



London Borough of Hammersmith & Fulham

# Audit Committee Minutes

Tuesday 23 March 2010

## PRESENT

**Committee members:** Councillors Robert Iggulden (Chairman), Michael Adam and Oliver Craig

**Other Attendees:** Jon Hayes, District Auditor (Audit Commission)  
Julian McGowan, Audit Manager (Audit Commission)

**Officers:** Jane West, Director of Finance and Corporate Services,  
Pat Gough, Assistant Director Finance,  
Geoff Drake, Chief Internal Auditor,  
Caroline Wilkinson, Head of Finance Development,  
Michael Sloniowski, Principal Consultant, Risk Management,  
Owen Rees, Assistant Committee Coordinator

## 1. MINUTES AND ACTIONS

### RESOLVED THAT:

The minutes of the meeting of the Committee held on 30 November 2009 be agreed as a true and accurate record of the proceedings.

## 2. MATTERS ARISING FROM THE MINUTES OF 30 NOVEMBER 2009

In relation to Item 4, "Annual Audit Letter", page 2, paragraph 3, the Chairman asked what governance arrangements were in place between the Council and the PCT, and how they met the District Auditor's view that arrangements should be robust. Jane West, Director of Finance and Corporate Services, said that the Council's Executive Management Team meetings now included Sarah Whiting, Managing Director NHS H & F, and served as the Integration Project Management Board, which reviewed integration progress, including the ongoing Corporate Services Review.

In relation to Item 4, page 2, paragraph 4, the Chairman also raised the issue of the Council's bank accounts; Jane West confirmed that the law had changed, and the Council would be required to keep separate bank accounts in future.

In relation to Item 4, page 2, paragraph 8, the Chairman asked if the District Auditor had been able to conclude their investigation into electors' concerns. Jon

Hayes, District Auditor, said that his predecessor Kash Pandiya had completed the investigation, and been able to certify and sign off the Council's accounts

In relation to Item 7, "Audit Commission Recommendations Update", the Chairman raised the issue of Health Inequalities. Jane West said that she would ask David Evans, the Council's lead officer on the issue, to write to the Chairman, updating him on progress.

In relation to Item 10, "Corporate Anti-Fraud Service, Quarter 2 Report 2009/10", page 6, paragraph 2, the Chairman raised the issue of the Council officer who had taken a job at TfL, and asked whether the Council had supplied them with a reference. Geoff Drake, Chief Internal Auditor, said that he would check with Human Resources, and write to the Committee with a response.

### **RESOLVED THAT**

- (1) Officers be requested to write to the Chairman with regard to progress on Health Inequalities;
- (2) Officers investigate the circumstances of the fraud case discussed above, and write to the Committee giving more detail, and;
- (3) That the updated and outstanding actions be noted.

### **3. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Cartwright, who was on other Council business.

### **4. DECLARATION OF INTERESTS**

There were none.

### **5. AUDIT OPINION PLAN FOR LONDON BOROUGH OF HAMMERSMITH & FULHAM**

Jon Hayes, District Auditor, introduced the report, which set out the strategy for the external audit of the Council's 2009/10 financial statements. He said that the document identified specific risks, and how the audit would address these, in table 1 of the report.

The Chairman asked what the effect of changes to the accounting of PFI projects (would be. Jon Hayes said that while the changes were substantial, the effects would be accounted for prior to the determining of Council Tax, meaning the effect of the change would be small.

With regard to the fee levied on the Council, Jon Hayes said that it represented a small increase on the 08/09 fee, but that he expected the 10/11 fee to show a reduction, as, given the state of public finances, the Audit Commission was committed to making efficiencies, and passing them on to Councils.

### **RESOLVED THAT**

The report be noted.

**6. AUDIT OPINION PLAN FOR THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND**

Jon Hayes, District Auditor, introduced the report, which set out the strategy for the external audit of the 2009/10 Pension Fund Accounts, as Item 6 had set out the strategy for the external audit of the Council accounts.

**RESOLVED THAT**

The report be noted.

**7. GRANTS REPORT 2008/09**

Julian McGowan, Audit Manager, Audit Commission, introduced the report, which set out the results of the Audit Commission's audit of the Council's grant claims in the 2008/09 financial year; the audit falling outside the audit of the core accounts. He said that the process and supply of information had improved, and the fee payable fallen as a result. He added that the report highlighted areas of weakness, and included the action plan, which was already being implemented.

In response to questions from the Committee, Jon Hayes, District Auditor, clarified that the Audit Commission was obliged to audit Council grant claims by central Government, though the number of grant claims audited had been reduced, and the Audit Commission was considering recommending a further reduction.

With regards to the errors detected in the Housing Benefit claim, Julian McGowan clarified that the Housing Benefit claim was problematic for all Councils, with Hammersmith & Fulham's error rate average or lower than average. Errors were usually the result of incorrect data entry, a result of human error; a problem that the Council had worked to reduce, setting up its own audit team to check entries for accuracy.

**RESOLVED THAT**

That the report be noted.

**8. EXTERNAL AUDIT PROGRESS REPORT**

Julian McGowan, Audit Manager, Audit Commission, introduced the report, which set out progress against the 2009/10 External Audit plan, and summarised recent national reports published by the Audit Commission. The auditor also required the Committee to respond to it, as to how it ensured that the Annual Accounts were correct, what measures it had taken with regards to oversight of fraud and breaches of internal control, and how it had ensured compliance with relevant laws. The Committee agreed to ask the Chief Internal Auditor to draft a letter on its behalf, setting out the steps the Committee had taken.

**RESOLVED THAT**

- (1) The Chief Internal Auditor be asked to draft a letter from the Committee in response to the questions asked of it by the Auditor in Appendix 2, and ;

(2) The report be noted.

## **9. TREASURY MANAGEMENT QUARTERLY REPORT**

Pat Gough, Assistant Director of Finance, introduced the report, which set out the Council's Treasury Management Strategy for 2010/2011. The report set out the way in which the Council had responded to the revised CIPFA Code of Practice for Treasury Management, drawn up in the light of the Icelandic bank crisis. It contained the new treasury and prudential limits, as well as the Council's investment strategy, portfolio position and borrowing requirements. The report had been received and the recommendations agreed by full Council, with amendments to methodology delegated to the Council's Cabinet, and scrutiny of ongoing performance to the Audit Committee. Officers would report to Cabinet, and to the Committee, three times a year.

In response to a question from the Chairman, Pat Gough confirmed that the prudential limits for 2009/10 had been updated to take account of the actual position up to 31<sup>st</sup> December 2009 and reflected the £77million borrowing undertaken in 2009/10.

Councillor Michael Adam said that it would be helpful to see figures for the Council's debt, excluding the borrowing requirement for the Decent Homes programme, which was covered by Government credits. Pat Gough agreed to write to the Committee giving the figures.

With regard to the net borrowing requirement for 2012/13, it was clarified that the Council was allowed to borrow a certain amount to be covered from the Housing Revenue Account (for works on its housing estate). By extrapolating from the Capital Programme, it was possible to identify the figure that would be required.

Councillor Craig asked to what extent practice had changed since the Icelandic crisis, and how much the new Code of Practice would affect it further. Pat Gough said that the Council had been more cautious in its lending, lending only to U.K. banks, and had put in place a more robust model, monitoring the pricing of credit default swaps, and had begun making use of additional financial information, monitoring the markets more carefully.

### **RESOLVED**

### **THAT**

(1) Officers write to members giving details of the size of the Council's long-term debt, excluding that incurred by the Decent Homes Programme;

(2) The report be noted.

## **10. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)- UPDATE**

Caroline Wilkinson, Head of Finance Development, introduced the report, which updated the Committee on the Council's progress towards implementing the International Financial Reporting Standards (IFRS). Officers were currently engaged in restating the 2009/10 accounts using IFRS, as a prelude to using the standards for the 2010/11 accounts. The change was not expected to affect the Council's bottom line financial position: CIPFA having produced guidance that

mitigated any unintended effect. Officers were working closely with the auditors, and with other Councils and partners; the NHS having implemented the change to IFRS a year earlier than local government. To date, the change had been managed from within existing resources.

The Chairman queried the treatment of leases under the revised rules, particularly in relation to the way in which implied leases were shown. Officers said that the classification of leases was complicated by the Council's outsourcing. Guidance accompanying the introduction of IFRS was that where organisations acquired and used assets solely and specifically on behalf of the Council, the Council needed to consider whether it had an implied lease on those assets, and show elements of those leases on the balance sheet. The frequency with which large commercial enterprises classified leases they held, of property, for instance, as financial leases, meaning that full future cost of the lease and current worth was shown on their balance sheet, was disputed.

#### **RESOLVED THAT**

The report be noted.

#### **11. ACCOUNTING FRAMEWORK 2009/10**

Caroline Wilkinson, Head Of Finance Development, introduced the report, which set out changes to the accounting framework in the 2009/10 accounts. Major changes included different treatment for Private Finance Initiative (PFI) projects, different treatment for National Non-Domestic Rates (NNDR) and the removal of 5 disclosure notes from requirements. In addition, the disclosure note on officers' remuneration was likely to be amended, with pension costs to be included; this could considerably raise the number of officers whose remuneration was above the threshold for disclosure.

Councillor Michael Adam asked if there was any reasoning behind the move to bring PFI projects onto the balance sheet, given that part of the logic for their implementation was that they did not qualify as liabilities. Officers said that the change had come as part of the production of the Whole of Government Accounts, but that they were not aware of any rationale underpinning the timing of the change. Jon Hayes, District Auditor, said that the move would bring into question whether a PFI project gave value for money, and what level of risk had actually been transferred to the contractor.

**RESOLVED**

**THAT**

The report be noted.

#### **12. RISK MANAGEMENT PROGRESS REPORT QUARTER 3**

Michael Sloniowski, Principal Consultant, Risk Management, introduced a report, setting out progress on Risk Management within the Council since the Committee's last meeting. In that period, the results of the internal audit of risk management had been received; the verdict had been satisfactory, with substantial assurance attained. The recommendations made by the auditors had been taken up with managers across the Council, and many had been implemented. Meetings had

also been held with the Council's Finance Strategy Board, and risk management would receive increased emphasis in the Annual Governance Statement which accompanied the Council's accounts. Work was ongoing with the PCT with regard to shared services, though progress had been slowed by staffing changes in the other organisation; work was also being undertaken on the risks associated with data quality, which would be examined in the Use of Resources audit.

With regards to the Risk Register, Managing HR had moved from a hazard risk to an opportunity risk, which was a good outcome.

With regard to the review of partnerships described in 6.1.6 of the report, Michael Sloniowski said that the audit was annual, and was to ascertain the value of Local Strategic Partnership (and other partnerships') grant.

With regard to the risk identified on the risk register in relation to Business Continuity, Michael Sloniowski confirmed that there was now a named Corporate Resilience Officer, working in Residents Services under the Director of that department. Whilst it was expected that funding for the IT solutions identified would be forthcoming, there was further work to do on implementation, both on the proposed IT solutions and other aspects of business continuity.

With regard to the risk identified in relation to VAT invoicing, it was clarified that HMRC was interested as a matter of fraud awareness. Other Councils had had dealings with inappropriate companies, and the Council was ensuring that it knew which companies it worked with, when, for example, ownership of a contractor changed. The risk was considered very low.

With regard to the risk around "Successful Cultural Change", Michael Sloniowski said that the risk was associated with the Smart Working programme; he expected it to move to green in the Risk Register's next iteration.

## **RESOLVED THAT**

The report be noted.

### **13. CORPORATE ANTI-FRAUD QUARTERLY REPORT QUARTER 3**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work of the Corporate Anti-Fraud Service (CAFS) in Quarter 3 of 2009/10. He said that there had been 187 successful outcomes against a target of 150, with fraud to the value of more than £1.55 million identified; work done under the auspices of the National Fraud Initiative accounted for £857,000 of that figure. Income for the period was £94,000, with a further £1.34 million identified as recoverable.

Councillor Adam asked what percentage of the latter figure was likely to be recovered, adding that what would be recovered was a more important measure than what was recoverable. Geoff Drake said that it was difficult to quantify, as housing benefit cases in which CAFS had identified overpayment as a result of fraud had not been differentiated on the system from those where overpayment was the result of error; as overpayment was recouped over long periods, it was difficult to predict when and if full payment would be received. The Council did, however, receive an automatic 40% bounty on any identified overpayments.

Councillor Adam asked whether those in receipt of overpayments were treated as debtors. Jane West, Director of Finance and Corporate Services, confirmed that they were, though the debts were provided for as bad debt.

The Chairman suggested that the report might be clearer if it gave a headline figure for income received in the quarter, rather than a projection of what might be receivable in the future. Where the income was less tangible, as with tenancies recovered, officers might work to assign a cash figure to the saving made as result.

Geoff Drake replied that there was value in knowing what was recovered from identified Housing Benefit fraud, provided that systems could track it, especially as it could aid CAFS in knowing whether seeking recovery would prove value for money.

In response to a question from the Chairman, Jane West confirmed that the memorandum of understanding with the Police regarding the division of restrained assets had been agreed, with one third going to each of the Police and the Council, and a further third to be spent on anti-fraud activities by the Crime Reduction Partnership.

The Chairman asked to what extent the checks made on the validity of those on the Housing Register was an ongoing activity. Geoff Drake said that work was done on those who had neared the top of the waiting list and were likely to be offered a property, and, as such, could be considered an ongoing area of activity. As that element of the service was funded by the department responsible, however, whether it would continue would be subject to that department's assessment of its value.

#### **RESOLVED THAT**

The report be noted.

#### **14. AUDIT COMMISSION RECOMMENDATIONS UPDATE**

Geoff Drake, Chief Internal Auditor, introduced the report, which contained updates on recommendations made by the Audit Commission. Of the 23 outstanding recommendations, 9 had been fully implemented, and 10 required further action. Responsible officers had not submitted updates on 4 of the recommendations. He noted that there was a clear underlying trend of issues with regard to reconciliation.

#### **RESOLVED THAT**

- (1) The Committee record its disappointment that responsible officers failed to input to the quarterly update, and asked them to ensure that they did so for future reports, and;
- (2) The report be noted.

#### **15. ANNUAL GOVERNANCE STATEMENT ACTION PLAN**

Geoff Drake, Chief Internal Auditor, introduced the report which set out progress against the Annual Governance Statement Action Plan. He noted that progress had been made on Business Continuity Planning, with a Cabinet decision due in April on IT solutions, and that there had been some progress made on Frameworki, noting that the problems with the system were common across local Councils, and that an upgrade had been agreed.

**RESOLVED THAT**

The report be noted.

**16. 2010/11 INTERNAL AUDIT PLAN**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the plan of internal audits for 2010/11. He said that the Council was following a process similar to that it had used in the current year, frontloading the plan, with delivery plans for each audit, specifying which audit would take place in which quarter. It had also sought to strike a balance between assurance and adding value through a consultancy approach.

**RESOLVED THAT**

The report be noted.

**17. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD TO JANUARY 2010**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work of Internal Audit in the quarter to 31 December 2010. In that period, 1 limited assurance report had been issued; the issues identified did not pose a financial risk to the Council, however. 5 audit reports were outstanding, with 1 over six months out of date, due to circumstances beyond the auditor's control. 34 audit recommendations were outstanding, with 14 past their target date for implementation, 5 of which were more than a year past the target date for implementation; officers hoped to ensure those past target were complete by the Committee's next meeting.

The report also set out alterations made to the 2009/10 audit plan, and the progress of the contractor against their deliverables; the latter showing a considerable improvement on previous years, with the target for deliverables completed likely to be met.

Further, the report also drew the Committee's attention to the testing work the service was doing on behalf of the Audit Commission, and the work done on integration with the PCT.

**RESOLVED THAT**

The report be noted.

Meeting started: 7.04 pm



Meeting ended: 8.44 pm

Chairman .....

Contact officer: Owen Rees  
Committee Co-ordinator  
Councillors Services  
☎: 02087532088  
E-mail: [owen.rees@lbhf.gov.uk](mailto:owen.rees@lbhf.gov.uk)