

## AUDIT COMMITTEE

WEDNESDAY, 18TH JANUARY, 2017

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

**Cllr Nick Sharman (Chair) in the Chair  
Cllr Robert Chapman, Cllr Michelle Gregory,  
Cllr Sem Moema and Cllr Carole Williams**

**Officers: Kim Wright (Item 5), Ian Williams,  
Tracy Barnett, Michael Honeysett, Chris  
Ellmore, Michael Sheffield, Matthew Powell,  
Vinny Walsh**

### **1     APOLOGIES FOR ABSENCE**

1.1 Apologies for absence were submitted on behalf of Councillor Brian Bell and Councillor Carole Williams for lateness.

### **1     DECLARATIONS OF INTEREST**

2.1 There were no declarations of interest.

### **3     MINUTES OF THE PREVIOUS MEETING**

3.1 The minutes of the previous meeting were agreed as correct subject to the following amendments:

**Minute No 8.7** The last sentence be amended to read:

‘Tracy Barnett agreed to liaise with Kim Wright and Michael Scorer for details of the actions taken to address weaknesses identified as part of the former Hackney Homes contract reviews and circulate a note to Committee members.’

Remove ‘Action’ after 8.8

**Minute 9.1:** Matt Powell introduced the report as set out. The way that risks are captured and presented within the Council’s online software (Covalent) have been overhauled and improved. A new approach is to be adopted to make a direction of travel clearer and the new ‘Headline Scorecard’ will be introduced for each register containing the target risk score as well as the present risk score.

**Minute 9.2** Should read ‘Ian Williams said this reflected .....’

That the spelling of Tracy Barnett’s name be corrected in the text of the minutes.

Matters Arising:

1. Measuring the success of the Olympic Games

The Chair asked if a system existed for measuring the success of the Olympics in terms of the benefits derived by local people. Kim Wright reported that a substantial piece of work had been carried out on this following the Olympics. As this occurred some time ago, a new methodology was required to keep a track of this.

**4 CERTIFICATION OF GRANTS & RETURNS 2015/16**

4.1 Michael Honeysett introduced the report setting out the results of the work carried out by the Council's external auditors, KPMG, in respect of the 2015/16 grants claims and returns, the details of which were included in the appendix to the report. He reported that a number of errors were identified during the completion of the Housing Benefits Claim. In response to a question from Councillor Chapman, he told the Committee that this was not totally unexpected given the size and complexity of the data and that there were ongoing discussions with officers on how to reduce the impact of these. The Committee emphasised the need to resolve the high error rate and the need for details of trends. It was recommended that consideration be given to the provision of more information to claimants in an attempt to reduce claimant error.

**RESOLVED:**

To note the contents of the attached letter from the Council's external auditors.

**5 DIRECTORATE RISK REGISTER - REVIEW OF HOUSING AND NEIGHBOURHOODS**

5.1 Kim Wright referred the Committee to the Neighbourhoods and Housing Directorate Risk Register. She told the Committee that the focus was 'on place', creating and sustaining liveable neighbourhoods. Risk had been reviewed on three occasions by the Directorate's Leadership Team, and she reminded Members that the Directorate was a new one and only went "live" on April 1<sup>st</sup>, 9 months ago. Cllr Gregory asked about current vacancy levels in the directorate, risk in regard to difficulties in recruitment and staff morale. Kim Wright agreed to circulate figures on staff vacancies by the three divisions of Housing, Regeneration and Public Realm. She told the Committee that work was ongoing on the existing recruitment/ retention strategy in relation to posts that were traditionally difficult to recruit to, which included traffic engineers (with a cycle bias), planning and building control officers and that progress was being made on this but that in some instances agency staff were used to ensure posts were filled and services delivered. She stated that Managers were very aware of the need to reduce agency spend and that regular monitoring reports were received as part of the budget process to review spend/numbers of agency staff. Consideration was being given, as part of a corporate wide piece of work, to succession planning, talent initiatives, the introduction of market supplements and the development of criteria in relation to circumstances in which higher rates of pay would be justified to attract the right kind of staff and making the recruitment process more streamlined. In response to a question from Cllr Moema about managing risk on

contracts and sub-contracts Kim Wright told the Committee that Asset management had been restructured and was being recruited to. The project management function was being brought back in house and the Directorate was looking at how big projects were being managed. She told the Committee that the management of these bigger contracts in housing services involved higher risk and work was ongoing to mitigate against these. Further a number of KPIs within housing services were being developed and a cultural change was underway to more closely supervise contracts. Good practice arising from successful, large scale regeneration schemes within the Directorate were also being applied to projects/schemes elsewhere.

5.2 The Chair referred to the section of the risk register on 'Workforce and the effect restructures may have on efficiency....' and the need to show any shortfall identified and the impact on service, both actual and potential. He stressed the need for risk data to identify the most important issues and how risk could be mitigated against.

**RESOLVED:**

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

(2) That Kim Wright circulate figures on staff vacancies by the three divisions of Housing, Regeneration and Public Realm.

**ACTION: Kim Wright**

**ACTIONED AS FOLLOWS:**

	Total number of Established posts (FTES)	Total Number of Vacant Posts (FTES)	Vacancy Rate (FTES)	Agency Staff
Public Realm	857.46	84.25	9.8%	86
Regeneration	82	15	18.3%	4
Housing Services	907.9	164.95	18.2%	143
	1,847.36	264.2	14.3%	

**6 TREASURY MANAGEMENT ACTIVITY - UPDATE 2016/17**

6.1 Chris Ellmore introduced the half year treasury activity report for 2016/17 containing a detailed update on the treasury activity for the first six months of the financial year and the Q3 treasury activity update for the period October 2016 to December 2016. Chris Ellmore told the Committee that the cash balance had slightly decreased. The average rate of interest received on investments was 0.84%. Michael Honeysett confirmed, in response to a member question, that the reference on page 48 should be '365 days', not years. Chris Ellmore told the Committee that following the credit crunch the Council had explored different types of more secure investments. Councillor Sharman referred the Committee to the significant change in the expected level of borrowing required in future due to an anticipated increase in the Council's Capital Financing Requirement. Michael Honeysett confirmed that the Council had a lot of Capital Schemes going forward that relied on forward funding pending future realisation of capital receipts.

6.2 The Chair emphasised that since the remit of the Audit Committee covered all aspects of the Council's financial activities, the progress and risks associated with its capital programme should be included in regular reports to the Committee alongside the reports we received about revenue expenditure. Ian Williams agreed to report to the Committee on this in future.

**ACTION: IAN WILLIAMS**

6.3 It was considered that with the Mayor's emphasis on driving development through joint boards it was important that the Committee oversaw such crucial areas of the executive. The current emphasis on reports to the Committee based on departmental reporting and accountability clearly needed to be developed to cover the new interdepartmental boards.

6.4 In response to a question from Councillor Chapman, Ian Williams confirmed that the Council had much experience of dealing with contactor failure and that there were mechanisms in place to novate to another contractor in such circumstances.

6.5 Councillor Gregory referred to the risk of stress in supporting projects and asked what measures were in place to support this. Ian Williams confirmed that a structure was required in this regard and stressed the need for properly resourced teams. Councillor Sharman stated that the Council was moving into a more developmental role with the consequent need to consider how the council supports staff and risk.

**RESOLVED:**

To note the treasury management activity reports at appendices 1 and 2.

**7 TREASURY MANAGEMENT STRATEGY 2017/18**

7.1 Chris Ellmore introduced the Annual Treasury Management Strategy for 2017/18 for the Audit Committee, setting out the expected treasury operations for 2017/18 financial year. He reported an increase in the Council's short term cash position as outlined at page 74 of the report. However, overall there was no change in its investment approach when compared to 2016/17, albeit that the level of investments was expected to decrease and borrowing increase.

7.2 Councillor Sem Moema asked that a training session be arranged for members on financial risks and Ian Williams agreed to action this.

**ACTION: IAN WILLIAMS**

**RESOLVED:**

To approve the draft Treasury Management Strategy for 2017/18 to 2019/20, for submission to Council subject to Capital programme updates with delegated powers to the Corporate Director of Finance and Resources to approve the final Treasury Management for submission to Council.

**8 AUDIT AND ANTI FRAUD QUARTERLY PROGRESS REPORT**

8.1 Tracy Barnett introduced the report outlining the performance of the Audit and Anti-Fraud Service up to the end of December 2016, the areas of work undertaken and information on current developments in Internal Audit and Anti-Fraud as well as statistical information about the work of the investigation team and current restructuring. She told the Committee that Carole Murray, Head of Internal Audit had left the Council and the position was to go out to advert. Tracy Barnett and Michael Sheffield would be taking responsibility for the service in the interim. Two new management posts had been created and there was to be recruitment into more junior investigative roles. It was noted that the division was meeting its KPIs and that draft reports were currently being issued within 13 days of fieldwork being completed. The Committee noted good progress on the implementation of high priority recommendations on ICT, disaster recovery, and third party access. Work was ongoing with the schools and at the moment the requirements of the Learning Trust were being met.

8.3 Michael Sheffield reported that during the period September to December 2016 a total of 35 tenancies had been recovered by TFT. During that time six Right to Buy applications had been cancelled following investigation. He reported on outcomes after the AAF investigation in relation to overstaying family's intervention, including 17 support packages being cancelled between April and August 2016, equating to a saving in the region of £5,916 a week. In relation to parking concessions 14 fraudulently used residents/visitors parking permits were recovered during the reporting period. In that period 24 Blue Badges had been recovered. 18 warnings had been issued with 17 penalty charges issued and 16 vehicles removed for parking fraud. A separate investigation identified an overpayment of a Hackney pension to a former employee who had passed away in Italy. No fraud was involved, a sum of £28,000 was recovered.

8.4 In response to a Member's question, Tracy Barnett reported that the Annual Audit Plan is informed by a number of sources to ensure that audit coverage is focussed where it will be most beneficial. This includes information from the Council's risk management system. Audit reviews of schools are being carried out to the level required by the Learning Trust, discussions are ongoing to explore new ways of undertaking school audits where a school has previously been assessed as having a high level of assurance. In the meantime the current level of review will continue to take place. Councillor Chapman emphasised the need for more scientifically targeted audits. This matter would be raised with the Learning Trust.

8.5 The Committee congratulated Vinny Walsh on his promotion to 'Audit Investigation Team Manager'.

8.6 The Committee expressed its thanks to Carole Murray who had recently left the Council for her contribution to the work of the Committee.

**RESOLVED:**

To note Audit and Anti Fraud's progress and performance to December 2016.

**9 APPOINTMENT OF EXTERNAL AUDITOR**

9.1 Michael Honeysett introduced the report. The Committee noted that following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The appointment would require approval by full Council. He

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referred the Committee to the advantages of using PSAA, including more efficient procurement and securing more competitive prices. He confirmed that the existing company, KPMG, would continue to audit the accounts under current arrangements for a further two years, covering 2016/17 and 2017/18 Statements of Accounts.

9.2 Councillor Chapman referred to the current narrow market of auditors in the UK. Ian Williams confirmed that a lot of firms had moved out of the market and into the area created by the abolition of the Audit Committee. He emphasised that ensuring the quality of auditors was a priority.

9.3 Councillor Sharman referred to some disappointment in current arrangements in respect of reporting relating to Value for Money audit and that going forward PSAA should take more responsibility for this.

**RESOLVED:**

To recommend to Full Council that the Council opts into the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors.

**10 WORK PROGRAMME**

10.1 The Committee noted the Audit Committee work programme for 2016/17. The Chair requested an update on ICT at the April meeting.

10.2 Ian Williams reported that a special meeting of the Audit Committee was to be scheduled for the end of July to consider the annual accounts.

**11 ANY OTHER BUSINESS THAT IN THE OPTION OF OF THE CHAIR IS URGENT**

11.1 The chair reported that Audit Committee Annual reports were to be produced and submitted to March Council meetings. Following a suggestion from Councillor Gregory, this would be posted on the Council's website.

**Duration of the meeting:** 6:30pm – 7:45pm

Chair at the meeting on  
Wednesday, 18 January 2017