

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes



Tuesday 21 March 2017

PRESENT

Committee members: Councillors Iain Cassidy (Chair), PJ Murphy, Guy Vincent, Michael Adam, Nicholas Botterill, Mark Loveday, Donald Johnson and Michael Cartwright

Officers: Hitesh Jolapara (Strategic Finance Director), Michael Sloniowski (Risk Manager), Moira Mackie (Interim Director of Audit, Fraud, Risk, and Insurances), Geoff Drake (Senior Audit Manager), Nilavra Mukerji (Director for Housing Services), Michael Hainge (Director for Commercial Revenue), and David Abbott (Scrutiny Manager)

External: Mat Bishop (Managing Director at MITIE), Andrew Sayers (KPMG), and Jennifer Townsend (KPMG)

1. MINUTES OF THE PREVIOUS MEETING

Correction

On page 6, delete the last two sentences of the second paragraph and replace with:

“Councillor Murphy then asked what proportion of absenteeism was caused by stress. Nicholas Austin said officers were waiting for data on this from HR.”

RESOLVED

That, with the correction noted above, the minutes of the meeting held on 7 December 2016 were approved as a correct record and were signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Ben Coleman.

Apologies for lateness were received from Councillor Mark Loveday and Michael Adam.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. CERTIFICATION OF GRANT CLAIMS 2015-16

Andrew Sayers and Jennifer Townsend (KPMG) presented the report. Andrew Sayers noted the following key findings from the report:

- There were no recommendations arising.
- The Housing Benefit Subsidy claim was subject to a qualification letter which set out the detailed findings from their testing. This identified two overstatements totalling £10,777.48 relating to 5 cases. Officers expected the DWP to make an amendment to our claim in respect of these cases.
- Two adjustments were noted in respect of the Pooling of Housing Capital Receipts return which have now been corrected by officers.
- The Teacher's Pensions EOYC return required one minor adjustment but otherwise no issues were raised.

RESOLVED

To note the 2015/16 Grants report as put forward by KPMG.

5. EXTERNAL AUDIT PLAN 2016-17

Andrew Sayers (KPMG) presented the report and highlighted the following:

- Materiality had been set at £12m for the Authority and £17m for the Pension Fund – but lower levels were also reported where appropriate.
- Significant risks included managed services, pension fund assets, and pension liabilities more generally looking to the triennial valuation that sets the agenda for the next three years. Other areas of risk included management overrides and fraudulent revenue recognition – with a focus on Section 106.

Councillor PJ Murphy noted KPMG's fee had not increased from last year and thanked them for that. He then asked KPMG if they could reduce their fee further to help the Council contend with the ongoing funding reduction from central Government and demand for services. Andrew Sayers responded that KPMG had already reduced their fee significantly over a period of time but they would consider the proposal.

RESOLVED

That the 2016/17 Audit Plan, as put forward by KPMG, was noted.

6. INTERNAL AUDIT REPORT - TRADING ACCOUNTS 2015-16

Geoff Drake (Senior Audit Manager) presented the report and noted that this was an exploratory audit requested by Michael Hainge (Director for Commercial Revenue). The audit produced two main recommendations – to establish a robust governance framework and to monitor the trading accounts. At the time of the meeting the recommendations had already been implemented.

Councillor Michael Cartwright asked Michael Hainge what his responsibility was regarding the trading accounts. Michael Hainge responded that he had been given

oversight of all trading activities to ensure the Council was hitting its revenue targets and to hold heads of service to account.

Councillors PJ Murphy and Guy Vincent commended officers for being proactive and requesting the audit. Councillor Murphy asked officers to pass on the committee's thanks to the senior leadership team for their help in changing attitudes to the audit process.

Councillors commented that there was a lack of clarity around some of the figures in the report and asked officers to make reports more accessible in future.

RESOLVED

That the Committee noted the audit report and recommendations.

7. HEALTH AND SAFETY CHECKS - PROGRESS UPDATE

Nilavra Mukerji (Director for Housing Services) presented the report that provided an update on actions taken since the previous report in December 2016. Mat Bishop (Managing Director at MITIE) was also in attendance.

Nilavra Mukerji informed the committee that significant progress had been made since the previous meeting - seven of the actions identified had been completed and the remaining two were on track to be completed in May. The additional inspections that had been requested had been undertaken and all associated works had been completed and post-inspected. MITIE had brought the inspections in-house (it had previously been sub-contracted) and had reviewed their internal quality assurance and post-inspection regime to make it more robust going forward.

Councillor Michael Cartwright said he was still not comfortable with the situation – the Council expected the checks to be right first time. He asked what assurances could be given that the latest round of checks could be trusted.

Nilavra Mukerji responded by saying all the other 591 properties had been visited and post-inspections would be carried out. MITIE had completed all outstanding work. The key problem was that there wasn't a proper contract specification in place but that had been resolved.

Councillor PJ Murphy asked if there needed to be an independent review of the checks to confirm they had been carried out properly.

Nilavra Mukerji said there would be an independent review by PCM of a sample of properties. The results of this review would be ready by the end of April and could be presented at the next meeting.

ACTION: Nilavra Mukerji

Councillor Mark Loveday, in reference to 5.7a of the report, noted that 30 percent of the installations had Cat 1 and 2 issues and asked what those categories meant in terms of risk. A representative from MITIE said Cat 1 meant that 'action needed to be taken'. Councillor Loveday also raised a concern about the fact that

all other testing had been suspended to put resources into resolving this issue. Nilavra Mukerji said, following the findings of the audit report, officers took the decision to suspend the testing process to ensure it was robust and resilient. The testing programme would still be completed by 2019 with revised processes.

Mat Bishop addressed the committee and said it was not acceptable to find the issues detailed in the audit report. However, the quality of services was generally very strong. MITIE had removed the sub-contractor responsible for the checks and had employed their own operatives to take this work forward. They had also introduced internal processes to ensure a better quality service - including refreshed training for engineers and a new 'three check' testing process (a MITIE engineer did the work, MITIE and council supervisors checked it, and PCM provided an independent check).

Councillor Mark Loveday asked officers how confident they were in meeting their targets. Nilavra Mukerji said officers would produce a programme that would be monitored monthly – and if necessary they would employ additional engineers.

Councillor PJ Murphy asked if the additional engineers would be paid for by MITIE. Officers said they would.

Councillor PJ Murphy asked how many council contracts MITIE had where the problems identified in the audit report could occur. Mat Bishop said the issue was with a sub-contractor who was no longer used by MITIE. He was confident MITIE had the appropriate controls in place and this was a localised issue.

Councillor Michael Adam asked if MITIE was now comfortable that all their sub-contractors were performing. Mat Bishop said he was confident they were - all sub-contractors were accredited. The sub-contractor responsible for the original checks had been referred to the relevant regulatory body.

Councillor Guy Vincent asked if officers were now confident that the contract and specification issues had been resolved. Nilavra Mukerji said this work had been picked up as part of an overall review of the contract looking at compliance areas. The service was putting in resource to ensure it meets the council's expected standards. So far officers had reviewed electrical and gas inspections – with other areas to follow.

Councillor Vincent questioned if it was sensible to rewrite the contract on the job. Nilavra Mukerji said it was a virtue of this style of contract – it could be reviewed and improved as it progressed. Councillor Vincent said he was concerned that other areas could be unsafe too. He felt there needed to be a thorough review. He asked how much time officers had spent trying to remedy this. Nilavra Mukerji said time had been spent by both MITIE and the council to improve processes and communication.

Councillor Guy Vincent asked if the committee should be concerned about the review of fire risk assessments (6.12 of the report). Nilavra Mukerji said they were still being carried out by council officers. The service wanted to focus on compliance to ensure they were aligned with current good practice.

Councillor Vincent asked for more information on the backlog of assessments – how many had to be completed over what period. He also asked if the risk of not completing the assessments by the target date was in the risk register. Councillors also asked for more information on the water hygiene and asbestos assessments.

ACTIONS: Nilavra Mukerji

Councillor Mark Loveday asked how many gas safety checks were still to assess following the whistleblowing investigation. Nilavra Mukerji said there was 100 percent compliance on landlord inspections – they were also sample checked and the results were monitored and reviewed internally.

Councillor Loveday asked if the sampling was only of the properties identified by the whistle-blower. Nilavra Mukerji said the issues were not of a serious nature and had been rectified. The department had implemented an improvement plan to increase quality.

Councillor Michael Adam, referring to the contract specification, commented that it was possible there wasn't the right knowledge and experience in the council to know what to include in the specification. He asked, when it came time to re-tender, if the council would be able to counter push-back from a commercial contractor.

Nilavra Mukerji responded that officers were currently thinking about the balance of expertise in the service. In many cases they commissioned external support. Mat Bishop noted that PCM had been used in this case to guide the revised specification. Councillor Adam felt there was a fundamental risk here – the council needed to have the right pool of expertise to avoid situations like this from happening.

Councillor Michael Adam raised concerns about the state of the wiring across the estate as it was only replaced on an ad hoc basis – rather than automatically at a certain age. Nilavra Mukerji responded that there was a programme of testing 100 properties a month and the department would act on those findings if there were problems.

Councillor Adam noted that there didn't appear to be any monitoring of when the wiring was reaching the end of its safe life cycle. Nilavra Mukerji said there had been a lot of improvements to wiring done under the decent homes programme. The department also had an asset management database that recorded when rewires were completed. Based on testing there were no patterns of any significant problems – though this data would be reviewed again.

Councillor Michael Cartwright, in reference to 6.9 of the report, noted that 10 properties had not been inspected due to no access - and said it was vital that access was gained to ensure the properties were safe. Nilavra Mukerji agreed and noted the department was seeking legal advice on the next steps. They were also bringing forward the annual service of those properties to gain access as quickly as possible. If that didn't work, they would undertake forced entry procedure.

The Chair, noted that there seemed to be confusion among council staff about the process of gaining entry. In some cases the process could take many months. Nilavra Mukerji said his department had now produced guidance for junior officers.

Councillor PJ Murphy asked what proportion of the issues identified in the report were down to workmanship problems and what percentage were administration problems. Mat Bishop said paperwork was the major issue and accounted for over two thirds of the issues.

Councillor PJ Murphy, in reference to 7.4 of the report, noted that new roles had been created – he asked how many had been created in total. Nilavra Mukerji said in the short term two or three roles were needed to strengthen compliance. Longer term there would be a review of the structure to see what additional support was required. Councillor Murphy asked if these roles had existed in the past – he questioned if the department had lost vital roles due to years of cuts and had now created an unstable environment. Nilavra Mukerji said when the contract was originally written the view was that it would be ‘thin client’ – but it needed more monitoring and investment. Officers were working to ensure there was sufficient resource in place now to deliver the council’s aspirations for the service.

Councillor Nick Botterill asked if officers knew how tenants felt about MITIE. Officers responded that the general feeling was that tenants were happy with the new gas boiler appliances that had been installed – that work was done in-house so MITIE operatives were building relationships with tenants.

Councillor Guy Vincent commented that MITIE’s reputation in the borough was rather poor. The Chair noted that issues tended to compound – one led to another and so on – which led to very poor perceptions from tenants. Mat Bishop responded that MITIE’s customer satisfaction results were some of highest in London – they would continue working to improve though.

RESOLVED

1. That the Committee noted the contents of the report and the actions taken to date by officers.
2. That the Committee requested a further update at the next meeting on the results of the independent review by PCM.
3. That the Committee requested a further update at the next meeting on the outstanding water hygiene, asbestos, and fire risk assessments.

8. INTERNAL AUDIT REPORT - MITIE CONTRACT QUALITY ASSURANCE 2016-17

Nilavra Mukerji presented the report and noted that the key issues had been covered in the previous discussion. Another audit would be starting shortly to review the work that had already been undertaken.

RESOLVED

That the Committee noted the contents of the report.

9. RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski (Risk Manager) presented the report - including the corporate risk register and the service high risk extract dashboard. He advised the Committee of the escalation protocol now applied when registers are not submitted to the Risk Manager for review in a timely way. The Director of Audit, Fraud and Risk Management had been informed that the Housing department hadn't sent through their latest risk register and Directors would be contacted to remind them of their responsibilities in this regard and if necessary required to attend a future Committee to respond.

Councillor Guy Vincent commented that the presentation of the report was very clear and brought major issues to the attention of the committee. He then asked for more detail behind Adult Social Care's key risks. Michael Sloniowski responded that the department was concerned about the national funding issues. The department was working on contingency planning in case a major supplier left the market.

Councillor PJ Murphy, referring to page 96 of the report, commented that Adult Social Care's mitigations seemed to be insular - work with other councils, putting pressure on government etc. Michael Sloniowski noted that they had veered away from lobbying as a mitigation in this instance as it was a national problem that was very difficult to mitigate.

Councillor Michael Adam noted that this process was dependent on departments to identify and mitigate risks. He asked if there were other safeguards outside the departments. Michael Sloniowski responded by saying that he was involved in council's safety committee and he drew on other data to help inform his view including from Subject Matter Experts such as Insurance, Health and Safety, Business Continuity, Information Management, Fraud and Internal Audit. Risk management was also on the agenda at senior leadership team meetings.

Councillor Adam asked if the service was appropriately resourced or was too lean. Michael Sloniowski responded that both the Director of Audit, Fraud, Risk and Insurances and Strategic Director of Finance keep that under review and that for example some of the Training Programme being developed would be being delivered through the Internal Audit contractor.

Councillor Michael Adam asked if the risk appetite of the organisation had changed due to restrictions on finance. Michael Sloniowski agreed that the council's flexibility had changed due to budget reductions – and the greater complexity of the working environment of shared services. Staff were generally more risk aware following support of this Committee, the Strategic Leadership Team and Hitesh Jolapara the Strategic Finance Director whom have accentuated the importance of good risk management.

Councillor PJ Murphy asked if risk was included in directors' objectives. Hitesh Jolapara noted that directors had a target that covered resource management and risk was included within that but it wasn't explicit. He added that officers could consider making it a standalone target or objective.

RESOLVED

That the Committee noted the contents of the report.

10. ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT

Geoff Drake (Senior Audit Manager) presented the report that summarised progress on implementing recommendations from the External Audit Report 2015/16 and the Annual Governance Statement.

RESOLVED

That the Committee noted the contents of the report.

11. INTERNAL AUDIT PLANS 2017-18

Geoff Drake (Senior Audit Manager) presented the report that provided the 2017/18 Internal Audit plans that were designed to address key risk areas to the council.

Councillor Nicholas Botterill asked how the audits were prioritised. Geoff Drake responded that audits that were considered high priority were done as early as possible but it was flexible – so if there was a service change in progress they would wait until that was complete.

Councillor Botterill asked if audits of related services were bundled together. Geoff Drake said they would be if there were efficiencies to be gained.

Councillor Guy Vincent asked if the audit plan picked up the central issues that came out of the discussion tonight – particularly around procurement. Geoff Drake said procurement was a high risk area and therefore got significant coverage. Other areas of high risk included special purpose vehicles (SPVs).

Councillor PJ Murphy noted that there were over 100 separate areas to be audited in the plan. He asked if that was achievable with the current resource. Geoff Drake responded that it was achievable as Mazars delivered the majority of the plan – there was a funding issue in that the audit team were overcommitted by 40 days but this was expected to fall as the year progressed.

Councillors asked for a high level summary to be sent to councillors.

ACTION: Geoff Drake

RESOLVED

That the Committee noted the contents of the report.

12. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake (Senior Audit Manager) presented the report that summarised internal audit activity and the performance of the internal audit service. He noted that the

nine outstanding recommendations had now been reduced to just five – a record low.

RESOLVED

That the Committee noted the contents of the report.

13. DATES OF FUTURE MEETINGS

The next meeting was scheduled for 21 June 2017.

Meeting started: 7.00 pm

Meeting ended: 9.22 pm

Chair

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