting (provide details of feedback provided by schools that have received HR/finance training on the Agresso system) is chased. (**Action for: Nick Dawe/Reuben Segal**)

## **4 ANNUAL STATEMENT OF ACCOUNTS**

- 4.1 The Committee had before it a report on the draft Statement of Accounts for 2015-16. The chairman announced that the publication of the papers did not meet the statutory deadline. These were circulated to the committee at the earliest opportunity once the external auditors had completed the necessary work to be able to report to members the findings from the audit of the accounts. He agreed to accept the report and its appendix as a matter of urgency.
- 4.2 Steve Mair, City Treasurer, summarised the key items arising from the Statement of Accounts. The Committee noted that the Council prepared its accounts for 2015-2016 and submitted them to the Council's external auditors, Grant Thornton, for audit on 9<sup>th</sup> April 2015. This was a full 12 weeks in advance of the statutory requirement of 30<sup>th</sup> June, was the earliest public sector accounts ever issued and exceeded the performance of 94% of the FTSE 100 including the 9 largest companies. The performance built upon the achievements in 2014-2015 which was one outcome from the financial management transformation work that is continuing.
- 4.3 The Committee acknowledged the achievement and thanked the City Treasurer, Finance team and the internal and external auditors for their work having noted this year's close down process had been challenging given the need to bed down the new Agresso system as part of the Managed Services Programme.
- 4.4 The Committee noted a technical change relating to the publication of local authority accounts effective from this year whereby the accounts are subject to new arrangements for the exercise of electors' rights. This means that no authority is able to approve or publish its accounts before 14<sup>th</sup> July 2016 to allow for a 30 working day inspection period. To comply with this a special meeting of the committee had been called for 4:30 PM on 14<sup>th</sup> of July to approve the accounts which is after the end of the Council's inspection period which concludes at 4 PM on the 14 July.
- 4.5 In order to obtain assurance on the accuracy of the information being processed through the managed services environment and feeding into the Council's financial management system, officers within the Council's finance team had undertaken a very significant amount of transaction testing in all of the key financial areas. The City Treasurer was asked whether this would undermine any future discussions with the contractor on recovering costs. He was also asked whether the acceleration of the accounts had resulted in the Council incurring any significant acceleration costs. The City Treasurer explained that the testing had enabled the council to undertake corrective action and minimise the impact of any errors and weaknesses in the information being processed. It would have weakened the Council's position not to have dealt with this matter as early as possible and he considered that the significant amount of work, which has been documented, will prove useful in any future commercial discussions with the contractor. The additional costs incurred were not excessive and that the on-going financial management

transformation project will eventually deliver further improvements at less cost than presently.

- 4.6 The Committee noted that there was an underspend of £157.568m against the original gross budget of the Capital Programme at year end but that this had been significantly mitigated by the in-year re-profiling of the programme. Members asked whether the Council could have obtained a better return by making use of the funds. The City Treasurer advised that the Council's Treasury team are provided with advance notice of any slippage in the Council capital programme so can therefore make use of any unused funds as appropriate. He suggested that the Council could have indirectly benefited from the situation as it did not incur the costs of borrowing money to deliver capital schemes.
- 4.7 The City Treasurer was asked what he considered to be the appropriate level for general fund reserves. He stated that given the scale of the Council's budget the reserves which currently stood at £41.58m could and should be increased further. He explained that it would only take a divergence of 2% from the Council's gross budget in the year for the reserves to be largely used up. He advised that reserve levels had previously been as high as £70m and that other comparable local authorities had higher reserve levels than the Council presently had.
- 4.8 The Committee put forward a few suggestions (service revenue outturn, comprehensive income and expenditure statement and interests in companies and other entities) to further improve the reading of the accounts
- 4.9 **RESOLVED:** That the draft 2015/16 Statement of Accounts be noted.
- 4.10 **ACTION:**
1. Provide details of the non-pay expenditure overspend in Policy, Performance and Communications (**Action for:** Steve Mair, City Treasurer)
  2. Provide a note on changes to business rates where businesses with a rateable value below approximately £15,000 are no longer liable to pay rates. (**Action for:** Steve Mair, City Treasurer)
  3. Provide the committee with details of the methodology used to assess the value of the Council's housing stock. (**Action for:** Steve Mair, City Treasurer)

## **5 ANNUAL STATEMENT OF ACCOUNTS - GRANT THORNTON ISA 260 REPORT**

- 5.1 The Committee received a report from the Council's external Auditors, Grant Thornton, on the key findings arising from their audit of the Council's 2015-2016 financial statements (Council and Pension Fund).

- 5.2 The chairman announced that the publication of the papers did not meet the statutory deadline. These were circulated to the committee at the earliest opportunity once Grant Thornton had completed the necessary work to be able to report to members the findings from the audit of the accounts. He agreed to accept the report and its appendices as a matter of urgency.
- 5.3 Paul Dossett summarised the findings for the City Council's financial statements while Elizabeth Olive summarised the findings for the City of Westminster Pension Fund. The Auditors expected to issue unqualified audit opinions on both sets of financial statements.
- 5.4 The Auditors had identified no adjustments affecting the council's reported financial position.
- 5.5 The auditors considered that the Council prepared a good quality set of de-cluttered draft accounts for audit, and the supporting working papers were of a high quality. Minor improvements and enhancements were recommended to improve the presentation of the financial statements. The auditors drew attention to a small number of control issues in both the Council and Pension Fund financial statements that included cross entity journals for the Council being posted during 2015-2016.
- 5.6 The Committee was informed that the Council had proactively managed the risks arising from the managed services contract during the year by carrying out extensive sample testing of the transactions and working with BT to correct data issues and strengthen the controls in the ledger.
- 5.7 With regard to the audit approach for the Council's financial statements, in addition to those risks highlighted in its Audit Plan 2015/16 for the authority the auditors had identified one further significant risk relating to the provision for national non domestic rates (business rates).
- 5.8 In respect of value for money, one significant risk, which had been identified in the Audit Plan 2015/16, related to the capital programme business case process.
- 5.9 Matters arising from the financial statements audit and the review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources had been discussed with the City Treasurer and the finance team. A number of recommendations were made by the auditor which were being taken forward by the finance team.
- 5.10 The Auditor concluded that in all significant aspects the Council had proper arrangements in place to secure value for money in the use of its resources.
- 5.11 With reference to the issue of materiality, the committee asked why the figure of overall materiality differed in Grant Thornton's findings report and the Council's financial statements. Mr Dossett explained that the measure in the audit findings report was based on Grant Thornton's judgement of risk. This included factors such as issues around the managed services programme. The latter would in part explain the difference in materiality in last year's audit

findings report produced by KPMG. He explained that the Council's figure was different as the authority will have come to its own judgement on what the figure should be.

5.11 Paul Dossett informed the committee that following discussions between Grant Thornton and a local elector who had submitted objections to the financial statements for 2012/13 to 2014/15 the objector had agreed to withdraw their objections. This would enable Grant Thornton to certify the financial statements from those years in the next couple of days. The committee agreed that there were no material items that it was aware of that would impact on these accounts being signed off.

5.12 **RESOLVED:** That the report be noted.

## **6 ANNUAL COUNTER FRAUD MONITORING REPORT**

6.1 The Committee considered a report that provided an account of fraud related activity undertaken by the Tri-borough Corporate Anti-fraud Service (CAFS) from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016.

6.2 The report included details about a new Anti-fraud Strategy being developed by CAFS across Tri-borough as well as fraud prevention and detection activities progressed during the last 12 months.

6.3 The Committee noted that for the financial year ending 31<sup>st</sup> March 2016 fraudulent activity with a notional value of over £2.4m had been identified relating to 92 cases. A summary of these including case studies were set out set out in the report.

6.4 The committee acknowledged the importance of deterrence in counteracting fraud which it considered was preferable to having to pursue prosecutions and recoup money lost. It commended officers for the achievements in the year which included a landmark case relating to the illegal subletting of a CWH property where the subtenant as well as the tenant was successfully prosecuted. This had been achieved despite the reduction of staff in the fraud service following the government's decision to centralise the investigation of housing benefit fraud to the Department of Work and Pensions (DWP).

6.5 The Committee asked how the West London Fraud Hub, where London local authorities share data, had helped in preventing fraudulent activity. Andy Hyatt, Tri-Borough Head of Fraud, explained that the hub was originally established to prevent and detect benefit fraud. It consisted of 8 authorities along the A4-M4 corridor sharing data with one another. Since its establishment other London local authorities including Southwark and Waltham Forest had joined the hub. Additionally, its activities had expanded to providing data to other service areas such as school admissions. He advised that a London wide counter fraud Hub was in the process of being established. This would be at no additional cost to local authorities.

- 6.6 In response to members queries about the challenges of verifying identity documents Mr Hyatt explained that in the past it was difficult to roll out the technology to satellite offices as the costs were prohibitive. This is no longer the case as the technology has changed and has become more accessible and affordable.
- 6.7 The Committee noted the results from the National Fraud Initiative data matching exercise which identified significant potential discrepancies between data held across the Council's systems and those of all councils and other public sector participants nationally. Members asked about the outcomes from referrals relating to potential housing benefit fraud that had been referred to the DWP. The committee was disappointed to hear that with the exception of 5 administrative penalties the DWP had not shared the outcome of any investigations.
- 6.8 Mr Hyatt was asked whether he had concerns about the fact that the Council had not received any whistleblowing referrals in the year. He explained that given the significant staffing changes in the service in the last financial year he had chosen to undertake a soft launch of the Council's whistleblowing policy. He stated that CAFS planned to review the existing process and run a Council wide campaign during 2016/17 to ensure all staff are fully aware of the policy and process for making referrals.
- 6.9 In respect of the enhanced fraud prevention process applied to all new RTB applications, Members asked whether the Council closes the files of applicants who voluntarily withdraw their applications once checking commences. Mr Hyatt advised that where concerns are raised CAFS will undertake checks on the applicant to see if any other possible fraudulent activity is being undertaken.
- 6.10 Members raised as a concern a practice where some companies offer to gift money to tenants eligible to apply for Right to Buy. They recognised that while this was not illegal they had concerns over the motivations of these companies and the implications for the city's affordable housing stock. Mr Hyatt confirmed that these companies were taking advantage of a loophole in the RTB legislation which he considered needed to be closed. He advised that he had provided details on such practices to the Treasury who had referred him to Action Fraud. However, it was doubtful whether the latter had the resources to investigate such practices.
- 6.11 **RESOLVED:** That the report be noted.
- 6.12 **ACTION:** Provide the committee with a note on the rules regarding the ability of benefit claimants to take a leave of absence and still receive benefits and any proposed changes to these rules. (**Action for:** Martin Hinckley, Corporate Finance).

## **7 ANNUAL INTERNAL AUDIT AND INTERNAL CONTROL 2015-16 REPORT**

- 7.1 The Committee received a report that summarised the work of Internal Audit in 2015-2016 and provided the opinion of the Shared Services Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's governance, risk management and internal control environment.
- 7.2 The Committee noted that the work carried out by the Council's Internal Audit Service, in the financial year 2015/16 found that, in the areas audited, internal control systems were generally effective with 68% of the audits undertaken receiving a positive assurance opinion. Members asked how the results compared with audits undertaken in the previous year. Moira Mackie, Senior Audit Manager, reported that the number of positive assurance audits was lower than in previous years. However, she explained this was not unexpected as there had been a significant amount of process change during the year including the implementation of the Managed Services Programme which will take time to become embedded across the organisation. Additionally, fewer audits had been undertaken last year compared to this year which had the potential to skew the results. It was hoped that with work planned to resolve issues relating to MSP the outcomes from audits due to be undertaken in the coming year would show an improvement on this year.
- 7.3 There were a few areas where control improvements were required and compliance with agreed systems could be improved. A total of 15 audits were designated as "limited" or "no assurance". In each case action plans were in place to remedy the weaknesses identified.
- 7.4 The Council was found to be effective, in most areas, at implementing recommendations where concerns in respect of controls were identified.
- 7.5 The main audits due to be undertaken in 2015/16 on various aspects of the Managed Service could not be undertaken as originally planned. However, the Council's Finance Team had undertaken a very significant amount of transaction testing in a number of the key financial areas which Internal Audit had reviewed and confirmed as thorough and focused on the key areas of risk.
- 7.6 The Committee further noted that audits were undertaken during the year which provided satisfactory assurance in respect of the Council's risk management arrangements and that the Council's governance arrangements were operating effectively.
- 7.7 The Committee asked for an update on the implementation of recommendations for the Tri-Borough Passenger Transport - Post Procurement Review which had received a limited assurance. Members were informed that the audit had identified weaknesses in the way in which the procurement had been undertaken. This included weaknesses in testing the resilience of the proposed bidders. The committee was informed that the process had since improved.

7.8 Members commented that lessees of CityWest Homes owned properties have previously complained about the management and charges for major works. Moira Mackie stated that CityWest Homes had accepted that these areas had not in the past been undertaken as effectively as they could have been. CityWest Homes had changed a number of its processes to ensure that the management of major works was more robust and that costings were more accurate.

7.9 **RESOLVED:** That the report be noted.

## **8 INTERNAL AUDIT 2015-16 PROGRESS REPORT (JANUARY TO MARCH 2016)**

8.1 The Committee considered a report that summarised the work carried out by the Council's Internal Audit service in the reporting period.

8.2 The report revealed that in the areas audited internal control systems were generally effective although six limited and one no assurance audits had been issued.

8.3 Moira Mackie advised in relation to the Tri-Borough Contracts Register that had received a no assurance report that Westminster's Procurement Team had undertaken a lot of work with service areas to improve the accuracy of information on the capital ESourcing system. The committee noted that a follow-up review is currently being undertaken.

8.4 Follow up reviews completed in the period confirmed that the implementation of medium and high priority recommendations had been consistently effective.

8.5 At a previous meeting of the committee members had expressed concern about whether the Council had effective cyber security arrangements in place. Moira Mackie advised that based on the audit work undertaken, the documented "information management and continuity risk" issues and opportunities for improvement were found being clearly identified and actioned. Three medium priority recommendations were made to further enhance the systems of controls.

8.6 **RESOLVED:** That the report be noted.

The Meeting ended at 8.49 pm

**CHAIRMAN:** \_\_\_\_\_

**DATE** \_\_\_\_\_