



CITY OF WESTMINSTER

MINUTES

Audit and Performance Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit and Performance Committee** held on **Thursday 1st February, 2018**, Room 3.6, 3rd Floor, 5 Strand, London, WC2 5HR.

Members Present: Councillors Ian Rowley (Chairman), Lindsey Hall, Judith Warner and David Boothroyd

Also Present: Paul Dossett (Partner, Grant Thornton), Steve Mair (City Treasurer), Martin Hinckley (Head of Revenue and Benefits), Tasnim Shawkat (Director of Law), David Hughes (Tri-Borough Director of Audit, Fraud, Risk and Insurance), Moira Mackie (Senior Internal Audit Manager), David Francis (Security Consultant, Information Technology) and Reuben Segal (Committee & Governance Services)

1 MEMBERSHIP

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

2 DECLARATIONS OF INTEREST

2.1 There were no declarations made.

3 MINUTES

3.1 **RESOLVED:** That the minutes of the meeting held on 23 November be signed as a correct records of proceedings.

4 EXTERNAL AUDIT CERTIFICATION OF CLAIMS AND RETURNS ANNUAL AUDIT 2016/17

4.1 The Committee received a report on the annual review undertaken by Grant Thornton on the grants the City Council claims. The key messages from the Grant Certification Audit are communicated to the Audit and Performance Committee as the body charged with overseeing governance at the Council.

4.2 Martin Hinckley, Head of Revenue and Benefits, informed the committee that there were two returns/claims audited. These related to the Housing Benefit subsidy claim and Teachers' Pension Return. In terms of the housing benefit

subsidy claim, Grant Thornton had recommended that the Council as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where it identified relatively minor errors. With regards to the Teachers' Pension Return, Grant Thornton had recommended that the Council work with Teachers Pensions to resolve data quality issues on the portal.

- 4.3 The Committee expressed concern at the high error rate identified from the sample testing of 20 teachers' pensionable salary data. Steve Mair, City Treasurer, explained that this related to issues connected to Managed Services provided by BT. He advised that he had asked Phil Triggs, Director of Treasury and Pensions, to undertake a piece of work in conjunction with People Services around data cleansing to ensure as far as possible that when the Council transfers to the new SAP System on the 1 October 2018 the data that is carried over is not inaccurate.
- 4.4 In relation to the Housing Benefit Subsidy Claim, Members commented that although the issues identified involved small amounts of money they were still concerned at the significance of the errors as there was the potential that they could lead to substantial losses. Mr Hinckley advised the committee that following the audit sampling, a full check of all extended payments had been made which identified only one further error. Whilst he understood members' concerns he reminded them that the number of errors identified had to be considered in the context of the 27,000 claims processed by the Council annually.
- 4.5 Paul Dossett, Engagement Lead, Grant Thornton, informed the committee that Housing Benefit has become increasingly complicated especially in London and claims can be particularly complex. He advised the committee that compared to other London local authorities the Council's performance is good with fewer errors detected.
- 4.6 **RESOLVED:** That the report and recommendations from the external auditor be noted.

5 GRANT THORNTON ANNUAL AUDIT PLAN 2017/18

- 5.1 Paul Dossett, Engagement Lead, Grant Thornton, introduced the external audit plan which outlined the work that Grant Thornton propose to undertake for the audit of the Council's Financial Statements and the Pension Fund for the financial year 2017 - 18. The plans are based upon Grant Thornton's risk based approach to audit planning.
- 5.2 The audit plan in respect of the Council's financial statements referred to the fact that whilst the Council has historically had sufficient reserves this could be impacted by the changes to IFRS 9 going forward where gains and losses from changes in the fair value of assets will instead be recognised in surpluses and deficits in the Provision of Services. Members asked that as part of its consideration of the significant risk around the valuation of assets Grant Thornton considers and comments on a scenario where the value of the Council's commercial property were to reduce by a significant value.

5.3 With regards to the audit of the Council's Pension Fund, the committee asked that the scope of the audit include an assessment of the governance arrangements, management and administration of pooled accounts in the London CIV particularly as there has been a number of changes at senior management level in recent months.

5.4 **RESOLVED:** That the audit plans be noted.

6 EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE

6.1 The Committee received a report from the Council's external auditors, Grant Thornton, which set out progress to 10 January 2018 in delivering its responsibilities in relation to undertaking the audit of the Council's Financial Statements and the Pension Fund for the financial year 2017-18. The report included a sector update which included emerging national issues including an overview of General Data Protection Regulation which comes into effect on 25 May 2018.

6.2 **RESOLVED:** That the external audit progress report and sector update be noted.

7 FINANCE (PERIOD 9) MONITORING REPORT

7.1 Steve Mair, City Treasurer, introduced the period 9 finance report which provided details of the forecast outturn in respect of revenue and capital and projected revenue and capital expenditure by Cabinet Member including key risks and opportunities. The report also included a breakdown of the capital major projects and details in relation to the revenue and capital expenditure for the Housing Revenue Account.

7.2 Members referred to the fact that the Council has two significant contracts with Capita whose shares have halved in value since the start of the year. The City Treasurer was asked whether the Council had contingencies in place if Capita is unable to meet its contractual obligations. Mr Mair did not believe that Capita is in a comparable position to Carillion. The latter's collapse primarily flowed from difficulties in construction contracts. By contrast, Capita is primarily a services business and has better cash balances. He advised that the contracts in question were due to be re-procured from 1 May 2018 and the Council is reviewing what further action it can take. He expected that Capita would bid for them.

7.3 With regards to the Finance, Property and Corporate Services Cabinet Portfolio, the Committee asked for an explanation of the risks arising from the Amey facilities management contract. The City Treasurer advised that parts of the contract are not performing to the standards expected where a number of key performance indicators had not been met. There was a possibility that the Council would have to undertake these services themselves.

7.4 With reference to the Planning and Public Realm Cabinet Portfolio, members asked whether the potential opportunities on planning fee income would be

spent on filling vacancies within the planning department. The City Treasurer advised that whilst the revenue was ring-fenced within the planning department it was not necessarily ring-fenced to be spent on recruiting staff although it was likely that that is what it would be used for.

- 7.5 Members noted that some of the Cabinet portfolios had underspends arising from not filling staff vacancies. They asked why, where there are repeat staffing underspends, the requirements for such posts are not reviewed. Mr Mair advised that the finance team has raised this issue and asked people to re-examine their requirements. In some circumstances the service area fills the need through the use of temporary agency contractors. In other circumstances a post may remain vacant because the service is going through a reorganisation. He reiterated his previous comment to the committee that given the scale of the organisation the budget will never balance to the penny.
- 7.6 Members reiterated their concerns about the significant and systemic variances between capital forecast and outturn against budget which in service areas such as Adult Social Care has a social impact.
- 7.7 **ACTION:** The Committee requested that future updates on capital major projects includes greater detail about the cause of delays and an assessment of the overall costs of them to the Council.

8 MAINTAINING HIGH ETHICAL STANDARDS AND THE CITY COUNCIL

- 8.1 Tasnim Shawkat, Director of Law and the Council's Monitoring Officer, introduced a report that provided an annual overview of the arrangements in place and actions taken to maintain high ethical standards throughout the authority.
- 8.2 In respect of combating fraud and corruption, Members suggested that where an issue is identified as a result of whistleblowing at officer level the Council should investigate when and how the issue was detected and whether there are any control weaknesses that require tightening and if the issue should have been picked up earlier and by whom.
- 8.3 The Monitoring Officer was referred to the fact that the Parliamentary Committee on Standards in Public Life had started a review of member conduct in local government. She was asked whether there was an intention to refer any recommendations arising from the review to the Council's Standards Committee for adoption. Tasnim Shawkat confirmed that any recommendation will be considered and advised that she intended to recommend a slight amendment to the Council's Members Code of Conduct in any event to address a recent issue that had arisen.
- 8.4 Members asked about the ethical governance safeguards in relation to the Council's contractors and procurement having noting that Adult Social Care and Children's Services procurements are overseen by the Commissioning and Contracts Board within each service and therefore not in scope for the

Procurement Assurance Board. Members had concerns due to the outcomes of care quality inspections of providers of the Tri-Borough Home Care contract (which was set out in the Internal Audit report) where four of the seven commissioned providers used by the Council were assessed as “Require Improvement”. The Monitoring Officer explained that her report before the committee set out the systems and controls in place to maintain ethical governance at the Council. She advised that other reporting mechanisms such as planned internal audits and contract performance monitoring assess the effectiveness of and compliance with the control environment and service delivery.

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

9 INTERNAL AUDIT MONITORING 2017-18 - PROGRESS REPORT (NOVEMBER TO DECEMBER 2017)

- 9.1 Moira Mackie, Senior Audit Manager, introduced a report that set out the key outcomes from the internal audit work carried out in the reporting period (November to December 2017).
- 9.2 The committee noted the Internal Auditor’s opinion that generally systems operating throughout the Council are satisfactory with 12 positive assurance reviews being issued in the period, although two limited assurance audits had also been issued for Adult Social Care income recovery and College Park Special School.
- 9.3 The Committee further noted that the follow up reviews completed in the period for ten audits confirmed that the implementation of recommendations had been effective with the majority (84%) of recommendations are fully implemented.
- 9.4 The Committee expressed concern at the limited assurance provided in respect of College Park Special School particularly as it had received a poor audit outcome previously. Moira Mackie commented that the weaknesses identified were concerning given that the school is federated with another, similar school which has the same Executive Head and received a satisfactory assurance level. She expressed surprise that their good governance is not shared. This is being followed up with Children’s Services.
- 9.5 The Senior Internal Audit Manager informed the Committee that of ten audits completed in the year which have involved procurement contracts a number of those that had received a limited assurance were within Adult Social Care. She advised that internal audit was working with Procurement to address this. The committee reiterated its concerns in relation to the audit of the Tri-Borough Homecare service, the details of which were set out in appendix 1 to the report. Despite it receiving a satisfactory assurance Members were concerned about many of the areas identified for improvement.
- 9.6 As there have been a the number of limited assurance audits provided to adult social care contracts in recent months Members requested a report from the Bi-borough Executive Director for Adults and Social Care on the

governance arrangements being put in place as part of the move to Bi-borough arrangements to provide assurance around the delivery of such contracts.

- 9.7 Members noted with concern that the audit of the Waste Disposal Contract Management had identified that whilst workplace risk assessments were completed by Veolia at the tender stage and should have been reviewed on a periodic basis these had not taken place since 2015. David Hughes advised that this had been reported to the relevant director to raise with the contractor.
- 9.8 **RESOLVED:** That the results of the internal audit work carried out during the period be noted.
- 9.9 **ACTION:** That a report be presented to the next meeting on the governance arrangements being put in place as part of the move to Bi-borough arrangements to provide assurance around the delivery Adult Social Care contracts. (**Action for:** Bernie Flaherty, Bi-borough Executive Director for Adults and Social Care).

10 INTERNAL AUDIT PLAN 2018/19

- 10.1 The Committee reviewed a draft of the internal audit plan for 2018 - 19 as set out in Appendix 1 to the report.
- 10.2 The Internal Audit Plan had been reviewed to reflect the changes in the Council's structure and to ensure that its audit work addresses key risks during a period of change in general financial constraints.
- 10.3 The Committee requested that the underlying risks associated with the Managed Services Programme and the move from Tri-Borough to Bi-borough arrangements are reflected and considered as part of all planned audits, where relevant.
- 10.4 In response to questions regarding the revised Managed Service for the provision of payroll, HR and finance services, Moira Mackie confirmed that support and assurance would be provided both before and during the change in service provision and not just after implementation.
- 10.5 Given its concerns regarding slippage in the Council's capital programme members welcomed the planned audits of some capital projects within Growth, Planning & Housing and City Management & Communities. The audits would review the effectiveness of the new processes. Members advised that they would be interested in any issues identified that resulted in a continuing re-profiling of projects.
- 10.6 Members asked questions about the balance between reactive and proactive fraud investigation audits and the estimated audit coverage within service areas compared to the previous year. Moira Mackie explained that the increased number of planned audit days within the City Treasurer's Department reflected the significant change for the Council arising from the implementation of a revised Managed Service. The reduction in the number

of planned audit days in the Children's Services was based on an alternative approach to auditing schools which is proposed to replace the previous 3 year cyclical review. Internal Audit plans to undertake reviews at schools where either the previous audit has resulted in a limited assurance opinion, the school has been identified by Ofsted as requiring improvement or the school is predicting a funding deficit.

10.7 **RESOLVED:** That the draft internal audit plan 2017-18 be noted.

11 WORK PROGRAMME AND ACTION TRACKER

11.1 RESOLVED:

1. That the agenda items for 23 April meeting be agreed.
2. That the responses to actions arising from the meetings on the 23 November 2017 be noted.

12 UPDATE ON CYBER SECURITY

- 12.1 David Francis, Security Consultant, Information Technology, introduced a report that provided a briefing on current cyber security arrangements that are in place and which are further developing to protect the Council from and manage the impact of cybercrime. The paper included reference to information security awareness training that has and would be provided to Council staff. It also provided confidential examples of cyber security incidents and events which the Council had experienced through 2017 to date.
- 12.2 Members considered that additional education and communication was required for members on managing data and mitigating the risk of cybercrime particularly as they will be mandated to transfer to Office 365 following the local elections.
- 12.3 Mr Francis was referred to the fact that some constituents had raised concerns about how their data is being used. They had complained of receiving electronic communications from political parties when the only time they had provided these details to the Council was when corresponding on a service matter. David Hughes, Tri-Borough Director of Audit, Fraud, Risk and Insurance, suggested that she provide him with any examples so that his team could investigate.
- 12.4 Members asked about the IT cyber security employed by the Council and the incidents and events which the Council had experienced through 2017. Mr Francis explained that a certified company tests the risks to the Council from an external attack on an annual basis feeding back issues and recommending mitigations that the authority should implement. Members expressed surprise over the low numbers of incidents during the previous year given the size and value of the Council. The committee asked about the awareness training given to staff in advance of rather than after an event has occurred to improve cyber security. Mr Francis explained that the IT service intends to roll out information security awareness training to all staff at the start of the financial

year which will include requirements addressing the new policies and the General Data Protection Regulation (GDPR) which come into effect on the 25 May.

12.5 The committee also asked about the Council's financial liabilities if data (such as banking details) is lost or stolen and is then misused as well as the fines that can be issued where organisations are in breach of the GDPR legislation.

12.6 **ACTION:**

1. Liaise with the Member Services Manager on the proposed member development programme and delivering education and communications to members on their responsibilities as data controllers and the introduction of 0365. (**David Francis, IT Security Consultant, Information Technology**)
2. Provide a note to members on the fines that can be issued to organisations which are in breach of GDPR legislation and whether the Council is financial liable if data (such as banking details) is lost or stolen and is then misused. (**David Francis, IT Security Consultant, Information Technology**)

The Meeting ended at 8.32 pm

CHAIRMAN: _____

DATE _____