

AUDIT COMMITTEE
11/01/2018 at 6.00 pm



Present: Councillors Ahmad, Ali, Brock, Dean, Hewitt, Rehman, Salamat and Williams

Also in Attendance:

Anne Ryans	Director of Finance, Oldham Metropolitan Borough Council, OMBC
Mark Stenson	Head of Corporate Governance, OMBC
Jane Whyatt	Audit and Counter Fraud Manager, OMBC
Andrew Bloor	Assistant Manager Counter Fraud, OMBC
Sabed Ali	Assistant Manager Internal Audit, OMBC
Lee Walsh	Finance Manager Capital and Treasury, OMBC
Talei Whitmore	Senior Accountant, OMBC
Karen Murray	Engagement Lead, Grant Thornton – External Auditors
Helen Stevenson	Engagement Manager, Grant Thornton – External Auditors
Fabiola Fuschi	Constitutional Services Officer, OMBC

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Harkness.

The Chair welcome Councillor Brock to her first meeting of the Audit Committee following approval of the Political Balance Review at full Council meeting on 13th December 2017.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

There were no public questions received.

5 **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the Audit Committee meeting held on 7th September 2017 be approved as a correct record.

6 **INTERNAL CONTROL MATTERS IN THE HEALTH AND WELLBEING DIRECTORATE**

Consideration was given to a report of the Head of Corporate Governance which summarised the internal control matters identified by the Audit and Counter Fraud Team in the Health and Wellbeing Directorate since December 2016.

The Audit and Counter Fraud Manager presented the information. The Director of Adults was also in attendance to address the enquiries of the Committee on the matters raised in the report.

The overarching conclusion, based on the opinion of the audit reviews conducted in the Directorate during the last year, was that there were potential improvements to the control environment, including the two main financial systems based in the Directorate: Personal Budgets and Residential Homecare Payments.

Actions had been identified and agreed with the Directorate Managers to address priorities carried forward from previous reviews, as well as some new areas of focus. Furthermore, the Directorate had commenced a programme of business change which it was believed would have a positive impact on the overall control environment for the key financial systems and processes.

Members were informed that the agreed 2017/18 interim audit assessment for Personal Budgets and Homecare was that systems and controls were “Inadequate”. However, some progress had been made which was detailed in the Action Plan at the end of the report. Furthermore, two new actions had been agreed with managers concerning the timeline to raise invoices to clients and the streamline of the payment process. The transition to the new social care software - Mosaic – had also contributed to significant delays in obtaining information relevant to the completion of the actions for 2015/16 and 2016/17. With regards to Residential Care Payments, the system had been rated as “adequate”. However, a new action had been agreed on the review of short stay placements.

Internal Audit was also planning to complete a review in Children’s Services in the last quarter of the financial year to examine the processes of cash control, considering the high risk attached to the materiality level of cash turnover.

Members sought and received clarification / commented on the following points:

- The Committee acknowledged the robust audit and recovery function which derived from the fact that Audit was separate from the service area subject to review. This offered effective governance and control. It also provided accurate scrutiny and a greater awareness of the matters that needed to be addressed.
- Members raised their concerns with regards to Personal Budget/Direct Payment systems and processes, its effectiveness and opportunity for improvements. Members also referred to the 2017/18 Council Tax increase /Social Care Precept in relation to resources and value for money – In order to explain the current position and the outcome of the interim audit review on Personal Budgets and Direct Payments, the Director of Adults gave

an overview of the Direct Payment process and the legislative requirements that underpinned it. It was explained that a critical point was the calculation of the Individual Budget at the commencement of the process. Other local authorities had adopted a different system, from the one in use in Oldham, which was able to calculate the local market rate, providing a more accurate Direct Payment figure.

- Delay in carrying out Adult Social Care statutory yearly reviews of clients' needs, effects on Direct Payments and process to cover lower and over spending; it was observed that the delay should be factored in when the Personal Budget was calculated at the start of the process - It was agreed that this point would be added to the Adult Services' Action Recovery Plan. Members were informed that two additional social workers would be employed to address the backlog of reviews. The imminent transition to the Integrated Care model would assist in addressing the issue consistently.
- Audit function in other local authorities – It was observed that the level of scrutiny in Oldham was very high in comparison to other local authorities in Greater Manchester. This allowed the recovery of considerable resources, once overpayments and inappropriate use of financial contributions had been identified. These figures were discussed with the relevant portfolio holder on a quarterly basis.
- Effectiveness of the current system to process Direct Payments – It was explained that, although Personal Budgets represented a fair system to support people with their health and social care needs, the financial system linked to the process was extremely complex. Furthermore, Oldham, compared to other local authorities in Greater Manchester, had a very high percentage of elderly people who utilised Direct Payments. It was reiterated that it was critical to determine Personal Budgets with the greatest accuracy at the beginning of the process. Oldham Council was exploring the possibility to access a more accurate system that was already in use in other authorities.

RESOLVED that:

1. The content of the report be noted.
2. Measures to address the consequences of the delay in carrying out Adult Social Care statutory reviews be considered in the Adult Social Services' Recovery Plan.
3. The figures on the recovery of overpayments and inappropriate use of financial contributions be monitored monthly by the Audit and Counter Fraud Team.

7

THE ANNUAL AUDIT LETTER GRANT THORNTON

The Committee gave consideration to the Annual Audit Letter for Oldham Metropolitan Borough Council which summarised the key findings arising from the work that the External Auditors, Grant Thornton, had carried out for the year ended on 31st March 2017.

The Engagement Lead and the Engagement Manager from Grant Thornton were in attendance to present the information and address the enquiries of the Committee.

It was reported that the External Auditors had identified a risk associated with the Health and Social Care Integration, the creation of the Oldham Integrated Care Organisation and the wider developments in Greater Manchester through the Greater Manchester Health and Social Care Partnership. A review had been carried out on how the Council worked with its partners, both locally and across Greater Manchester; project management and risk assurance frameworks had also been reviewed.

Overall, the External Auditors were satisfied that, in all significant aspects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending on 31st March 2017.

The Head of Corporate Governance drew the attention of the Committee on page 13 of the report and explained that it should not include the External Auditors' fees for other Audit related services to the wholly owned subsidiary company of the Council: Miocare Group Community IC. This was a separate engagement outside the remit of Public Sector Audit Appointments Limited.

RESOLVED that the content of the External Auditors' Annual Audit Letter be noted.

8

CERTIFICATION WORK FOR OLDHAM METROPOLITAN BOROUGH COUNCIL FOR YEAR ENDED 31 MARCH 2017 GRANT THORNTON

Consideration was given to the External Auditors' certification of the Housing Benefit subsidy claim that had been submitted by the Council for the year 2016/17.

The Engagement Lead and the Engagement Manager from Grant Thornton were in attendance to present the information and address the enquiries of the Committee.

The Committee was informed of an error on this year's subsidy return which had reoccurred from 2015/16. However, the financial impact on the claim was relatively insignificant to the total subsidy receivable. The Department for Work and Pension had been informed.

The External Auditors commented that, overall, considering the complexity of the system, a good level of assurance had been provided by Oldham Council.

RESOLVED that the External Auditors' certification of the Housing Benefit subsidy claim of the Council for the year 2016/17 be noted.

9

AUDIT PROGRESS REPORT AND SECTOR UPDATE

GRANT THORNTON

Consideration was given to a report of the External Auditors, Grant Thornton, which informed the Committee of the progress in delivering their responsibilities as the Council's External Auditors for the current financial year. The report also provided a summary of emerging national issues and developments that might be relevant to the Council.

The Engagement Lead and the Engagement Manager from Grant Thornton were in attendance to present the information and address the enquiries of the Committee.

The progress at January 2018 was highlighted with regards to the Financial Statement Audit, value for money and other areas of work such as certification and claims, meetings with relevant officers of the Council and provision of training, development and opportunities for discussing the latest information on local government finance.

More detailed information would be presented at the next meeting of the Audit Committee.

The Committee's attention was drawn on page 33 of the report to highlight the fact that, in 2016-17, local authorities had financed more of their expenditures from locally retained income (i.e.: Reserves) compared to 2015-16.

RESOLVED that the content of the Audit Progress Report and Sector update be noted.

10

PUBLIC SECTOR INTERNAL AUDIT STANDARDS - OUTCOME OF EXTERNAL ASSESSMENT

The Committee gave consideration to a report of the Head of Corporate Governance on the outcome of the external assessment of the Council's Internal Audit function in order to comply with the requirements of the 2013 Public Sector Internal Audit Standards revised in 2017. The Council had commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to deliver the external assessment. The review had been carried out in September 2017.

The Audit and Counter Fraud Manager presented the information and addressed the enquiries of the Committee.

The Committee was informed that the CIPFA review had been conducted on site on 4th and 5th September 2017 and had comprised the following:

- Review of documentation provided in advance to CIPFA;
- Review of working papers for three audit reviews;
- Interviews with members of the Audit and Counter Fraud Team;
- Meeting with key stakeholders.

The review concluded that the service "Generally conforms" to the standards. In addition, the review reported that Internal Audit

was a “Well respected service, which follows best practice”. Overall, it was established that there were no areas of non-compliance and that the self-assessment was a good reflexion of internal Audit’s practices.

The CIPFA report contained four recommendations which had been fully agreed by the Head of Corporate Governance. The changes related to the Audit Charter and the Annual Report and they would be fully implemented at the next revision of the documents and incorporated into the 2018/19 Audit and Counter Fraud Plan. The review also identified some suggestions for the service to consider. The suggestions had been agreed by the Head of Corporate Governance and they would also be implemented in 2018/19.

The Chair of the Committee commended the work of the Audit and Counter Fraud Team as this gave a reasonable degree of independent assurance that the team operated in compliance with the code of practice.

RESOLVED that:

1. The outcome of the external assessment on Internal Audit be noted;
2. The implementation of agreed service suggestions be endorsed.

11

AUDIT AND COUNTER FRAUD PROGRESS REPORT

Consideration was given to a progress report of the Head of Corporate Governance on the performance by the Audit and Counter Fraud Team for the first seven months of the financial year 2017/18.

The Assistant Manager Counter Fraud and the Assistant Manager Internal Audit were in attendance to present the information and address the enquiries of the Committee.

The report looked at the progress on the 2017/18 Audit and Counter Fraud Plan; it also reviewed the position on the Corporate Counter Fraud and the Audit of Personal Budgets.

It was reported that the team was on track to deliver results for most of the agreed performance indicators, in line with its annual targets. The key performance highlights included:

- 19 Final Audit Reports issued since 1st April (annual target of 85);
- Customer feedback average score received is 4.8 (maximum score 5);
- Time taken to issue reports continued to be efficient with an average time of around 18 days, against a target of 20;
- 45 positive cases of Council Tax Reduction Fraud and Error identified;
- £38,000 of Council Tax Reduction misuse and savings had been uncovered;

- 6 Administration Penalties and 39 Warning letters had been issued to Council Tax customers reminding them of their duties to report changes in their circumstances;
- £82,000 of Housing Benefits Fraud and Error overpayments identified during Council Tax Reduction investigations;
- 130 allegations of Welfare Fraud reported to the Department of Work and Pensions;
- 38 positive cases of non Council Tax Reduction fraud/misuse; and
- The Direct Payments Audit Team carried out 623 audits of Adults and Children’s Direct Payments, against a target of 630 and identified approximately £961,000 to be recovered in overpayments, inappropriate use and financial contributions.

Members sought and received clarification / commented on the following point:

- Fraud and methods to detect intentional behaviour – it was explained that during the assessment stage and through background research, it was possible to detect intentional behaviour.

RESOLVED that the 2017/18 Audit and Counter Fraud progress report up to 31st October 2017 by the Head of Corporate Governance be noted.

12

APPOINTMENT OF EXTERNAL AUDIT FROM THE FINANCIAL YEAR 2018/19

The Committee considered a report of the Director of Finance which informed of the appointment of Mazars as the external auditors to the Council from the 2018/19 and proposed report to full Council in March 2018 on the matter.

The handover process would take place between the current and the newly appointed External Auditors. A meeting between the Director of Finance and the new Auditors would take place next week to discuss the transition as well as some operational details.

Members sought and received clarification / commented on the following point:

- Newly appointed External Auditors and risk management – It was explained that standards and quality assurance processes were in place to safeguard the Council against the possibility of underperforming external audit function.

RESOLVED that the report to full Council on the appointment of the external auditor to the Council and development on External Audit be noted.

13

TREASURY MANAGEMENT HALF YEAR REVIEW 2017/18

Consideration was given to a report of the Director of Finance on the performance of the Treasury Management function of the Council for the first half of 2017/18. The report provided a comparison of performance against the 2017/18 Treasury

Management Strategy and Prudential Indicators. Due to the timing of the Committee, the report had already been approved by Cabinet on 20th November 2017 and Council on 13th December 2017.



The Director of Finance presented the information and responded to the enquiries of the Committee.

It was explained that the Council was required to comply with the Chartered Institute of Public Finance and Accountancy's Treasury Management Revised Code of Practice. The report set out the key Treasury Management issues for Members' information and review and outlined:

- An economic update for the first six months of 2017/18;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- Why there had been no debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

The Committee was reassured that the Council had established good practice in relation to Treasury Management which had previously been acknowledged by Internal Audit as well as in the External Auditors' report presented to the Audit Committee. The Treasury Management activities followed the pattern of the established experience and good practice further evidenced with a rating of "good" in the recently issued Fundamental Financial Systems audit undertaken by Internal Audit on the Treasury Management function.

Members sought and received clarification/commented on the following point:

- Notice to be served to withdraw Council's investments – It was explained that a detailed procedure was in place.

RESOLVED that the Treasury Management Half Year Review 2017/18 be noted.

14

EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

15

PRESENTATION ON PROPOSED FUTURE TREASURY MANAGEMENT STRATEGY

A presentation on the key changes concerning the revised Prudential Code and the Code of Practice on Treasury Management was given by the Finance Manager Capital and Treasury and the Senior Accountant. The two codes had been

reviewed by the Chartered Institute of Public Finance and Accounting in December 2017.



Oldham
Council

It was explained that the new codes had been issued in January 2018. However, the guidance, outlining the practical interpretation of the key principles, had not yet been published. The preparation of the Treasury Management Strategy for 2018/19 and its presentation to Cabinet and Council was linked to the publication of the guidance to ensure the conformity of the strategy to the revised codes.

Members sought and received clarification / commented on the following points:

- Capital investment and governance structure;
- Function of the Audit Committee and links with Cabinet.

RESOLVED that:

1. The content of the presentation be noted.
2. The Chair of the Audit Committee, in conjunction with the Head of Governance, liaise with Cabinet over the outcomes of the Audit function.

16

ANNUAL GOVERNANCE STATEMENT FOR 2016/17 AND NEW ISSUES ON GOVERNANCE

The Committee gave consideration to a report of the Head of Corporate Governance on the progress made to reduce the risk linked to areas requiring improvement in internal control within the Annual Governance Statement 2016/17. The report also identified new risks which, at this stage, were considered appropriate for potential inclusion in the Annual Governance Statement for the financial year 2017/18.

RESOLVED that:

1. The progress made by the Council on issues reported in the 2016/17 Annual Governance Statement be noted;
2. The emerging issues during 2017/18 to be considered for inclusion in the Annual Governance Statement be noted;
3. The assessment of risk as advised in the verbal update on the current Risk Monitor be noted.

The meeting started at 6.00 pm and ended at 8.28 pm