



CITY OF WESTMINSTER

# MINUTES

## Audit and Performance Committee

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit and Performance Committee** held on **Tuesday 9th May, 2017**, Rooms 3 & 4 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

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

**Also Present:** Steve Mair (City Treasurer), Dave Hodgkinson (Assistant City Treasurer), Paul Dossett (Engagement Lead, Grant Thornton), Elizabeth Jackson (Engagement Manager, Grant Thornton), Siobhan Coldwell (Chief of Staff), Moira Mackie (Interim Shared Services Director Audit, Fraud, Risk and Insurance), Andy Hyatt (Tri-Borough Head of Fraud), and Reuben Segal (Senior Committee and Governance Officer)

#### 1 MEMBERSHIP

1.1 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 on 9 February be signed by the Chairman as a correct record of proceedings.

#### 4 ANNUAL STATEMENT OF ACCOUNTS 2016-2017

4.1 The Committee had before it a report on the draft Statement of Accounts for 2016-17. 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.
- 4.3 The Committee was informed that the Council prepared its final accounts for 2016-2017 and submitted them to the Council's external auditors, Grant Thornton, in four working days – three days earlier than in the previous year. Grant Thornton provided a draft opinion on these accounts by the 9<sup>th</sup> of May, also three days ahead of the prior year performance. The setting of such a challenging timeframe not only sets the Council apart from all other public bodies (and 95% of the FTSE-100), but allows financial management resources to be quickly focussed on supporting services in concentrating on the future rather than the past.
- 4.4 Members acknowledged the achievement and thanked the City Treasurer, Finance team and the internal and external auditors for their work.
- 4.5 The committee noted that the General Fund revenue position had seen a net outturn of £17.201m underspend against approved budget. Members also noted that as set out in the 2017/18 Budget Setting and Council Tax Report, dependent upon outturn being as then forecast, £10 million of the overall General Fund net underspend would be used to assist in alleviating the pension fund deficit.
- 4.6 In response to questions regarding how the £10 million figure was arrived at, the City Treasurer explained that the Council has a significantly underfunded Pension Fund. Without the current course of action being taken it would have taken the Council over 35 years to eliminate the deficit while incurring very significant interest costs. In discussion with DCLG officials it had been indicated that there was the possibility that future legislation may require local authority pension funds to achieve a balanced position within 20 years. Given the above issues the Council had decided as part of a wider recovery plan to invest 3 one-off sums of £10 million if the financial position each year end allowed for this.
- 4.7 The report included an overview of the principal reasons behind the variances for each Cabinet portfolio. The committee welcomed the explanations which it considered should be included in future quarterly finance monitoring reports.
- 4.8 With regard to the general fund capital outturn, members noted that approximately one third of the key projects contributing to the net underspend against the 2016/17 approved budget related to maintenance and improvement works. The committee has previously expressed concern regarding slippage in the capital programme. Members questioned the ability of service areas to produce robust forecasts and whether the Council has sufficient staff with the appropriate skill-set to deliver projects. The committee highlighted the cumulative impact of the Council persistently missing capital programme targets. The City Treasurer advised that the finance team was heavily engaged with the services to address this. In addition the Chief Executive had commissioned work to support the delivery of the Council's capital programme.

4.9 In respect of the balance sheet, members noted a significant movement in the financial year around short term investments (£228,146,000), short-term creditors (£211,652,000) and long term borrowing (£181,358,000). The committee asked and received an explanation for the variances including the link between the movement in short term investments and short-term creditors.

4.10 Members acknowledged that the annual accounts were extensively slimmer than the previous year. The City Treasurer explained that the earlier closure of the 2016/17 accounts continues to derive from the Council's commitment to continual improvement in its financial management. Accelerated closure of the accounts has given the council an opportunity to play a primary role in the development of accounting practices that aim to simplify the accounts process and make them transparent to the public. Members raised a number of queries and advised that they would inform the City Treasurer directly if that there were any minor specific issues that they considered might require amendment.

4.11 **RESOLVED:**

1. That the draft 2016-2017 Statement of Accounts be noted.
2. That the proposed £10m contribution towards the pension fund deficit recovery be noted.

4.12 **ACTIONS:**

1. The committee would like details of the cumulative impact of the capital programme underspend over the last 5 years (**Action for: Steve Mair, City Treasurer**)

## 5 **AUDIT FINDINGS REPORT (GRANT THORNTON)**

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 2016-2017 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 Jackson 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. The Auditors highlighted that a small number of key working papers were not available on the agreed to-date so samples could not be picked in advance of the on-site visit commencing. Minor improvements and enhancements were recommended to improve the presentation of the financial statements.
- 5.6 The committee was informed that in the conduct of its audits Grant Thornton did not have to alter or change its audit approach in respect of the Council's financial statements which it communicated to the committee in its Audit Plan dated 9 February 2017. However, it did refocus the significant risk for the Managed Services Partnership to focus on the control environment for posting journals and completeness of the General Ledger through the operation of journals across the tri-borough. In respect of the Pension Fund, upon receipt of the draft financial statements it had identified changes to its planned approach around the Managed Services Partnership as referenced previously and identified a new risk in relation to Level 3 Investment Valuation.
- 5.7 The auditors drew attention to a small number of control issues in both the Council and Pension Fund financial statements that included accruals and creditors for the Council being posted during 2016-2017 (Council accounts) and a backlog in processing changes to Members data in the pensions administration system (Pension Fund).
- 5.8 The Auditors concluded that in all significant aspects the Council had proper arrangements in place to secure value for money in the use of its resources.
- 5.9 To date the auditors had not received any objections from members of the public on the accounts.
- 5.10 In respect of the significant risk around the appeals provision for National Non-domestic Rates (Business Rates) the audit findings highlighted that the provision has reduced significantly in 2016/17 and that the auditors were satisfied with management's judgements for the movement in the year after challenging the assumptions made. Members asked about the possible impact should a larger than expected volume of appeals come forward. The City Treasurer explained that he had met with representatives of the Valuation Office Agency and the Valuation Office Tribunal and had encouraged them to speed up the determination of appeals. He had also raised the particular risks for the City Council with the Department for Communities and Local Government.
- 5.11 With regard to the financial outturn, members asked the auditors for their views on the level of Council reserves. Mr Dossett commented that he considered that the current level of reserves were not excessive, that local authorities will face significant challenges over the next 4 years and reserves are necessary to support the Council's financial resilience.

5.12 **RESOLVED:** That the audit findings and subsequent recommendations from Grant Thornton be noted

## **6 INTERNAL AUDIT MONITORING REPORT (JANUARY TO MARCH 2017)**

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

6.2 The Committee noted that in the areas audited internal control systems were generally effective although five limited assurance reports had been issued as follows: three Tenant Management Organisations (TMOs) (Lilestone, Carlton Vale and Hide Tower); Use of Consultants; IT Disaster Recovery and Business Continuity.

6.3 Six follow up reviews were completed in the period. 58% of medium and high priority recommendations had been implemented with his further 31% in progress of being implemented.

6.4 The committee reiterated its concerns around the running of TMOs having previously discussed the limited assurances issued in respect of other audited TMOs. Moira Mackie, Interim Shared Services Director for Audit, Fraud, Risk and Insurance, informed members that to date all TMOs that have been audited had received a limited assurance. She explained that as required by their Management Agreement, each of the TMOs has two months to consider the contents of their 'Five Year Review' and TMOs are expected to report back to the Executive Director for Growth, Planning and Housing, on their acceptance or disagreement with the recommendations made and the proposed implementation timeframes. If a TMO fails to improve then it can potentially be closed down although this involves a long statutory process. The Council has previously closed down a TMO following evidence of fraudulent behaviour.

6.5 Moira Mackie advised that a follow-up audit of the largest TMO in Westminster (MEMO) was due to be issued in due course. Governance and internal control systems had improved since the last audit following a considerable amount of resource being directed to helping the organisation improve its administration.

6.6 Moira Mackie commented that while individually each TMO does not have a significant management allowance there are reputational and potential safety issues for the City Council if they are not properly managed, such as if housing repairs are not undertaken in a proper and timely manner. Members commented that the total management allowance provided to TMOs in Westminster amounted to approximately £1.5 million per annum. Members were concerned that such large sums of money were being provided to organisations where those managing them are not professionals, there are significant opportunities for fraud whilst housing management has become more complex.

6.7 The Committee asked officers about the different options available to the Council to address the situation including whether TMOs should be wound

down and a different way of managing the properties is introduced. The City Treasurer advised that any such organisations were established under statute and that while the Council often had ultimate rights to step in the major way to address the issues was through the use of influence, guidance and support and that the Council was reviewing the financial reporting of appropriate external bodies.

- 6.8 Bilateral to the work being undertaken by officers, the chairman undertook to raise the issue with the Leader of the Council.
- 6.9 With regard to the limited assurance report provided to IT disaster recovery & business continuity, Members highlighted that as part of the City Hall decant it had been established that there are over 300 different computer systems in operation within the Council which members considered was not a helpful position for the authority to be in. Moira Mackie advised that as a bi-product of the decant from City Hall ICT is much more aware of such issues and this has facilitated a rationalisation of ICT systems. In respect of the audit, some of the issues identified related to lapses where information had not been updated and was out of date.
- 6.10 Members noted the limited assurance report relating to the Tri-Borough review on the use of consultants. Officers were referred to the fact that in previous meetings the committee was assured that the levels of consultants used by the Council would fall. The City Treasurer advised that since last year the number of consultants had fallen by approximately 10% to 222. In response to questions regarding the wider potential impacts of the new requirements for intermediary legislation (IR 35), the City Treasurer suggested that if the Council decides that the new rules apply to a consultant and they are deemed to be full-time employees of the authority then in certain circumstances some will pay more tax and national insurance contributions than presently. This could result in some consultants deciding not to continue working with the Council which could result in a loss of expertise.
- 6.11 **RESOLVED:** That the results of the internal audit work carried out during the period be noted.

## **7 ANNUAL REPORT ON INTERNAL AUDIT AND INTERNAL CONTROL 2016-2017**

- 7.1 The Committee received a report that summarised the work of Internal Audit in 2016-2017 and provided the opinion of the Interim 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 2016/17 found that, in the areas audited, internal control systems were generally effective with 82% of the audits undertaken receiving a positive assurance opinion. This was an improvement on the number of positive assurance audits issued in the previous year.

- 7.3 There were a few areas where control improvements are required and compliance with agreed systems could be improved. In each case action plans are 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 Committee noted that to provide the Council with some assurance over the key financial and HR systems, a number of internal audits of Managed Services had been undertaken during 2016/17. In response to questions, Moira Mackie advised that although an end to end payroll audit had not been undertaken sample testing on key areas of the payroll process had been. While the testing had identified a number of exceptions, no material issues were identified. The exceptions identified need to be addressed by BT and at present Internal Audit was some way off from reporting anything other than a limited assurance in this area. The same applied to the audit of the pensions returns to Surrey County Council. There had been some difficulty in undertaking testing due to the lack of information being provided by BT to Surrey County Council. Generally, once such information was provided the latter were updating the member data appropriately. In response to questions, the City Treasurer advised that it would be important to undertake further audits of transactional HR, payroll and finance services to receive assurance that BT will provide the correct data to the new the contractor in 2 years time.
- 7.6 Members asked whether the number of audits that were deferred during 2016/17 was typical. Moira Mackie provided assurances that the number was not out of the ordinary and highlighted that a good level of audits had been undertaken across all service areas of the Council within the year. Members commented in respect of the audit of local authority schools that the results revealed the same type of generic issues as TMOs. Members questioned how this would be addressed. Moira Mackie commented that generally schools were much better and professionally managed than TMOs. A number of actions for management to consider had been put forward. The main recommendations of the Children's Services Department should take proactive action, in collaboration with schools, to improve control and address the common areas of weakness identified.
- 7.7 **RESOLVED:** That the results of the internal audit and internal control work carried out in 2016/17 be noted.

## **8 ANNUAL COUNTER FRAUD MONITORING REPORT**

- 8.1 The Committee received a report that provided an account of fraud related activity undertaken by the Tri-borough Anti-fraud Service (CAFS) from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017.
- 8.2 Since April 2016 CAFS had identified 138 positive outcomes against a target of a 125, including 22 prosecutions and 13 recovered attendances. For the financial year ending 31<sup>st</sup> March 2017 fraudulent activity with a notional value of over £4.5 million had been identified.

- 8.3 Andy Hyatt, Tri-Borough Head of Fraud, informed the committee that he hoped the service would have sufficient resource now to undertake proactive counter fraud work.
- 8.4 The committee acknowledged and commended officers for the achievements in the year and welcomed the quarterly newsletter, Fraud in Brief, which aimed to keep staff up to date with counter fraud activities as well as making them aware of the latest threats and emerging risks.
- 8.5 Mr Hyatt informed members that the improved outcomes on disabled parking fraud had been achieved through utilising the expertise of a particular officer at the Royal Borough of Kensington and Chelsea. He advised that a newly appointed district judge was willing to disqualify drivers that were convicted of committing disabled parking fraud. The Council would publicise any such sentences passed as the publicity would hopefully help to deter others from committing such fraud.
- 8.6 **RESOLVED:** That the counter fraud work undertaken by CAFS in the year and the outcomes achieved be noted.
- 8.7 **ACTIONS:**
1. Members would like details of how the annual targets for producing positive outcomes are set to understand whether the target is appropriate and how activities are determined by the level of resources.
  2. The committee would like to know the ratio of fraudulent Right to Buy applications that were successfully prevented against the total number of applications that were submitted in the period and were approved.

**(Action for: Andy Hyatt, Tri-Borough Head of Fraud)**

## **9 CHANGES TO TRI-BOROUGH SHARED SERVICES ARRANGEMENTS**

- 9.1 The Committee received a report on the arrangements the Council has put in place to ensure the exit from the current Tri-Borough arrangements and transition into a new Bi-Borough partnership in respect of Children's Services, Adult Social Care and Public Health Services are as smooth as possible.
- 9.2 The report provided an outline of the Tri-Borough to Bi-Borough programme arrangements including its work streams as well as the risks identified so far and the mitigation actions being undertaken.
- 9.3 Siobhan Coldwell, Chief of Staff, summarised the key issues set out in the report and responded to questions from members of the committee.
- 9.4 The Committee asked whether the City Council intended to undertake a review at a future date of what had led to the demise of the Tri-Borough partnership for Children's Services, Adult Social Care and Public Health Services. Siobhan Coldwell advised that there was no formal plan to



undertake such a review. She highlighted that Lord Adonis had been commissioned by the London Borough of Hammersmith and Fulham to undertake an independent review of the Tri-Borough Partnership and that whilst identifying some changes and lessons learned he had recommended that they continue with the partnership.

- 9.5 The Committee was informed that following the serving of the s113 notice to Hammersmith & Fulham, the three authorities have up to 12 months to disaggregate the services, but can, with agreement, potentially start new services earlier. In response to questions Siobhan Coldwell stated that the City Council was comfortable with the timelines. She stated that she would need to take legal advice on whether the period by which services must be disaggregated could be extended by a couple of months if necessary.
- 9.6 A query was raised as to whether serving the s113 notice to Hammersmith & Fulham may be premature as hypothetically there could be a change of leadership at Hammersmith and Fulham following the Council elections next May and they may wish to continue with the Tri-Borough partnership arrangements.
- 9.7 In response to questions regarding communications with shared staff, Siobhan Coldwell advised that affected staff had been briefed from the outset on the changes. The Council had given as much assurance as it could regarding job security.
- 9.8 Members commented on the merits of having merged smaller services such as fostering and adoption. Siobhan Coldwell stated that Hammersmith and Fulham recognised the value of retaining a form of shared service for such services where having a wide pool of families that are able to foster children is important.
- 9.9 The Committee was informed that planning on the Tri-Borough to Bi-borough programme arrangements and timelines is in its early stages and a more detailed update will be submitted to the Westminster Scrutiny Commission on the 24 May. The policy and scrutiny committees that have responsibility for Children's Services and Adult Social Care will receive updates on the emerging discussions for these services as relevant to their Terms of Reference. A final strategy and programme plan will be agreed by the summer.
- 9.10 The Chairman stated that he would liaise with his counterparts to determine which aspects of the disengagement the Audit and Performance Committee would focus on to avoid duplication. He suggested that an update on this issue is included as a standing item on future agendas.
- 9.11 **RESOLVED:** That the report be noted.
- 9.12 **ACTIONS:** Can the deadline for disaggregating the services be extended by agreement if additional time is required to finalise arrangements? (**Action for: Siobhan Coldwell, Chief of Staff**)

## **10 WORK PROGRAMME**

### **10.1 RESOLVED:**

1. That the Committee agreed its Work Programme for 2017-18 as attached at Appendix 1 to the report.
2. That the work undertaken in response to the actions which arose from the last meeting as detailed in Appendix 3 to the report be noted.
3. That the proposals for ongoing monitoring of the Managed Services Contract (Finance, Payroll and HR) as set out in section 4 of the report be agreed.

The Meeting ended at 9.00 pm

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

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