

Minutes

Audit Committee

Thursday, 27 April 2023

Meeting held at Committee Room 5 - Civic Centre,
High Street, Uxbridge, UB8 1UW



	<p>Committee Members Present: John Chesshire (Chairman), Councillors Henry Higgins, Stuart Mathers, Tony Burles, Reeta Chamdal, and Nick Denys</p> <p>Officers Present: Andy Evans – Corporate Director of Finance, James Lake – Director - Pensions, Treasury and Statutory Accounts, Claire Baker – Head of Internal Audit, Stephanie Rao – Internal Audit Manager, Alex Brown – Head of Counter Fraud, and Ryan Dell – Democratic Services Officer</p> <p>Also Present: Helen Thompson, Ernst & Young, and Larisa Midoni, Ernst & Young</p>
41.	<p>APOLOGIES FOR ABSENCE (<i>Agenda item 1</i>)</p> <p>Apologies were received from Councillor Richard Lewis with Councillor Henry Higgins substituting. Apologies were also received from Councillor Naser Abby with Councillor Stuart Mathers substituting.</p>
42.	<p>DECLARATIONS OF INTEREST (<i>Agenda item 2</i>)</p> <p>None.</p>
43.	<p>TO CONFIRM THAT ALL ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THAT ANY ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE (<i>Agenda item 3</i>)</p> <p>It was confirmed that all items would be heard in Part I.</p>
44.	<p>MINUTES OF THE MEETING HELD ON 31 JANUARY 2023 (<i>Agenda item 4</i>)</p> <p>RESOLVED: That the minutes of the meeting held on 31 January 2023 be approved as a correct record.</p>
45.	<p>EXTERNAL AUDIT 2020/21 EY AUDIT UPDATE (<i>Agenda item 5</i>)</p>

The Committee considered the reports of the EY audit update for the London Borough of Hillingdon and the London Borough of Hillingdon Pension Fund.

Officers noted that good progress had been made. The previous Committee was informed that there had been a national issue with regards to disclosure and treatment of infrastructure assets. Subsequently, regulations and CIPFA accounting guidance had been issued and all issues, including the revised disclosure had now been closed off from an audit perspective. There was now a new national issue relating to pensions, however this was not seen as a big issue and progress had been made on this.

In other outstanding areas, officers continued to work with EY.

Regarding the Pension Fund, the audit was completed, noting the national issue. The draft results report was attached.

Council Audit

EY noted areas of audit focus. Fraud risk work had been completed since January on management overrides, generic risks and journal entry testing, and also on the risk of inappropriate capitalisation of revenues and expenditure. There were no findings to report. EY were still assessing their view to apply across other Local Authorities. On the valuation of land and buildings, progress had been made with officers since March 2022. Work had been agreed on infrastructure assets since January. On the pension liability valuation, there had been a national issue, and now the triennial valuation report had been issued since the last meeting. This was considered as subsequent information to be taken into account by management and by EY to determine if there might be a material impact on reported values as at the end of March 2022.

Management considered that the difference in the valuation of assets and liabilities related to the Pension Fund was not material compared to values recorded in the accounts. EY was still assessing their own view and was working on a consistent approach to apply across other Local Authorities.

On the valuation of Council dwellings, internal reviews had progressed, and the Council was working on a couple of follow up questions. New central government COVID-19 grants testing had been completed.

With regards to disclosures on going concern, these would have to be re-assessed as the audit was finished. The draft financial statements had been prepared on a going concern basis. Management's assessment of going concern had been provided to EY, who will perform their planned procedures closer to the completion of the audit. This was an open item.

With regard to value for money, progress had been made, EY were reviewing responses from officers. Value for money was an area that EY had to re-visit. This was also an open item. No risks of significant weaknesses had been identified.

Members asked that when the audit was finished would there be a quick sign-off. EY noted that they were looking for a consistent approach. There was some uncertainty around the timeframe to resolve queries around the valuation of property, plant and equipment. It was noted that EY had other responsibilities with, for example, the NHS and National Audit Office and so were experiencing busy periods. EY were attempting to close down audits as quickly as possible, as well as trying to avoid issues for next year.

The Chairman asked EY about potential consequences. EY noted that Hillingdon's audit was based out of the Reading office, and there were still 2020/21 and 2021/22 audits to complete before 2022/23 audits, which were not due to be starting until the new calendar year. It was important to close down older audits first. The Chairman asked officers about this and officers noted that it was not an ideal situation to potentially be closing down the 2022/23 financial year before the 2021/22 audit had been completed. Officers also noted good partnership working with EY, and that across London Local Authorities there was pressure to resolve issues, although generic issues were often not resolved as quickly. The Chairman asked if there would be any budget setting implications and officers noted that this would depend on what emerged from the audit, although the Medium Term Financial Forecast was not directly affected.

Members asked about the differences in valuation relating to property, plant and equipment and noted a formula for calculating depreciation. EY noted that depreciation was only part of the consideration. Valuation of some assets used a 'modern equivalent asset approach', and not like-for-like replacement values. Some assets were, for example, valued at market value, so there were different opinions on valuation. Local Government audits were more complex. If there were differences of opinion on valuations, a middle ground could not just be set – there were certain rules to follow. However, although Hillingdon and EY had come to different values both parties agreed the figures being presented by the Council did not require amendment as they fell within materiality limits. As there was subjectivity in terms of valuations both parties needed to apply a sensible approach to reach agreement.

Members asked about the next audit and whether other auditors were taking a similar approach in closing old audits before commencing new ones, acknowledging EY's comments about the issues around the Reading office's capacity. EY noted that other auditors were taking a similar approach, and that all offices were under pressure as there were audit staffing issues. EY could not confirm if all audit firms were looking to complete old audits first. New local government audit contracts took effect from 01 April 2023. EY noted that the Audit Commission was helpful. The Chairman noted that there had been more publicity around audit issues.

Pension Fund Audit

EY noted the same issue around the triennial valuation impact, though this was only a disclosure in the Pension Fund account. From the audit plan that was presented to the Committee in July 2022, on risks and results, all procedures had been completed; on risk of management override there were no findings; on some hard-to-resolve investments there was a recommendation of re-classification from Level 2 to Level 3. The CIPFA code was based on impacts for valuation: Level 1 for those easiest to

value, up to Level 2, and Level 3 for those with unobservable inputs. Going concern had updated procedures (IAS26).

On audit differences, benefits expenditure was inflated by £1.8m in 2021/2022. This was caused by a catch-up adjustment due to the change in the benefit payment period upon transition to the new pension administrator. Previously benefits were paid from the 16th of one month to the 15th of the next month. The new administrator paid benefits from the 01st to the end of the month. This had created a one-off position whereby 54 weeks of benefits had been accrued for during 2021/22. The additional £1.8m had not been adjusted because it was not deemed material by Management. EY had considered the impact on the prior year and concluded that any adjustment would be immaterial.

On the Actuarial Present Value of Promised Retirement Benefits (IAS 26 disclosure), there had been an unadjusted understatement of present value of promised retirement benefits by a judgemental difference related to the Goodwin case of £2.9m (£3.1 in the prior year).

There was some internal control classification relating to Level 2 and Level 3. It was recommended to ensure that inputs were monitored and classified as observable or unobservable accordingly. There was a second control recommendation around the calculation of membership numbers.

The Chairman asked officers if they were happy with the position the Council was in. Officers noted that there was a collaborative approach with some compromise. The new administrator was noted and that they were resolving historic issues contributing to membership number reclassifications. Furthermore, there were always discussions about classifications at Level 2 and Level 3 as the definition can be subjective.

The Chairman noted the expectation to issue an unmodified audit opinion and asked when this could be expected. EY noted that a draft audit opinion was included within the report, which would be finalised once the pensions triennial evaluation was cleared and the Council's accounts was signed off.

RESOLVED: That the Committee:

- 1. Noted the progress of the 2021/2022 annual external audit; and**
- 2. Delegated authority to the Corporate Director of Finance, in conjunction with the Chairman of the Audit Committee and other Audit Committee Members, to approve the 2021/2022 Statement of Accounts and Audit Results Report, and to report the outcome back to a subsequent Audit Committee meeting**

46. **INTERNAL AUDIT PROGRESS REPORT (Q4 2022/23 (INCL. Q2 2023/24 INTERNAL AUDIT PLAN))** (*Agenda item 6*)

The Committee considered the Internal Audit Progress report for quarter 4 of 2022/2023. During this quarter, fourteen assurance reviews were completed to final report stage, including six awarded a SUBSTANTIAL assurance opinion, six which

received REASONABLE assurance, one LIMITED assurance and one NO assurance. Also during this quarter, Internal Audit had completed two consultancy reviews into a Domiciliary Care Provider and the Mayor's Charity Account. At the time of the report, there were a further five assurance reviews at a draft report stage, once of which had now been finalised. At the date of the report, 91% of the plan was at least at draft stage. Details of the reviews were listed in the report. The limited assurance item related to purchase cards. The no assurance item related to a small number of legacy accommodation agreements. There was a very detailed action plan to take this forward. A separate report in Part II could be brought to the next Committee.

The External Quality Assessment (EQA) had been delayed but officers had now received the draft report. Officers had provided comments and the final report would be shared outside of the Committee to avoid waiting until August.

Recruitment was ongoing for the Internal Audit team. There had been three new appointees, with one further post being advertised for.

On the follow up process for recommendations, requests had been issued for updates which would be verified and included in the Annual Report at the next Committee in August.

Members asked if the service was still short of a Senior Internal Auditor. Officers noted that the service had not appointed to this post but had appointed two internal auditors instead. It was noted that there had been a restructure. The Chairman noted that they would be happy to see the briefing on the no assurance items in Part II of the next Committee and was also happy to receive the finalised External Quality Assessment outside of a meeting. The Chairman congratulated officers on exceeding their targets. The Chairman also congratulated officers on the recruitment.

RESOLVED: That the Audit Committee noted the IA Progress Report for 2022/23 Quarter 4

47. **INTERNAL AUDIT PLAN 2023/2024 & INTERNAL AUDIT CHARTER** (*Agenda item 7*)

The Committee considered the Internal Audit plan for 2023/24 and the Internal Audit Charter. The plan was developed to reflect the key risks and the Council's strategic objectives. It was an annual plan to help with planning further ahead and it was not a fixed plan, but a flexible one to allow for any new risks or projects that arise. Any changes would be reflected through the progress reports. The plan had been reported to Senior Management Team and Corporate Management Team.

The Internal Audit Charter was a requirement under the Internal Audit Standards and the Public Sector Internal Audit Standards. It was required to define the roles and responsibilities of the Internal Audit service, previously presented as part of the 5-year Internal Audit strategy last year. This Charter had been updated but there were no significant changes.

Members asked officers how they prioritised with fewer resources. Officers noted that they started with key risk areas; looked through the corporate risk register and

directorates risk registers; looked at other sources of assurance to avoid duplicating work that, for example, External Audit or Counter Fraud were looking at. Officers met with each of the directorates and asked what their priorities were and how the service could support them. There was an outsourced provider (Mazars) who could assist where necessary.

Members asked officers how they could be confident in being told what needed to be audited. Officers noted they referred to KPIs and monitoring reports. Officers also noted objective setting and the risk registers. External factors such as the private sector and other authorities were noted as a guide on areas to audit or things to be aware of.

Members noted new data projects and new technology, and asked how this would change ways of working or what impact this had. Officers noted that there was more data available and more of a focus on data analytics. There were fewer manual processes and less manual testing of those processes. There was more auditing of the accuracy of the data and data quality reviews, which had IT elements. Telecare was noted in terms of keeping, storing, sharing and accessing data.

Members asked about the high, medium and low risks and how officers planned to get the high risks down. Officers noted the risk registers which were managed by the different directorates. The risks on the risk registers had action plans with a view to reducing the risks. If something was listed as high risk, it should be looked into more regularly. In terms of the risk ratings within the plan, that was an internal rating when looking at areas to review.

Members asked about follow ups on old risks and where these fit into the plan alongside new risks. Officers noted that the follow up process was separate. If a review identified any high or medium recommendations, these would be followed up as they became due. If it were a no assurance item, this would be followed up. If actions were not being taken, another formal audit could be undertaken. There was a process of verification of actions taken.

Members asked if follow up reports would be provided at future Committees. Officers noted that there was a backlog, but that follow ups would be presented as part of the annual report at the next meeting, and a summary brought to subsequent meetings.

The Chairman noted the comprehensive plan and commended the inclusion of climate action. The Chairman asked about the challenges of an aging workforce. Officers noted that they were looking into this. The Chairman noted that the number of days spent on grant claims had gone up, and asked if this was simply because there were more grant claims. Officers confirmed that this was the case. The Chairman noted that there had been less time spent on ad-hoc consultancy. Officers noted there were still consultancy reviews taking place, but the days shown was more for one-off requests rather than a detailed review. The Chairman asked if timeliness was a challenge. Officers noted that receiving information from management before the start of the audit would lead to a more structured plan. KPIs for management had been included, and management were aware of this.

RESOLVED: That the Audit Committee:

1. **Approved the Internal Audit Plan for 2023/24; and**
2. **Noted the purpose and responsibilities of the Internal Audit as outlined in the Charter**

48. **COUNTER FRAUD PROGRESS REPORT (QUARTER 4 2022/2023)** (*Agenda item 8*)

The Committee considered the Counter Fraud progress report for 2022/23 quarter 4.

The Counter Fraud Team had achieved savings of around £1.6m during the quarter, which took the year-to-date total to £12.3m against a target of £3.5m. The main focus had been on housing and another 22 properties had been recovered due to housing fraud, which brought the year-to-date total to 84, which was the highest yearly total to date. There were 119 live investigations relating to tenancy fraud.

The service had been very pro-active in their project work including the Bed & Breakfast residency check project which had been going on for four to five months. A further 14 cases were noted of emergency accommodation being closed down due to non-occupation. This brought the year-to date-total to 24. A regular visiting programme was due to start in the new financial year.

Revenues maximisation work had continued to identify businesses that needed to pay business rates. Billings had been issued for £120,000, and a current Cabinet Member decision to take up the second-year option with the suppliers was noted. There were nine new cases under investigation across Council Tax (CT) and National Non-Domestic Rates (NNDR). There were six new cases across Social Care which took the case load to 11. It was noted that although the case load of 11 may seem small compared to the 119 in housing, social care cases were much more complicated and were high value.

There was a new onsite immigration officer. £106,000 of savings had been identified through applicants attempting to access services without the correct immigration status. The team was looking to improve its communication package to better engage with residents in terms of achievements, and not just risks.

Members asked about beds in sheds, and how the team were made aware of these. These were several ways in which this happened. There were some communications from the team to residents, which then lead to some referrals. Internal data, such as from the planning team and building control was utilised.

The Chairman commended the team's high level of performance, not just in figures but also with KPIs. Members noted the team's good partnership working with other departments. Members further noted the team's performance despite resourcing issues. Members further asked if these resourcing issues were persisting or if they had eased. Officers noted there was one existing vacancy. The Chairman noted the transformation work within the service. Officers noted that it was an ambitious plan, with lots of streams, but mainly focused on efficiency and effectiveness. The transformation work also looked at case management, data analytics, reviewing

options for disposal decisions.

RESOLVED: That the Audit Committee:

- 1. Noted the Counter Fraud Progress Report for 2022/23 Quarter 4; and**
- 2. Suggested any comments/ amendments**

49. **COUNTER FRAUD PLAN 2023/2024** (*Agenda item 9*)

The Committee considered the Counter Fraud plan 2023/24.

There were a couple of changes from the report presented to the Committee the previous year. One of the changes was to support Internal Audit, and Counter Fraud had undertaken some consultancy work – there was an officer qualified in Counter Fraud and Internal Audit. The financial loss prevention target for 2023/24 had been set at £5m. The updated fraud risk assessment in Appendix A, and the Counter Fraud Work Plan in Appendix B were noted. The three biggest service areas were Revenues, Housing and Social Care.

Members asked why the target for 2023/24 was set at £5m when £12m had been achieved in 2022/23. Officers noted discussions with the Cabinet Member for Finance and noted that of the £12.3m achieved in 2022/23, £6m was the billings through NNDR which was difficult to build into a target as there were a lot of unknowns. It was further noted that Counter Fraud had undertaken some work on behalf of Tenancy Management, to the value of £1.5m.

Members asked about IT & Procurement of Goods and Services, where the report noted “an increased need to win government contracts because of financial pressures on businesses due to the cost of living leading to the fraudulent manipulation of procurement processes”. Officers noted that this related to external businesses and the cost-of-living crisis, and related more to external factors than to the service itself.

Members asked how resident benefit could be built into the plan. Officers noted reputational risk and operational risk for the organisation, as well as financial risk. It was noted that the service took referrals from residents. It was noted that while Housing was a financial risk, it had a resident benefit in that it freed up much needed accommodation.

The Chairman noted that it was a good plan.

RESOLVED: That the Audit Committee

- 1. Noted the Counter Fraud Annual Operation Plan for 2023/24; and**
- 2. Suggested any comments/ amendments**

50. **WORK PROGRAMME** (*Agenda item 10*)

Consideration was given to the work programme, and the dates and planned agenda

items of future meetings were noted.

RESOLVED: That the Audit Committee:

- 1. Confirmed the dates for the Audit Committee meetings; and**
- 2. Made suggestions for future agenda items, working practices and/ or reviews**

The meeting, which commenced at 5.15 pm, closed at 6.35 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Democratic Services on 01895 250636 or email: democratic@hillington.gov.uk. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

The public part of this meeting was filmed live on the Council's YouTube Channel to increase transparency in decision-making, however these minutes remain the official and definitive record of proceedings.