

# Audit, Pensions and Standards Committee Minutes

13 September 2016

## PRESENT

**Committee Members:** Councillor Iain Cassidy, Ben Coleman, PJ Murphy, Guy Vincent, Michael Cartwright, Mark Loveday, Michael Adam, and Donald Johnson

**Officers:** Hitesh Jolapara, Chris Harris, Geoff Drake, George Bruce, Nicola Webb, Halfield Jackman, Dave McNamara, Michael Hainge, Paul Monforte, Stan Grant, and David Abbott

**Guests:** Andrew Sayers (KPMG) and Jennifer Townsend (KPMG)

## 1. MINUTES OF THE PREVIOUS MEETING

### **RESOLVED**

That the minutes of the meeting held on 15 June 2016 were agreed as a correct record and were signed by the Chair.

## 2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Nicholas Botterill.

Apologies for lateness were received from Councillor PJ Murphy and Donald Johnson.

## 3. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 4. ANNUAL STATEMENT OF ACCOUNTS 2015-16

Hitesh Jolapara, Strategic Finance Director, introduced the report that recommended the Committee to note the auditor's findings and recommendations, approve the management representation letter, approve the Statement of Accounts for 2015/16 including the Pension Fund, to note the Annual Governance Statement, and approve the Pension Fund Annual Report 2015/16. He noted the following key points from the Narrative Statement of the Statement of Accounts:

- A General Fund revenue account under-spend of £4.5m
- A General Fund balance of £19.0m.
- A Housing Revenue Account (HRA) surplus of £5.3m for the year, increasing its working balance to £18.5m.
- Earmarked reserves at 31 March 2016 of £112.9m.

Andrew Sayers, KPMG, noted that they were anticipating issuing an unqualified audit opinion on the Council's financial statements and that the Annual Governance Statement complied with the guidance issued by CIPFA/SOLACE in June 2007.

Three audit adjustments were identified above the threshold of £600,000 which required reporting. The impact of these adjustments was to decrease the gross balance of Debtors and Creditors on the balance sheet by £2.2 million (less than 0.2% of net assets) and did not impact the balance on the general fund and HRA account as at 31 March 2016.

The following key audit risks were identified in the 2015/16 external audit plan issued in June 2016:

- Management override of controls
- Valuation of Property, Plant and Equipment
- Managed Services implementation (affecting Cash, Debtors, Creditors, Journals and Payroll)

Andrew Sayers noted that the auditors had discussed these issues with officers throughout the year and they were satisfied that adequate controls had been put in place. Further work was required for the Pensions Fund on valuations, benefits and contributions but there was comfort on the overall figures. There had been some issues with membership data following the recent transfer of contracts from Capita to Surrey County Council but the auditors now had all of the information they needed and anticipated being able to hit the 30 September deadline. It was noted that if any non-significant changes were required, such as changes to disclosure notes, the Strategic Finance Director would authorise these and inform the Chair.

The Chair invited questions from the Committee.

Councillor Guy Vincent, with reference to page 142 of the agenda, noted that the auditor had concerns about significant numbers of queries and the accuracy of data related to pensions. He asked if that was primarily a managed services issue. Andrew Sayers responded that the 'logic check' the auditors carried out on contributions and benefits was heavily dependent on membership data. When the check was completed it highlighted some concerns around the timing of people coming in and out of the scheme. When looking into the issue in greater detail they didn't find any errors in payments made and they believed it was purely a data issue, of which an element was due to managed services, but was also due to the move from Capita to Surrey County Council. Once Surrey County Council were more comfortable with the data (carried out data cleansing etc.) it was advised that internal audit should carry out a further check on the data to ensure the issues had been resolved.

Councillor Vincent, with reference to page 162 of the report, asked if the auditors had found any issues in relation to procurement and contract management. Andrew Sayers responded that they had looked at contract management and were aware of issues such as the SEN passenger transport contract and managed services that had caused major problems for the Council. The auditors were satisfied that those issues had been identified and were being improved. He advised that procurement and contract management were fit for purpose but could have been improved – problems with those areas were common issues in local government. Councillor Ben Coleman noted that the two contracts mentioned above were let by Westminster City Council as part of the tri-borough, not Hammersmith and Fulham.

Councillor PJ Murphy, with reference to page 22 of the agenda, noted the significant underspends in the General Fund outturn table and asked what proportion of that was due to unfilled posts. Hitesh Jolapara said he could share the outturn report that showed the breakdown of those figures outside of the meeting.

Councillor Michael Adam, noted that the reported underspend of £4,478,000 was fairly significant at a time when Council budgets were being reduced – and this raised questions about why the money had not been allocated. Councillor Murphy asked what percent of the budget the underspend represented and whether that was consistent with previous underspends. Hitesh Jolapara responded that the underspend was a relatively small percentage of the overall budget – successive years of austerity had created a culture where managers were very careful with their budgets. Councillor Adam noted the Controlled Parking Accounts underspend of £2,170,000 (page 22 of the agenda) and asked for a breakdown of that figure.

Councillor Adam noted that there appeared to be quite a bit of cash flow variance and asked what had caused it. Chris Harris referred members to the list of short term investments on page 33 and the cash flow statement on page 34 – he said the variances were largely due to the complexities of how investments and cash were managed.

Councillor Adam noted the pensions deficit of £490,000,000, which was higher than the pensions fund account - were officers using a different discount rate to measure liabilities? Officers responded that a range of actuary assumptions could be used to measure the liabilities.

Councillor Vincent, referring to the pensions fund account on page 210 of the agenda, noted that there was a net decrease of £12,000,000 this year but management expenses had increased. He asked officers to look again at fee structures with a view towards rebalancing in favour of performance.

Councillor Vincent noted that there were vague mentions of Brexit in the main accounts and it had been reported that some final salary pension schemes would be facing difficulties – he asked if the Committee should anticipate problems going forward. George Bruce responded that the pensions fund was a long term vehicle (50-60 years) and financial markets were not always stable. 2014-15 was very good year whereas last year was relatively flat. Since the year-end the markets have responded exceptionally well. Private sector pensions schemes had faced

difficulties due to their gilt-based discount rate but the Local Government Pension Scheme was different, facing only slight reductions in discount rates.

Councillor Loveday, with reference to the list of transfers to and from reserves on page 58 of the agenda, asked if the Council matched money leaving reserves with the purpose that it was originally earmarked for.

Hitesh Jolapara responded that the Council chooses to reallocate funds based on need and they did look at the earmarked purpose first. Reallocations went through the Council's standard governance processes and there was a clear audit trail for all transactions. Councillor Loveday asked if he could see information on what the reserves were used for.

Councillor Murphy asked if the increase in earmarked reserves from £92,589,000 at 31 March 2014 to £112,852,000 at 31 March 2016 was a good thing. Hitesh Jolapara informed members that reserves were all earmarked for specific purposes and they also gave the Council the resources for invest-to-save initiatives in the future.

The Chair, on behalf of the Committee, thanked Hitesh Jolapara and Councillor Max Schmid for their hard work in achieving an unqualified audit opinion.

## **RESOLVED**

1. That the Committee noted the content of the auditor's 'Report to those Charged with Governance (ISA260)' (appendix 2 of the report) stating that the accounts will receive an unqualified opinion, the Council has an adequate internal control environment and has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
2. That the Committee noted the auditor's findings, recommendations and the Council's response to those recommendations as set-out in the Report to those Charged with Governance (ISA260).
3. That the Committee approved the management representation letter (as included at appendix 3 of the report).
4. That the Committee approved the Statement of Accounts for 2015/16, including the Pension Fund (as included at appendix 1 of the report).
5. That the Committee noted the Annual Governance Statement which is included in the Statement of Accounts on pages 106-114 of the report.
6. That the Committee approved the Pension Fund Annual Report 2015/16 (as included at appendix 4 of the report).

## **5. TREASURY OUTTURN REPORT 2015-16**

George Bruce presented the Council's Outturn Treasury Report for 2015/16 and noted that it would be formally signed off by Full Council in October. The Chair invited questions from the Committee.

Councillor Michael Adam, with reference to page 244 of the agenda, said it was not clear how the maturity of debt matched declining investment. George Bruce referenced section 5.29 of the report that showed the breakdown of the £60m

reduction in investment balances - debt maturities was only one element of that. The major element was higher cash balances at year end.

Councillor Adam noted the return of 0.6 percent and asked if any benchmarking had been done to compare our performance with that of other authorities. George Bruce responded that the London average at March was around 0.85 percent but that represented a range of risk profiles. The Council had more of a focus on security. Councillor Max Schmid and Hitesh Jolapara were however looking at options going forward to enhance the return.

#### **RESOLVED**

That the Committee noted the report.

### **6. INTERNAL AUDIT QUARTERLY REPORT - APRIL TO JUNE 2016**

Geoff Drake presented the report that summarised internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2016 as well as reporting on the performance of the Internal Audit service. At the time of the meeting there were 64 audit recommendations outstanding.

Geoff Drake noted that Ed Garcez, Chief Information Officer, was unable to attend the meeting due to a long-standing commitment. The Chair said he would meet with him to discuss the outstanding recommendations and request a note for the rest of the committee.

#### **Fulham Primary School**

Councillor Mark Loveday noted that the internal audit report on Fulham Primary School was in the exempt agenda but information on the school's outstanding audit recommendations were contained in the audit summary in the quarterly report which was in the open agenda. He asked that officers considered whether audit reports really needed to be kept exempt in future or whether they could be made public.

Councillor PJ Murphy, with reference to the high number of outstanding recommendations relating to schools, asked if there was a legal requirement to audit schools. Dave McNamara responded that the Council was obliged through a statutory framework to test whether proper controls were in place. In this instance the reminder sent to schools asking them to respond was sent a short time before the summer break and the report for committee was written before they came back so there was only a short time for them to provide updates. Schools do take the process seriously and are concerned if they receive nil or limited assurance. He also noted that some schools disagreed with the auditor's opinions but find it difficult to articulate why. Councillor Murphy said would be helpful to have that information in reports going forward so at least the Committee is aware that some action is being taken. Dave McNamara suggested audit should meet with the bursars as they were keen to understand the process in more detail.

Councillor Mark Loveday, with reference to pages 253 and 254, noted that the overall picture on audit seemed to be presenting a deterioration. There were more nil-assurance returns which were defined as where 'controls are generally weak

open to significant abuse'. In addition, outstanding recommendations were remaining outstanding for longer. He asked what the cause of that was. Geoff Drake responded that a small number of schools were responsible for a significant proportion of outstanding recommendations and both of the nil returns. Dave McNamara noted that Fulham Primary School did not feel the recommendations reflected the judgement and a nil assurance opinion was not an accurate reflection of the severity of the situation. Geoff Drake countered that internal audit took a consistent line on opinions and nil assurance reports were always reviewed by the Head of Audit – he offered to meet with Children's Services officers to resolve this issue.

The Committee agreed that the Chair should write to the Chair of Governors at the school inviting them and the Headteacher to attend the next meeting of the committee to discuss the issues highlighted in the report. The Chair noted that going forward the Committee would require Chairs of Governors and Headteachers to attend in cases of limited and nil assurance audits.

### **Corporate Procurement**

Michael Hainge, Commercial Director, presented the recommendations for Corporate Procurement (recommendations 40 and 41). He apologised to the Committee for not meeting the agreed deadlines. He noted that a procurement strategy had been drafted and would be finalised by the end of October. The biggest changes related to contract standing orders – all contracts above £100,000 in value would have a strategy from the outset, giving Cabinet opportunity to have their input and ensure that the contract reflected the administrations priorities from the outset. He also informed the Committee that 30 staff had undertaken an online procurement training course from IACC. In addition to this over 80 staff had been trained on the new contract standing orders. Councillor PJ Murphy noted that the best learning was through experience. Training needed to be followed up regularly to be effective.

Councillor Guy Vincent asked what the next steps were. Michael Hainge responded that internal audit would follow up with the service and confirm the implementation of the recommendations.

## **7. HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2015-16**

Geoff Drake presented the report that summarised all audit work undertaken during the 2015/16 financial year and provided assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. The work carried out by internal audit found that internal control systems were generally effective with 81.4 percent of audits undertaken receiving a positive assurance opinion.

Councillor Michael Adam asked why there were fewer recommendations this year than in previous years. Geoff Drake responded that the audit programme was roughly the same size as previous years and the number of recommendations reflected the findings of the audits undertaken.

**8. INTERNAL AUDIT CHARTER AND STRATEGY**

Geoff Drake presented the updated version of the Internal Audit Charter and Strategy.

**RESOLVED**

That the Committee noted the contents of the report.

**9. DATES OF FUTURE MEETINGS**

The next meeting was scheduled for 7 December 2016.

**10. EXCLUSION OF THE PUBLIC AND PRESS**

**RESOLVED**

That under Section 100A(4) of the Local Government Act 1972, that 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 paragraph 3 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.

**11. EXEMPT MINUTES OF THE PREVIOUS MEETING**

**RESOLVED**

That the exempt minutes of the meeting held on 15 June 2016 were agreed as a correct record and were signed by the Chair.

**12. FINAL INTERNAL AUDIT REPORT - FULHAM PRIMARY SCHOOL 2015-16**

The Chair noted that the Committee had agreed earlier to invite the Chair of Governors and Headteacher to the next meeting to discuss the findings of the audit report.

**RESOLVED**

That the Chair write a letter inviting the Chair of Governors and the Headteacher of Fulham Primary School to the next meeting of the Committee to discuss the findings of the audit report.

**13. FINAL INTERNAL AUDIT REPORT - MITIE HEALTH AND SAFETY CHECKS 2015-16**

The Committee discussed the report.

Meeting started: 7.00 pm  
Meeting ended: 10.00 pm

Chair .....

Contact officer: David Abbott  
Committee Co-ordinator  
Governance and Scrutiny  
☎: 020 8753 2063  
E-mail: david.abbott@lbhf.gov.uk