

## AUDIT COMMITTEE

WEDNESDAY, 18TH APRIL, 2018

**Present:**           **Councillors:**

**Cllr Nick Sharman (Chair)**  
**Cllr Brian Bell (Vice-Chair),**  
**Cllr Michelle Gregory and Cllr Carole Williams**

**Officers: Anne Canning (Agenda item 4), Bruce Devile, Michael Honeysett, Jackie Moylan, Michael Sheffield, Julie Sharp, Matthew Powell**

### **1    Apologies for Absence**

1.1 Apologies were submitted on behalf of Councillors Chapman, Moema and Williams (for lateness).

### **2Declarations of Interest**

2.1 There were no declarations of interest.

### **3    Minutes of previous meeting**

3.1 The minutes of the previous meeting were agreed as a correct record.

### **Matters Arising**

#### **Payroll Data**

Michael Honeysett reported to the Committee that work was ongoing with Payroll on quality of payroll data and that Dan Paul, Head of Human Resources had attended a recent Pensions Committee to discuss this matter and report on a restructure within the team. He told the Committee that the BACS file had started to work automatically. The Chair commented that this area remained a red risk and Michael Honeysett reported that this area of work was progressing and that there would be an update at the next meeting.

**ACTION:** Michael Honeysett

### **4    External Audit Plan 2017/18**

4.1 Jennifer Townsend presented the KPMG External Audit Plan 2017/18. She reported that KPMG had identified two significant risks in relation to the Authority's accounts where audit attention would focus due to the likelihood of potential financial misstatement. These were the valuation of land and buildings and the valuation of the Pension liabilities. In completing the initial planning VfM risk assessment the auditors

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had not identified any significant risks to the VfM conclusion. She identified two areas of audit focus which were financial resilience and contract monitoring. For the Authority, materially for planning purposes had been set at £15m and the threshold above which individual errors were reported to the Audit Committee was £750k. In addition to the main audit fee the charge for audit of the Pension Fund accounts was expected to remain the same as in 2016/17

4.2 The Committee asked, in relation to value of land and buildings whether systems were in place to ensure resilience in the event of a downturn and it was confirmed that sensitivity analysis is carried out in this areas and the necessary information was available to respond. The Committee stressed that the quality of pensions' information should not be compromised through expediting its production.

4.3 The Chair expressed concern that the tightening of deadlines should not affect the quality of financial statements and it was noted that systems in place ensure the quality of these statements.

4.4 Anne Canning referred to the reorganisation of the STP and that financing was required across the entire footprint and not only of individual Boroughs. In response to the Chair's question on reporting mechanisms Anne Canning confirmed that the reporting arrangements were not significantly different to those currently in existence with additional scrutiny from other organisations. The escalation of risks was being considered.

4.5 The Chair thanked all concerned for the report.

**RESOLVED:**

To note the contents of the attached report from KPMG, the Council's external auditor.

**5 Directorate Risk Register review - Children, adults and Community Health**

5.1 Anne Canning introduced the report on the corporate risks for the Children's, Adults and Community Health Services Directorate as at February 2018. The report identified how risks within the Directorate were identified and managed throughout the year and the approach to embedding risk management. Anne Canning reported that risks to adults and children were also overseen by effective Safeguarding Boards, noting that the Children's Board had been rated as 'Outstanding' at the last Ofsted inspection.

5.2 An escalation in demand for children and families services highlighted and the management of this demand was being considered. Sign posting to early help services was to be used as opposed to interventions where appropriate. Caseloads are also being carefully monitored to ensure cases were closed when it was considered safe to do so and extra staff, funded from earmarked reserves, put in place where this was appropriate.

5.2 In relation to the Hackney Learning Trust Anne Canning highlighted some additional risks in this year's register:

## Hackney Learning Trust

The short term nature of the lease for the SEN vehicle depot site was highlighted. However, a feasibility study for an alternative Council-owned permanent site was about to be commissioned.

The Early Years National Funding Formula had a negative impact on the HLT's capacity to support settings as it limited the funds which can be held back centrally from the Dedicated Schools Grant (DSG) to provide such support.

There was a risk of failing to meet the new statutory requirements for SEND, given the current resource pressures. This pressure arose from the increase in numbers of Education and Healthcare Plans (EHCPs) coupled with insufficient government funding through the Dedicated Schools Grant (DSG). Spend was challenged and reviewed through a Budget Board. The Committee noted that a recent SEND inspection had produced positive results.

## Public Health

The services highest area of spend and risk related to sexual health services. This service was demand led and controls on spending included the introduction of an online service for residents to order self-testing kits. Further, KPIs were tightly monitored.

## Adult Services

Adult services was demand led with increased financial challenges on the service. Work was underway to remodel demand and pressures on social care. A government green paper on care and support for older people was expected to be published in the summer of 2018. This was to set out a view for the long term sustainability of the care and support systems for older people.

Anne Canning told the Committee that the only new risk added to the risk register for Adults Services related to the Integrated Learning Disability Services, both in terms of its responsiveness to service user need and the future financial sustainability of the service. To manage this risk a full review of the service has been completed and a new operating model has been proposed which is now being implemented by a dedicated project manager and being overseen by the Planned Care Workstream as part of the Integrated Commissioning governance arrangements. A significant review of the service had been carried out making for a better relationship between children and adults.

## Integrated Commissioning

Anne Canning reported that over the past year the new integrated commissioning arrangements had come into effect including the development of risk management arrangements and a separate risk register was reported to the Integrated Commissioning Board (ICB). There were now four workstreams within the integrated Commissioning framework charged with the delivery of improved, joined up services aimed at improving the experience of residents and patients. Anne Canning highlighted that a review was to be commissioned to look at the appropriateness of the governance arrangements in place for

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integrated commissioning. The Committee requested that the outcome of this review be brought back to the Audit Committee.

**ACTION: Anne Canning**

5.3 The Committee queried why budgets were not increased as a result of the increased costs of children in care. Jackie Moylan reported that there had been increases in budget, but that in some areas spend was volatile and it was considered prudent to manage some of this spend through use of reserves. For example, there has been an increase in children in care in residential placements from 10 to 27 over the past few years. Each residential placement costs around £150,000 per year. Therefore a reduction of a small number has a big impact on spend and it is therefore considered appropriate to manage a proportion of this pressure through reserves as it may well decrease again.

5.4 The Committee queried the SEND overspend and that it was more appropriate to reserve fund this. Anne Canning explained that identified savings in HLT offset some of the SEND pressure such that the actual overspend for HLT was reduced to 2m.

5.5 Committee Members were pleased to note the reduced pressure on school places and asked to be updated once projections had been subject to their next review.

**ACTION: Anne Canning**

5.6 The Chair stated that the symptoms of austerity were now coming to the fore and stressed the need to identify internal and external risk.

**RESOLVED:**

To note the contents of the report and the attached risk registers and controls in place.

**6 Directorate Risk Register Review - Finance and Corporate Resources**

6.1 Michael Honeysett introduced the report updating the Committee on the current Finance and Corporate Resources Directorate Risk Register as of April 2018. The report also identified how risks within the Council were identified throughout the financial year and the Directorate's approach to embedding risk management. He highlighted the main cross cutting risks around pensions, ICT (including resilience and Cyber/information security), revenue and benefits (including universal credit) together with temporary accommodation. Michael Honeysett told the Committee that there remained some high level, cross cutting risks in relation to problems with contractors and suppliers. A final cross cutting risk related to Major Capital Programmes and the financial exposure the Council was exposed to.

6.2 Councillor Michelle Gregory expressed concerns around constant restructure and ICT recruitment. Michael Honeysett reported that ICT had gone through its restructure and a positive recruitment exercise. He agreed to seek more detail on changes to housing.

6.3 The Chair stressed the importance of risk around pensions, payroll and capital programmes and mechanisms for mitigation, given the impact of any downturn.

**RESOLVED:**

To note the contents of the report and the attached risk registers and controls in place.

**7 Treasury Management Update**

7.1 Michael Honeysett introduced the fourth of the treasury reports relating to the financial year 2017/18, setting out the background for treasury management activity from January 2018 to March 2018 and the action taken during this period. Michael Honeysett reported that Interest rates currently stood at 0.5 % and that further rises were likely. The Committee noted that short term borrowing had increased and there had been a decrease of 15m in the investment balance. The decrease in the investment balance year on year was the result of the continued approach of maintaining borrowing and investments below their underlying levels.

**RESOLVED:**

To note the report.

**8 Internal Audit Annual Plan 2018/19**

8.1 Julie Sharp introduced the proposed Internal Audit Plan and resources for 2018. She highlighted integrated work with counter fraud and risk management, to ensure that significant risks are managed and compliance work carried out with schools. Further, the importance of monitoring the effectiveness of the work of Internal Audit was emphasised. Julie Sharp confirmed that the Internal Audit Team was highly qualified to carry out the role within the Council. When specialist skills were required there was provision in the budget to use an external provider. It was agreed that the words 'Unproductive Time' in Table 1 be amended.

**RESOLVED:**

To approve the proposed Internal Audit Annual Plan, which includes the key performance measures for 2018/19.

**9 Code of Corporate Governance**

9.1 Julie Sharp introduced the revised Code of Governance for the Committee's approval. The draft version had been revised to incorporate current CIPFA best practice.

**RESOLVED:**

To approve the revised draft version of the Council's Code of Governance, with the option for in-year changes.

**10 Performance Overview**

10.1 Matthew Powell introduced the report providing an updated set of key performance indicators along with an update on risk management with Corporate Scorecard and accompanying commentary on the Council's risk approach. Bruce Devile reported that new performance systems were being put in place. DLO

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performance was on the whole acceptable but there was an issue with the main contractors.

The Committee asked that a breakdown of repairs appointments resolved at the first visit be circulated to members of the Committee.

**Action: Director of Housing**

The Committee further asked that the newly appointed Director of Housing be invited to the Committee to outline his priorities and initial plans.

**Action: Director of Housing**

10.2 Following Councillor Michelle Gregory's suggestion it was agreed that a narrative be built into the performance indicators.

**Action: Bruce Devile**

#### **RESOLVED:**

To note the performance indicators in appendix 1 and the Risk Management Scorecard in appendix 2 and the current capital monitoring update in appendix 3.

### **11 Audit and Anti Fraud Quarterly Progress Report**

11.1 Michael Sheffield introduced the report on the performance of the Audit and Anti-Fraud Service up to the end of March 2018, the areas of work undertaken, and information on current developments in Internal Audit and Anti-Fraud, together with statistical information about the work of the investigation team. Michael Sheffield reported that 93% of planned internal audit assignments had been completed or were in progress and went on to report on outcomes from the performance indicators. Several TMO audits resulted in no assurance audit reports being issued due to a number of issues concerning a failure to establish a robust control framework. Recommendations had been made and their implementation was being tracked by the TMO Regulatory Services Team. All recommendations made had been accepted by the TMO and all recommendations due to be implemented had been implemented.

11.2 Michael Sheffield reported that 89.9% of 'high' priority recommendations from audits undertaken from 2014/15 to date had been implemented. 2.5% had been partially implemented. The Committee noted that the estimated saving arising from anti-fraud enquiries for the quarter amounted to £1,606,699.

11.3 Michael Sheffield told the Committee that consideration was being given to increasing the focus on prosecution as a process to address the more serious instances of tenancy fraud and increase the deterrence value of the work. The disadvantage of this approach would be that the total number of enquiries completed would decrease as some investigations would require more resource. The Committee stressed the need to consider the risks and benefits of this course of action. Further information would be provided to committee members about this approach. It was agreed to inform Councillor Gregory of the number of prosecutions currently underway.

**Action: Michael Sheffield**

**RESOLVED:**

To note the Audit and Fraud progress and performance to March 2018.

**12 Annual Report of the Audit Committee**

12.1 The Chair introduced the annual report of the Audit Committee, detailing the role of the Committee and summarising the key activities and achievements in 2017/18 that demonstrate how the Committee had fulfilled its role effectively and to measure consistency with the guidance issued by the Public Sector Internal Audit Standards and other statutory requirements. The Chair reported a positive meeting with the Mayor on the future work of the Audit Committee and stated that specific issues that the future Audit Committee should be particularly aware of included:

- Devolution
- Use of reserves
- Role of outsourcing and of the private sector
- Oversight of joint commissioning boards

He told the committee that CIPFA recommended having external people on the Committee.

12.2 Councillor Michelle Gregory stressed the need for the Audit Committee to make more use of technology in its work and suggested a more proactive role for the committee, looking at how it communicates outwardly.

**RESOLVED:**

To note the annual report of the Audit Committee as set out at appendix 1 to the report.

**13 Whistle-blowing Progress Report**

13.1 Michael Sheffield introduced the report summarising the Council's arrangements for whistleblowing and providing an update on the cases received during 2017 /18. The level of whistleblowing referrals remained a low percentage of overall referrals to the Audit and Anti-Fraud Investigations Team. 41 investigation referrals had been received in the previous year of which 10 originated from whistleblowing sources, 1 of these derived from the external reporting hotline. Of these, 2 investigations led to employees leaving the organisation and 2 resulted in procedural recommendations.

**RESOLVED:**

To note the contents of the report.

**14 Work Programme**

**RESOLVED:**

To note the Audit Committee work programme 2018/19.

**15 Any other business that the Chair considers urgent**

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15.1 There was no other urgent business.

**Duration of the meeting:** 6:30 -8:30

Chair at the meeting on  
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