

Minutes

Audit Committee

Tuesday, 24 November 2020

Meeting held at VIRTUAL - Live on the Council's

YouTube channel: Hillingdon London



Members Present:

John Chesshire (Chairman)
Martin Goddard (Vice-Chairman)
Tony Eginton (Opposition Lead)
Duncan Flynn
Eddie Lavery

Officers Present:

Sarah Hydrie, Head of Internal Audit & Risk Assurance
James Lake, Chief Accountant
Muir Laurie, Deputy Director of Exchequer Services & Business Assurance
Zac O'Neil, Head of Counter Fraud
Stephanie Rao, Internal Audit Manager
Paul Whaymand, Corporate Director of Finance
Neil Fraser, Democratic Services Officer
Olivia Richards, Senior Accountant, VAT and Accounts
Neil Fraser, Democratic Services Officer

Also Present

Suresh Patel - Ernst & Young
Adrian Balmer - Ernst & Young
Larisa Midoni - Ernst & Young

92. APOLOGIES FOR ABSENCE

None.

93. DECLARATIONS OF INTEREST

Councillor Tony Eginton declared a non-pecuniary interest in agenda item 5 arising from the fact that he was a retired member of the Local Government Pension Scheme. He remained for the discussion of all items.

94. 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

It was confirmed that all items would be considered in public.

95. MINUTES OF THE MEETING HELD ON 01 OCTOBER 2020

In response to a query at the previous meeting, officers confirmed that the Council's Employment Status Assessment checks were being conducted pre-contract, in compliance with relevant guidance.

RESOLVED: That the minutes of the previous meeting be approved as a correct record.

96. APPROVAL OF THE 2019/20 STATEMENT OF ACCOUNTS (INCLUDING ANNUAL GOVERNANCE STATEMENT & EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31/03/2020) & EXTERNAL AUDIT REPORT ON THE PENSION FUND ANNUAL REPORT & ACCOUNTS 2019/20

The Committee was provided with reports which set out the Statement of Accounts for 2019/20 by Ernst & Young LLP (EY), the Council's external auditor. The reports included the Annual Governance Statement, together with the External Audit Report on the Audit for the year ended 31/03/20 and the Audit Report on the Pension Fund Annual Report and Accounts for the year ended 31/03/20.

The auditor confirmed that they would be issuing an unqualified opinion, and that the Statement of Accounts gave a 'true and fair' view. Additionally, in terms of value for money, the auditor reported that they had no matters arising to include in the auditor's report about arrangements to secure economy, efficiency and effectiveness in the use of Council resources.

The Statement of Accounts was inclusive of the Pension Fund accounts, and the auditor reported that this part of the Financial Statements was also receiving an unqualified opinion and that the Statement of Accounts gave a 'true and fair' view.

It was confirmed that, subject to the Committee approving the Statement of Accounts, and the Chairman subsequently signing the Letter of Representation, the accounts would be signed off the following day, ready for submission by the forthcoming deadline.

Details of the report were summarised, including the areas of the audit where work was ongoing and where further amendments could arise, with the Property, Plant and Equipment valuation and the Going Concern assessment particularly highlighted. Regarding the Going Concern, it was clarified that the assessment had included a review of cashflow pressure points, liquidity, loss projections due to Covid-19 and relevant stress testing, borrowing positions, and Hillingdon's position in respect of local authority and London borough analysis, and there were no material concerns arising from this analysis.

Audit differences were set out as per the report, including judgemental differences regarding valuations of secondary schools, and a misstatement of ISA19 pension adjustments in respect of the Goodwin case. These were not considered to have a material impact.

Regarding the differences of opinion in the valuation of the secondary schools, officers clarified that the Council's asset valuations had been conducted by a specialist external company, whose approach (including visiting the schools) was

deemed prudent and correct. EY advised that the differences of opinion between valuers were predominantly as a result of disagreements over land values, and obsolescence and depreciation of new buildings. It was suggested that a common approach between EY and the Council's valuers could mitigate such differences of opinion moving forward. In terms of the IAS19 issue, officers advised that the specialist external advisers did not make an allowance for Goodwin as there was so much uncertainty, no official guidance in place in terms of how the judgement should be applied and that the figure was so immaterial no adjustment was required.

On the Designated Schools Grant (DSG), it was confirmed that pressures identified on the DSG last year were forecast to continue. Moving forward, the DSG was to be moved into a ringfenced unusable reserve, and this would be considered when predicting any associated risks in next year's report. Officers had reassured EY that the Council was engaging with the Department for Education (DfE) regarding the deficit. It was expected that government intervention would be necessary to address this.

On the Pension Fund, the Committee was advised that, while an unqualified opinion was being issued, an emphasis of matter paragraph was being included on the incorrect valuations of pooled property funds. In addition, the recent Pension Committee had received a recommendation to address concerns regarding quality of personal data of Fund members, (a national issue, not limited to Hillingdon), and officers confirmed that actions were ongoing to address this recommendation.

The auditors and officers were commended for their efforts in compiling the reports and addressing the Committee's queries, and the Statement of Accounts were approved.

RESOLVED: That the audited Statement of Accounts for 2019/20 be approved.

**97. INTERNAL AUDIT PROGRESS REPORT QUARTERS 1 AND 2 2020/21
(INCLUDING THE QUARTER 3 INTERNAL AUDIT PLAN)**

Officers introduced the Internal Audit Progress Report for 2020/21 Quarters 1 and 2 (inclusive of the Quarter 3 IA Plan).

The report was summarised, and the Committee was advised that since the last progress report, seven assurance reviews were in progress, three grant claims had been certified, and three consultancy reviews had been concluded. Follow up processes had been revised, so that high and medium priority recommendations were being followed up more robustly. Performance against Key Performance Indicators (KPIs) was below target due to the lack of internal audit work undertaken in Q1 due to the Covid-19 pandemic. However, officers confirmed that performance would improve as more audit work was carried out.

Members requested clarity on the report's reference to a manager with audit recommendations that had passed deadlines, without providing updates. It was confirmed that this had been included as example of the impact of the pandemic, and the Committee was advised that moving forward, processes had been revised to so that extensions to deadlines would now be vetted before approval, to ensure officers were working collaboratively with such managers. It was highlighted that Hillingdon's performance, when compared to other London authorities, was good.

The Committee was advised that the consultancy review's reference to Xychro Solutions referred to work that had been commissioned regarding a duplicate invoice process. Audit staff had helped to identify and implement controls to avoid such duplication being repeated.

With regard to staff restructuring, officers confirmed that the Senior Internal Auditor and Internal Auditor recruitment was live and due to close in the coming weeks. So far, over 20 applications had been received, and it was hoped that shortlisting could begin in the following week. It was confirmed that, should applicants not be of sufficient quality, then the posts would be re-advertised.

RESOLVED:

- 1. That the IA Progress Report for 2020/21 Quarters 1 and 2 be noted;**
- 2. That the Quarter 3 IA Plan be approved; and**
- 3. That the coverage, performance and results of the Business Assurance IA activity in Quarters 1 and 2 be noted.**

98. COUNTER FRAUD STRATEGIC PLAN 2020/21

Officers introduced a report detailing the Council's Counter Fraud Strategic Plan 2020/21.

The Committee was advised that the plan had been refreshed for the coming year, to ensure a clear vision and purpose for all counter fraud work in terms of a strategic approach and objectives, including an updated organisational fraud risk profile (Fraud universe) as well as a restructuring of the BACFT team.

Officers confirmed that the restructure, as outlined within the report, had been carried out to reduce inefficiencies within case handling and align resources more appropriately. The structure had been in place since September 2020 and was expected to be fully embedded by December 2020.

It was highlighted that new or increased risks, identified as a result of the Covid-19 pandemic, would be included as part of the new work plan to ensure timely and response action.

RESOLVED: That the 2020/21 Counter Fraud Strategic Plan, including the operational work plan, be approved.

99. COUNTER FRAUD PROGRESS REPORT QUARTERS 1 & 2 2020/21

Officers introduced the 2020/21 Counter Fraud Progress Report for Quarters 1 and 2.

The Committee was informed that a number of new and emerging fraud risks had been identified as a result of the Covid-19 pandemic. Redeployment of counter fraud staff in Q1, as a result of the pandemic, had resulted in a significant impact on outcomes. The results reported for that quarter were largely due to the completion of actions begun in Q4 of the preceding year. This included significant work on the food

delivery service and business grant scheme, which had identified grants to be recovered worth over £2m.

Loss prevention for both quarters totalled £328k, which included six Council properties recovered, with a further nine notices seeking possession issued. Regarding team performance, a new Key Performance Indicator (KPI) had been implemented to deal with revenue investigation work, and overall, the team had achieved five green, one amber, and three red indicators. With the resumption of more normal working following potential relaxing of Covid-19 restrictions, it was expected that further progress would be made in Q3 and Q4. A target of £1m had been set for the year, and the team was confident that this could be achieved.

RESOLVED: That the Counter Fraud Progress Report for 2020/21 Quarters 1 and 2 be noted.

100. AUDIT COMMITTEE FORWARD PROGRAMME

The Forward Plan was noted.