

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
TUESDAY, 26 SEPTEMBER 2023**

THE COUNCIL CHAMBER, HACKNEY TOWN HALL,
MARE STREET, LONDON, E8 1EA

- Councillors Present: **Cllr Anna Lynch in the Chair**
Cllr Zoe Garbett, Cllr Margaret Gordon, Cllr Lee Laudat-Scott, Cllr Sharon Patrick (Vice-Chair) and Cllr Gilbert Smyth
- Present Virtually: **Cllr Sophie Conway and Cllr Caroline Selman**
- Absent: **Cllr Shaul Krautwirt and Cllr Yvonne Maxwell**
- Officers Present: **Mark Agnew, Governance Officer
Jackie Moylan, Interim Group Director, Finance
Tessa Mitchell, Team Leader, Governance Services**
- Others Present Virtually: **Mario Kahrman, Senior ICT Support Analyst
Tom Greensill, Mazars
Suresh Patel, Mazars
Mizanur Rahman, Chief Accountant**

1 Apologies for Absence

1.1 No apologies were received.

2 Declarations of Interest

2.1 There were no declarations of interest.

3 Auditor's Annual Report 2020/21

3.1 The Chair welcomed the Interim Group Director, Finance, who was attending the Audit Committee for the first time in her new capacity and who confirmed that in relation to 2020/21 the opinion on the accounts had been received. It was an unqualified opinion from Mazars, the Council's auditors, with no significant matters on the Value for Money assessment.

3.2 Suresh Patel, Mazars, confirmed that the Value for Money commentary contained within the report highlighted the Auditors' view on the Council's arrangements to secure economy, efficiency, and effectiveness in its use of resources, and all feedback had been agreed with Officers. The report concluded the Audit of 2020/21 and included the finalised Audit Certificate.

RESOLVED: The Audit Committee is recommended to note the contents of the reports.

4 Progress Report on 2021/22 Accounts

- 4.1 Introducing the report, the Interim Group Director, Finance highlighted that the Audit was nearly substantially complete, but had been held up as a result of the delays in audits of previous years. However, the Audit opinion was expected to be delivered soon.
- 4.2 Suresh Patel, Mazars, confirmed that work was almost complete and that it had been impacted by national issues, including related to pensions. The testing of a sample of membership data has been completed, and had gone well, but work on the 'completeness' of the data was still to be finalised.
- 4.3 On completion of this, whilst the Audit opinion would be provided, there would still be work required to conclude on the Whole of Government Accounts (WGA), as the Auditors were still awaiting instructions from the National Audit Office. This would delay the issuing of the Certificate.
- 4.4 Members of the Committee welcomed the progress, asked about the delays and whether other local authorities were dealing with similar issues, and what was meant by the term "materially different" as used in the report;
- 4.5 Suresh Patel, Mazars, and the Interim Group Director, Finance responded and confirmed that;
- Mazars also audited other London Boroughs and the majority were in the same situation as the London Borough of Hackney;
 - most local authorities still had 2021/22 accounts awaiting conclusion, largely due to national issues;
 - auditing progress was in-part related to a Council's ability to service the audit, support the process with the production of good quality working papers, and respond effectively and promptly to audit queries;
 - the use of "materially different" in the report related to delays in previous years' accounts, meaning that the 2021/22 accounts had to be redone to reflect changes and submitted for further testing.

RESOLVED: The Audit Committee is recommended to note the contents of the reports.

5 Draft Statement of Accounts 2022/23

- 5.1 The Interim Group Director, Finance confirmed that the deadline to produce a draft statement of accounts had returned to the 31st May for the first time since before the Covid pandemic, and that the Council was one of only 8 in London to produce the draft statement on time.
- 5.2 Members of the Committee asked about the potential liability of £600k in relation to care costs; the decrease in the net value of the assets and liabilities of the Pension Fund; the 'significant governance issues' that had been identified; the 'Gateway' process; what stock market investments by the Pension Fund had decreased; and, the net loss and gain related to the rental income of investment properties.

5.3 The Interim Group Director, Finance, and the Chief Accountant responded and confirmed that;

- the decrease in the Pension Fund was related to a year-on-year decrease in the value of assets held, but the Pension Fund was over 100% funded;
- the Pension Fund's performance was regularly monitored and reported to the Pensions Committee;
- work had been identified to monitor and tackle the governance issues that had been identified as a result of the Internal Audit;
- the Gateway process helped identify unaffordable projects at an early stage and allowed Officers to revisit the project, examine overall budgets, and make decisions about potential timelines;
- and, the Covid pandemic had impacted the expected income from investment properties, but there had also been some outstanding disputes that had now concluded.

Action: 1. The Interim Group Director, Finance, to arrange for Committee Members to receive a response relating to the potential liability related to care costs.
2. The Interim Group Director, Finance, to arrange for Committee Members to receive details relating to the decrease in the value of the assets and liabilities of the Pension Fund.

RESOLVED:

The Audit Committee is recommended to:

- 1. Approve the Council's 2022/23 Statement of Accounts subject to the finalisation of audit processes**
- 2. Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

6 External Audit Plan 2022/23

6.1 Tom Greensill, Mazars, introduced the report and highlighted;

- that there had been a change to ISA 315 which had meant a greater focus on the scoping of significant classes of transactions, balances, and disclosures, bringing in five new risk factors for consideration;
 - subjectivity
 - complexity
 - uncertainty
 - change
 - susceptibility to management bias or fraud
- that there had also been a greater focus on IT and IT general controls, and the design and implementation of controls which were relevant to the Audit;
- the assessment of significant risk, including management override of controls, valuation of property, plant and equipment (PPE), valuation of investment properties, and net defined benefit liability valuation;
- that enhanced risks of accounting estimates were no longer included as the impact of the cyberattack had been dealt with;
- that in relation of Value of Money no significant weaknesses had been identified, but the planning work had not been concluded;

Tuesday 26 September 2023

- that the Code Audit Work (Scale fee) had increased as a result of inflationary pressures;
- and, that the Overall materiality for 2022/23 was £25,360k, the Performance materiality was £17,752k, and the Trivial threshold for errors to be reported to was £761k.

6.2 Members of the Committee asked about the implications of the valuation of PPE risk, and how that could be mitigated; and, about the level of risk from fraud by managers, and any concerns this raised, before technical issues concluded the agenda item.

6.3 Tom Greensill, Mazars, responded and confirmed that;

- PPE valuations are complex and the market would have an impact on build costs, which was the direct replacement cost approach used for the majority of PPE. This had been impacted by inflation;
- in terms of the market, valuations could increase or decrease, which would have an impact on reserves, but not the General Fund balances;
- there had been no particular concerns about Hackney in relation to risk from fraud by managers, but the risk was mandatory across all audits to reflect the unique position that managers were in if controls fail

RESOLVED: The Audit Committee is recommended to consider and note the contents of the attached reports from Mazars, the Council's external auditor.

7 Any Other Business that the Chair Considers Urgent

7.1 There was no urgent business for consideration.

End of meeting

Duration of the meeting: 6.30 - 7.21 pm

Cllr Anna Lynch

Chair of the Audit Committee