

Audit, Pensions and Standards Committee Minutes

Thursday 27 June 2013

PRESENT

Committee members: Councillors Michael Adam (Chairman), Robert Iggulden, Michael Cartwright, PJ Murphy (Vice-Chairman) and Charlie Dewhirst

P-Solve: John Conroy

Officers: Jane West (Executive Director of Finance and Corporate Governance), Hitesh Jolapara (Deputy Director of Finance), Geoff Drake (Chief Internal Auditor), Moyra McGarvey (BiBorough Director of Audit), Michael Sloniowski (BiBorough Risk Manager), George Lepine (HR Consultant), Andrew Hyatt (BiBorough Head of Fraud) and Craig Bowdery (Principal Committee Coordinator).

71. MINUTES OF THE PREVIOUS MEETING

RESOLVED –

That the minutes of the meetings held on 14th February 2013 and 20th May 2013 be agreed as a true and correct record.

72. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Ivimy and Sheela Selvajothy.

73. DECLARATIONS OF INTEREST

There were no declarations of interest.

74. MEMBERSHIP AND TERMS OF REFERENCE

A report outlining the membership and Terms of Reference of the Committee was noted.

75. APPOINTMENT OF VICE-CHAIRMAN

RESOLVED –

That Cllr PJ Murphy be appointed as Vice-Chairman for the duration of the municipal year.

76. APPOINTMENT OF CO-OPTED MEMBER

The Committee noted that the report contained an error in paragraph 1.3 and that the appointment of the co-opted member of the Committee was for 2013/14. The Committee voted on the recommendation that Eugenie White be re-appointed with two Members voting for and two against, with the Chairman's casting vote supporting the recommendation.

RESOLVED –

That Eugenie White be reappointed as a co-opted member of the Committee for 2013/14.

77. PENSION VALUE AND INVESTMENT PERFORMANCE

John Conroy, P-Solve, presented a report detailing the performance and market value of the Council's pension fund investments for the quarter ending 31st March 2013. It was noted that quarter one had seen good performance, with most markets seeing a rise in value. The anticipated change in RPI did not occur, which had had a negative impact on the liability benchmark.

The Committee observed that the data presented was unclear in so much as it presented data on performance from 'inception', without clarifying when inception was. Similarly data on the funds' performance over five years had not been included. Officers undertook to include this information on future reports.

The Committee discussed the performance of the fund's investments and noted that the wider economy continued to be volatile. It was suggested that the market paradigm had shifted with the country having more debt than ever before and an expectation of a decade of low interest rates. For example officers explained that in quarter one, liabilities had risen, with assets up even more. Then in quarter two liability had decreased and assets had decreased less. This equated to two good quarters of performance, but for different reasons. It was argued that the Council's investment strategy was proving beneficial in such a climate as it was able to benefit from a range of different scenarios while shielding the fund from too much exposure in any one market.

RESOLVED –

That the report be noted.

78. ANNUAL REVIEW OF RETIREMENTS 2012-13

Jane West, Executive Director of Finance and Corporate Governance, presented a report outlining the Local Government Pension Scheme retirements that occurred in 2012/13 and the number and value of redundancy payments made in the same year. It was noted that the Council had paid a higher than usual amount in redundancy payments, which was reflected in reduction in staff numbers during this period.

RESOLVED –

That the report be noted.

79. HMRC USE OF CONSULTANTS AND INTERIMS - END OF PROJECT EVALUATION

George Lepine, HR Consultant, presented a report on the end of project evaluation for the use of consultants and interims and drew the Committee's attention to the three recommendations contained within the report.

The Committee questioned whether the Council might have any opportunity to reclaim any funds from the individuals in question, on the grounds that they may have made false declarations when they commenced their employment. Officers explained that it was unlikely as it was important to distinguish between Personal Service Companies (PSCs) (supplying an employee to the Council) and sole traders (individuals who were self-employed, but not set up as companies). PSCs were responsible for the payment of any tax and National Insurance Contribution on salaries paid to their employees and indemnified the Council against any claims from the authorities in respect of such payments. With sole traders the decision about employment status was one which was made by the Council and not by the individual. This was something that had not been well enough understood by managers. Therefore whilst the Council had been overly-reliant on what the employees had stated, it could not be said that the employees made any sort of false declaration.

Some Members expressed their surprise that the report did not include the admission that the Council had been careless with public money and they emphasised that this had been an expensive mistake for the authority. The Chair highlighted that 'careless' was a technical term used by HMRC and was the least serious level of error under their criteria. Officers also informed the Committee that HMRC were clear that 'careless' was judged to be a mistake, as distinguished from deliberately concealing practises.

Members argued that given the quantity of money handled by the organisation, it was imperative that the Council had the proper procedures in place. Officers agreed and explained that new procedures had been implemented. For example any new consultant required a business case and a formal sign-off from HR and an Executive Director to ensure all appropriate procedures had been followed. An internal audit of the new procedures was one of the recommendations made in the report. Geoff Drake, Chief Internal Auditor, confirmed that such an audit was already included on the Internal Audit plan.

RESOLVED –

That the report be noted.

80. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT

The Committee received a report presented by Geoff Drake, Chief Internal Auditor, which summarised the anti-fraud work that had been undertaken by the Council's Corporate Anti Fraud Service (CAFS) during 2012/13. Members were informed that the service would move to a Bi-Borough arrangement on 1st July 2013 to be managed by the new Bi-Borough Head of Fraud, Andy Hyatt.

Members noted from the report that the team had identified fraud valuing in excess of £8million and that over £5.2million was recoverable by the Council. It was asked whether the full amount could or would be recovered. Officers explained that it was unlikely the full amount would be recovered but that the Council sought to recover as much as possible. Any money recovered from fraud activity was unlikely to be recovered in the same financial year as it would often come via payment plans spread over a number of years and months or from prosecutions. It was anticipated that around a further £1million from fraud in 2012/13 would be recovered beyond the £510,000 that had already been recovered this year, some of which related to fraud activity in previous years.

The Committee discussed the staffing levels in the CAFS and noted that two vacant posts had not been filled. It was also noted that a significant number of cases were not investigated due to insufficient resources. Members therefore asked whether the service was under-resourced and enquired if it was meeting its targets. Officers explained that whilst it was meeting and exceeding its targets, some cases were being rejected due to insufficient resources. However this was common in most authorities and every fraud team had to choose how to prioritise referrals to make best use of the available resources. With the service moving to the Bi-Borough arrangement, it was expected that the service would improve by operating with greater efficiency and reduced management overheads, which would allow more resources to be allocated to investigators.

The Committee noted the training being undertaken by fraud officers to give them a greater exposure and familiarity with different types of fraud. It was asked whether the recent case of Care Quality Commission investigators failing to detect poor performance at a Cumbrian hospital actually suggested that rather than making investigators more generic, the Council should be preserving their specialist knowledge to ensure more thorough investigations. Officers explained that by extending the skill-set of officers, the Council was able to investigate more cases and the service could be more flexible. It was also highlighted that the specialist skills of individual investigators still existed, only now they were being shared with colleagues and being applied to different fields.

Members highlighted that the Committee had made several recommendations at its previous meeting relating to the investigation and prosecution of officers involved in corporate fraud, and asked for confirmation that they were being

implemented. Officers confirmed that the recommendations were being progressed and that all necessary internal audit activity was in the current work programme.

The Committee sought clarification on how the Bi-Borough fraud service would operate. Officers explained that at its inception, the service would operate under a single head of service but as two teams. It was however expected that this would change over time as and when the service required it to.

RESOLVED –

That the report be noted.

81. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2012/13 YEAR

Geoff Drake, Chief Internal Auditor, presented a report providing a summary of all audit work undertaken in 2012/13. The report also provided assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. Members noted that the levels of assurances given remained unchanged from the previous year, but that there were some weaknesses in the internal control environment, including the audit of NNDR (National Non Domestic Rates), four schools and the project management of the Edward Woods Regeneration Project.

Members noted the identified weakness in the Edward Woods Regeneration Project and that the Cabinet report on the project had been repeatedly deferred. It was asked why the report was being delayed and whether the identified weakness related to any over-expenditure. The Chief Internal Auditor explained that not being involved in the project, he did not know why the Cabinet report had been delayed. He also confirmed that the control weakness identified was not linked to over-spending but to a failure to use the agreed project management toolkit. The Executive Director of Finance and Corporate Governance undertook to investigate the reasons for the delayed Cabinet decision.

The Committee was also informed that from 1st July 2013 there would be a Bi-Borough internal audit service. Officers confirmed that this would not impact on the number of days' audit activity planned for the authority.

Some Members highlighted that as a Committee they had not appreciated the significance of the audit of NNDR when it was originally presented. It was therefore argued that such failures and other issues of concern should be included in the annual report to help the organisation learn from mistakes made and to prevent similar occurrences from being repeated.

It was noted that there was a range of transformation projects being undertaken to implement the Council's Medium Term Financial Strategy (MTFS) and asked how internal audit was being involved in their delivery. Officers explained that key projects were being identified and that internal audit would be involved where necessary. It was agreed that a full breakdown of the internal audit work being undertaken on transformation projects would be presented to the Committee at a later date.

The Committee noted that there were 60 days of auditing being carried forward into 2013/14 from the previous year as it had not been possible to audit IT. Some Members expressed concern that further progress on IT projects therefore could expose risks as they had not been fully audited. Officers explained that the Tri-Borough IT strategy had been delayed, which was why it was not audited. The auditing days had been carried forward to ensure the audit took place and the outstanding audit activity was a high priority. The delay in the project had occurred because of a number of factors so it was decided that the audit should also be delayed to ensure it could add as much value as possible.

RESOLVED –

That the report be noted.

82. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Bi Borough Risk Manager, presented a report updating the Committee on the risks, controls, assurances and management action oriented to manage Enterprise-wide risks.

The Committee asked whether the tri-borough services had become homogenised into one entity or if they were still distinct and ring-fenced, and whether there was any potential risk to the tri-borough services should any of the Councils wish to no longer proceed with the arrangement. Officers explained that it varied across the services and that in many instances the policies and frameworks for risk management were becoming more harmonised. On a wider level however it was highlighted that each Council retained sovereignty with the on-the-ground delivery catered to each authority's needs, albeit under a combined management. Members were also reassured that there were mechanisms in place to ensure that staff resources were split correctly and that any further integration could only be achieved with additional Member consent.

Members noted the risk regarding the HMRC VAT claims for partnering activities and the partial exemption benefit and asked for clarification. Officers explained that the Council has historically received a partial refund on the VAT it is liable for but that the new activities that it and many other councils are undertaking could potentially mean it is no longer eligible for the partial exemption. To mitigate the risk the Council was in close contact with the HMRC and was reviewing the situation monthly to ensure all correct procedures were being followed.

RESOLVED –

That the report be noted.

83. TRIBOROUGH RISK MANAGEMENT STRATEGY STATEMENT AND BIBOROUGH RISK MANAGEMENT SERVICE PROVISION

Michael Sloniowski, BiBorough Risk Manager, presented a report on the TriBorough Risk Management Strategy Statement and Policy Document for 2013-

16 and informed the Committee that a similar report had been approved by RBKC earlier that week.

The Chair requested that officers should return to a future meeting to illustrate to the Committee the work undertaken by the risk management service and to emphasise the exemplary work carried out.

RESOLVED –

- i) That the Committee approve the approach outlined in the Strategy Statement and that effective risk management, undertaken on a collaborative basis, will improve strategic, operational and programme management through shared processes.
- ii) That the Committee note the introduction of a BiBorough Risk Management service within a shared Audit service. This will be hosted by the Royal Borough of Kensington and Chelsea and will be under the leadership of the newly appointed Director of Audit, Moyra McGarvey. The anticipated date for the implementation of the new Internal Audit structure including Risk Management is 1 July 2013.

84. EXTERNAL AUDIT RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT ACTION PLAN

Geoff Drake, Chief Internal Auditor, presented a report summarising the progress made implementing the recommendations arising from the Audit Commission's 2011/12 Annual Governance Report, and the action plans relating to control weaknesses identified in the 2011/12 Annual Governance Statement.

RESOLVED –

That the report be noted.

85. INTERNAL AUDIT CHARTER AND STRATEGY STATEMENT 2013 2014

Geoff Drake, Chief Internal Auditor, presented a report on the Council's Internal Audit Charter and Strategy Statement for 2013/14.

RESOLVED –

That the report be noted.

86. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Chief Internal Auditor, presented a report summarising internal audit activity during 1st January 2013 and 31st March 2013.

RESOLVED –

That the report be noted.

87. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED –

That under Section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 3 and 7 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

88. EXEMPT MINUTES OF THE MEETING ON 20 MAY 2013

Cllr Iggulden highlighted that he did not express the view attributed to him in the 24th paragraph of the exempt minute 70 and the Committee agreed to amend the minutes accordingly.

RESOLVED –

That subject to the amendment above, the exempt minutes of the meeting held on 20th May 2013 be agreed as a true and correct record.

89. EXEMPT RETIREMENTS AND REDUNDANCIES

RESOLVED –

That the exempt aspects of the report be noted.

Meeting started: 7.00 pm
Meeting ended: 9.39 pm

Chairman

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