

## REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

<b>ANNUAL REPORT OF THE AUDIT COMMITTEE</b>  <b>Audit Committee 18 April 2018</b>	<b>Classification</b>  Public	<b>Enclosures</b>  Appendix 1  <b>AGENDA ITEM No</b>
	<b>Ward(s) affected</b>  All	

### 1. GROUP DIRECTOR'S INTRODUCTION

The purpose of this report is to detail the role of the Audit Committee (the Committee) and summarise the key activities and achievements in 2017/18 that demonstrate how the Committee has fulfilled this role effectively and to measure consistency with the guidance issued by the Public Sector Internal Audit Standards (PSIAS) and other statutory requirements.

### 2. RECOMMENDATION(S)

The Council is recommended to: -

#### 2.1 Note the Annual Report of the Audit Committee set out in Appendix 1.

### 3. SUMMARY

#### 3.1 The Annual Report of the Audit Committee outlines key developments in: -

- Internal Control
- Internal Audit
- Risk Management
- External Audit
- Anti-Fraud & Corruption
- Financial Reporting

#### 3.3 In reviewing the performance of the Audit Committee against the Public Sector Internal Audit Standards (PSIAS) and in the areas mentioned above, the judgement is that the Committee has fulfilled its role effectively.

#### 3.4 The report is a self-assessment of the activities of the Audit Committee during 2017/18.

### 4. OVERALL CONCLUSION

#### 4.1 As detailed and evidenced in the Annual Report, the Audit Committee discharged its duties effectively and has played a significant role in developing and improving internal control and governance arrangements within the Council.

- 4.2 Opportunities for further strengthening the performance and effectiveness of the Audit Committee have been identified and these will be addressed through a programme of development sessions delivered to members on issues including:
- 1) Treasury Management
  - 2) Anti-Fraud
  - 3) Risk Management

## **5. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES**

- 5.1 This report looks back over the last year and as such there are no financial effects arising from the recommendation. It is recognised however that an effective Audit Committee can help to both reduce risk and strengthen the control environment in which the services are provided. Through its consideration and approval of the accounts, the risk and treasury management strategies, it can also help to ensure that the financial risks to the Council arising in the future are appropriately managed.

## **6. COMMENTS OF THE DIRECTOR, LEGAL SERVICES**

- 6.1 The Council has a best value duty under the Local Government Act 1999 to ensure that it is securing economy, efficiency and effectiveness in the use of its resources.
- 6.2 Section 151 of the Local Government Act 1972 provides that 'every local authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'.
- 6.3 Part of the proper administration of the Council's affairs must encompass the obligation on the Council to have its accounts audited in accordance with the Audit Commission Act 1998 by an appointed party.
- 6.4 The Council's Constitution gives the Audit Committee responsibility for considering reports dealing with the management and performance of the providers of internal and external audit services. The annual report of the Audit Committee details how the audit matters in this Report and Appendix 1 have been addressed to discharge the statutory obligations.
- 6.5 There are no immediate legal implications arising from the Report.

### **Ian Williams**

#### **CORPORATE DIRECTOR OF FINANCE & RESOURCES**

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### **List of Appendices**

**Appendix 1 Annual Report of the Audit Committee 2017/18**

**Appendix 2 Audit Committee Future Focus**

## ANNUAL REPORT OF THE AUDIT COMMITTEE 2017/18

### 1. CHAIR'S INTRODUCTION

- 1.1 The Audit Committee became a full committee of the Council in May 2016. During the municipal year the Committee has continued to work hard to ensure we have strong, well-embedded internal control and governance arrangements as the foundation both for the Council's service improvement programme and, as important, for our credibility in the eyes of the public. Audit Committee members firmly believe in the benefit that we can deliver as an independent advocate of strong governance which complements the Council's scrutiny and other functions; our role is increasingly important within a Mayor/Executive local governance model and a changing operating environment. We will continue to adapt and enhance our role during 2017/18.
- 1.2 Our approach has been based on a continuous review of the Council's past performance, current risks and future prospects. First, we have looked at our past operations to ensure that the Council has complied with statutory requirements and good practice. Second, we have reviewed the Council's current performance, concentrating on assessment of the Council's readiness to cope with the corporate and service risks and opportunities it currently faces. Third, we have looked forward, by reviewing the Council's capacity and plans to cope with future challenges.
- 1.3 In all three areas, we have been satisfied with the Council's performance and its compliance. We were especially pleased with the rapid reporting of the previous financial year results (completed within 4 months of the year end) and with the system of reviewing current service risks. We also received very positive reports about the management of the Council's funds and the results of oversight by the internal audit team. In the case of the Anti-Fraud Service, we can point to savings for the financial year that are in excess of £3m as of 31 December, as a direct result of the work of the anti-fraud teams. In terms of future planning, the external auditors reassured us that our plans to cope with the Council's expected level of revenue reductions are soundly based.
- 1.4 Given an ever more challenging financial environment, we are strengthening our approach in all three areas. To improve our capacity to review past compliance and correct any issues, the Council's final accounts will be turned around by July, just four months after year end. We will continue to improve our assessment of current performance by receiving regular reports on a small range of key performance indicators of selected Council services and financial performance, and obtaining further explanation where appropriate. This will help provide both us as Councillors, and the public to have a sense of how the Council is performing overall and give an early warning of any problems. Another initiative to reassure the Council about our ability to cope with current threats and opportunities is our quarterly review of progress in the areas of high risk identified in our service reviews.
- 1.5 In terms of the very significant challenges we face over the next few years, it is crucial that the Council has the plans and the robust organisation necessary to meet the forecast reductions in Government financial support. As well as having credible cost reduction plans in place, we must also be able to develop the capacity to take a leading role in developing the Borough. The Mayor has already taken some important initiatives in this area, setting up cross Cabinet Boards to lead key development projects. This broad-based approach will be essential if the Borough is to make the best use of its assets for the benefit of residents. There is a

corresponding challenge for the Committee to ensure there is adequate oversight of the risks attached to these projects. To assist with this Committee Members received a detailed briefing in January 2018 which focussed on the controls in place to manage the delivery of three key projects (Morning Lane, North London Waste Authority and the Britannia redevelopment), and also received an update from the Mayor at the January meeting about how Hackney is planning for upcoming key challenges.

- 1.6 The Committee receives very full and regular reports on management of our revenue budgets. However, as the Borough's population grows and as the Council takes a bigger role in development of the Borough, the management of the Council's capital spending programme is becoming critically important. From April 17 onward the Committee has received quarterly capital programme monitoring reports as part of the Performance Overview report.
- 1.7 Looking back over the past year, the Council has continued to suffer severe financial constraints as a result of the Government's austerity measures and as a consequence, we have been under unprecedented pressure to show we are efficiently delivering services which meet our residents' needs and expectations. I am pleased that our External Auditors, KPMG, confirm from their work, that despite these financial pressures, the Council is delivering value for money by making proper arrangements for securing the economic, efficient and effective use of our resources.
- 1.8 A key responsibility of the Audit Committee is oversight of the Council's Treasury Management function. Throughout the year, we have approved the draft Treasury Management strategy up to 2020/21, including the Investment Strategy for 2018/19, and received regular monitoring reports demonstrating sound management of the Council's funds. Over the next period there is likely to be some financial turmoil as a result of Brexit and likely changes in interest rates and it will be important to ensure this key function continues to perform strongly.
- 1.9 I have continued to champion this Committee's role in providing oversight of the Council's management of risks and through the year, the Committee has considered each directorate's risk register and reviewed the corporate risk register twice. I am delighted to see that risk management is embedded as a normal management function helping services achieve their objectives. One example of this in action was our review of Hackney's fire safety risk register in the wake of the Grenfell Tower tragedy, following which it is reassuring to note the range and extent of work that officers have taken to manage this critical area. For their part, Committee members had training sessions on their role in the risk management process, with specific reference to obtaining assurance and risk appetite.
- 1.10 Another key area for the Committee is the monitoring and approval of planned audit and anti-fraud activity. The Committee has made clear that it expects audit recommendations to have been addressed by the time they are summarised at our meetings. I am pleased to say that we have only had to pursue managers for non-compliance with recommendations on a gratifyingly few occasions.
- 1.11 Finally, I would like to thank both my fellow Committee Members and the staff in the Finance and Corporate Resources Directorate for their commitment and support in this crucial but sometimes overlooked area of the Council's work. Audit is a vital part of the oversight of the Council's activities and an essential foundation for the public's confidence in our work.

## 2. COMMITTEE MEMBERSHIP & ATTENDANCE

2.1 The following Councillors were members of the Audit Committee during the 2017/18 municipal year –

Cllr Nick Sharman (Chair)	Cllr Michelle Gregory
Cllr Brian Bell (Vice Chair)	Cllr Carole Williams
Cllr Rob Chapman	Cllr Sem Moema
(Conservative Group vacancy)	

2.2 The table below outlines members' attendance at committee meetings during the 2017/18 municipal year. As ever, members had a significant number of alternative commitments such as other public meetings and ward commitments and surgeries, and were therefore not always available to attend meetings.

Members	Meeting Dates				
	20/04/17	26/06/17	25/07/17	13/09/16	17/01/17
Cllr Nick Sharman	P	P	P	P	P
Cllr Brian Bell	A	P	P	P	A
Cllr Robert Chapman	P	P	P	P	P
Cllr Michelle Gregory	P	P	A	A	P
Cllr Sem Moema	A	P	P	A	P
Cllr Carole Williams	P	A	P	P	P

Key: P = Present A = Absent L = Late

## 3. WORK UNDERTAKEN IN THE 2017/18 MUNICIPAL YEAR

3.1 The Audit Committee operates in accordance with the CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police*, 2013 Edition. The guidance defines the purpose of an Audit Committee as follows:

*“To provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”*

### 3.2 Internal Control

3.2.1 The Committee plays a key role in developing and improving the Council's internal control and assurance framework.

3.2.2 The Accounts and Audit Regulations 2015 require the Council to conduct annual reviews of the system of internal control and publish an Annual Governance Statement (AGS) within its annual financial statements.

3.2.3 The AGS process in 2017/18 has been updated to reflect the new requirements as set out in the Framework/Guidance issued by CIPFA/SOLACE in 2016 and a revised Hackney Code of Governance. Each department produces a local statement which is used to support the corporate AGS. As part of the assurance process Internal Audit review the local AGS's and verify that any actions identified in the previous year AGS have been actioned. The 2017/18 corporate AGS will be included in the

final accounts and will be reviewed by the Committee with future actions for improvement noted.

- 3.2.4 The Committee contributed to the process of providing assurance of the Council's internal control and governance framework by receiving and reviewing regular progress reports on Internal Audit and Risk Management including service performance information.

### **3.3 Internal Audit**

- 3.3.1 In accordance with the Accounts and Audit Regulations 2015 the Committee continuously reviewed the effectiveness of the Internal Audit service. This comprised of: -

- Review and approval of the Internal Audit Annual Plan 2015/16 which includes Internal Audit's key performance measures and outlines audit work for the Council and Associated Bodies for which the Council has a lead responsibility.
- Review of quarterly progress reports of the Corporate Head of Audit, Anti-Fraud & Risk Management detailing the performance and progress of the Internal Audit Service against the Internal Audit Plan and performance targets.
- Review of the Internal Audit Service Annual Report by the Corporate Director of Finance and Corporate Resources.

- 3.3.2 The Committee noted that the Internal Audit Service expects to complete or have in progress at the end of the financial year 90% of the audits included in the annual plan during the year. The slight deviation from target was a result of significant structural changes to the Council's directorates and services across the authority which impacted on the services ability to schedule audits.

### **3.4 Risk Management**

- 3.4.1 A robust risk management framework is an essential element of good management and enables the Council to effectively manage strategic decision-making, service planning and delivery to safeguard the wellbeing of its stakeholders and increase the likelihood of achieving objectives. It is an essential element of good management and a sound internal control system and is necessary for the Council to demonstrate that it has sound systems of corporate governance. The Committee contributed to this by: -

- Reviewing and endorsing the Risk Management Annual Report 2016/17 detailing arrangements for the management of risk in place during 2017/18.
- Proposing measures for developing the Council's approach to managing its risks to assist future improvement.
- During the reporting year the Committee reviewed the risk registers for each of the Council's departments as well as fully reviewing the corporate risk register on two occasions. This top-level review helps to ensure that risk management remains a meaningful and on-going activity across all service areas.
- Introducing a requirement to include the Corporate risk register as part of the Performance Management report so that this is reviewed quarterly by the Committee, with the option to call relevant officers to account more quickly if required.

### 3.5 Treasury Management

3.5.1 Ensuring treasury management is governed effectively is an essential element of the work of the Audit Committee. A regular cycle of reports is presented to the Committee to enable them to comment upon and monitor treasury action throughout the year.

3.5.2 The Committee considered the following reports during the Year:-

- Reviewed a draft Treasury Management Strategy for 2018/19.
- Review of quarterly and half-yearly updates on treasury management detailing performance.

### 3.6 External Audit

3.6.1 The Council's external auditor, KPMG, attended some of the Committee's meetings at which they present an external audit progress report for review and comment. There have been no additional reviews undertaken by the external auditors.

3.6.2 The Committee has considered the following reports from KPMG: -

- Annual Audit and Inspection Letter 2017 – KPMG issued an unqualified opinion on the Council's accounts and Value for Money conclusion; subsequently, an unqualified opinion on the pension fund was also received.
- Annual Governance Report 2016/17 – No significant issues in terms of the internal control environment were identified and there are adequate arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

### 3.7 Anti-Fraud and Corruption Arrangements

3.7.1 The Committee reviewed the quarterly and annual performance of the anti-fraud teams in tackling fraud against the authority and the contribution this made to strengthen the system of internal control.

3.7.2 During the year up to 31 December 2017 the following savings were made as a direct result of the work of the anti-fraud teams:

<b>Outcome</b>	<b>Outcomes 2017/18 to date</b>	<b>Savings Realised</b>
Council service or discount cancelled	66	(1) £22,968 per week £1,197,617 per year
Blue Badges recovered	53	(2) £5,300
Other fraudulent parking permits recovered	26	n/a
Parking misuse warnings issued	24	n/a
Penalty Charge Notice (PCN) issued	44	(3) £2,860
Vehicle removed for parking fraud	34	(4) £6,800
Recovery of tenancy	46	(5) £828,000
Housing application cancelled or downgraded	32	(6) £128,000 - £576,000
Right to Buy application withdrawn or cancelled	9	(7) £944,100
<b>Total</b>	<b>334</b>	<b>Between £3,112,677 and £3,560,677</b>

1. Overstaying Families Intervention Team (OFIT) savings – 66 support packages cancelled, average saving £348 per week
2. Calculated using Audit Commission figure of £100 per badge recovered
3. 44 x £65 PCN charge
4. £200 per removal in addition to the PCN charge
5. Calculated using Audit Commission figure of £18,000
6. Calculated using Audit Commission estimated values of either £4,000 or 18,000
7. Calculation based on discount of £104,900

- 3.7.2 The corporate responsibility for the Regulation of Investigatory Powers Act (RIPA) and Proceeds of Crime Act (POCA) rests with the Corporate Head of Audit, Anti-Fraud & Risk Management. During the year the Committee was provided with quarterly monitoring information on the activities undertaken by the Council.

### **3.8 Whistleblowing Arrangements**

During the year the Committee received quarterly updates on whistleblowing referrals regarding fraud/irregularity in addition to an annual report on the Council's whistleblowing arrangements and activity.

### **3.9 Financial Reporting**

The Committee scrutinised and approved the 2016/17 Statement of Accounts prior to the completion of the audit by KPMG. The Committee also considered KPMG's Governance Report regarding the audit of the accounts and significant issues arising during the audit of the accounts.

### **3.10 Performance Reporting**

Quarterly updates to Committee on a range of Council activities were introduced in April 2017. The report covers three key areas of activity and has resulted in both a wider span of oversight and increased knowledge of key areas. Firstly, a performance report of selected key indicators provides coverage of activities of importance to the Committee and our residents; where concerns about performance have been identified, officers have attended meetings to provide explanation of how issues are being resolved. Secondly, the Corporate Risk Register is now reported quarterly (in addition to the biannual in-depth review of the register), so that emerging concerns and changes to existing risks are immediately on the Committee's radar. Thirdly, oversight of capital expenditure is now achieved by inclusion of a Capital Programme Monitoring Report.

## **4. PROPOSED WORK PROGRAMME FOR 2018/19**

- 4.1 Over the past year a programme of development sessions have been held for members of the Committee; this included training in capital investment and commercialisation and risk management. Further sessions will be arranged over the coming year.
- 4.2 The Committee will review and, if appropriate, approve the External Auditor's Annual Governance statement covering the Council and the Pension Fund.
- 4.3 The Audit Committee will continue to receive and examine the Council's Statement of Accounts and Annual Governance Statement and approve these if it is appropriate to do so.



- 4.4 The Committee will continue to receive regular performance reports from the Internal Audit Service, the Anti-Fraud Teams, Treasury Management, directorate and corporate risk registers. As well as reviewing corporate policies and strategies relating to these services.
- 4.5 The Chair will continue to act as Risk Management Champion taking responsibility for advocating the embedding of risk management throughout the Council. The Committee is keen to take a pro-active approach to overseeing the Council's management of risks and will work closely with the Corporate Risk Advisor and senior managers for continual improvement in our corporate risk management processes.
- 4.6 The Committee will continue to focus attention on the high risk areas which are identified from the risk management framework. We will examine issues that impact on specific service areas, such as the impact of Universal Credit and welfare reforms and the increased pressures on the SEND budget. Additionally, the Audit Committee are particularly driven to review areas of strategic importance to the Council such as the role of reserves, our use of private contracting and devolution (for example, the oversight arrangements as they apply to areas of joint authority responsibility, such as our health partnership). Where appropriate we may adapt our current approach, for example, by targeting working meetings to enable more in-depth examination of some of these subject areas.
- 4.7 The Committee will receive and approve the Internal Audit annual plan to ensure that Audit work provides an appropriate coverage during the year.
- 4.8 The recently introduced arrangements to review key performance indicators will continue and these will be refined as might be necessary to ensure that they coordinate effectively with other Committees. Officers will continue to provide explanation about how any concerns arising from the performance data will be rectified.
- 4.9 The Council's whistleblowing arrangements and performance will be reviewed annually and as part of the quarterly reporting process.
- 4.10 The Audit Committee will continue to be proactive and engage wherever necessary to further strengthen the Council's assurance processes. In particular, there will be focus on areas highlighted through the risk management process as presenting a concern at the corporate level.

## **5. SUMMARY OF ACHIEVEMENTS OF AUDIT COMMITTEE**

- 5.1 The Audit Committee has contributed to the Council's overall internal control process in 2017/18 through the challenge and monitoring it has performed on governance, internal audit, anti-fraud, risk management, treasury and financial management processes.
- 5.2 Risk management at corporate and strategic service levels continues to support business processes.
- 5.3 Internal Audit has continued to develop and strengthen with support from the Committee. It received positive assurance from KPMG in its annual report.
- 5.4 The Committee has played a significant role in highlighting the importance of implementing Internal Audit recommendations to agreed timeframes.

- 5.5 The Committee also undertook the role of oversight of the Council's use of Regulation of Investigatory Powers Act (RIPA).

## Key Areas for the Next Audit Committee to Consider

There has been much discussion at Audit Committee throughout 2017/18 of the significant cost pressures facing Hackney and the necessity of working more innovatively to continue to provide the best possible level of service for our communities. These culminated in a training event preceding the January 2018 meeting that focussed on some of the innovative capital projects already underway and specifically how these are being managed to minimise the financial and other associated risks. This was followed by the Mayor addressing the Audit Committee and answering questions about key issues facing the authority and his thoughts about how the Audit Committee is uniquely placed to provide oversight and assurance to the Council. Innovation brings challenges and inevitably exposes the Council to new risks. It is widely acknowledged among Members and officers that the challenging financial landscape will require complex solutions with different and potentially more risk associated with them. It should be a key role for the Audit Committee throughout the next financial year to develop the oversight of these key areas to help ensure that they deliver the anticipated benefits while managing the Council's exposure to potential downside effects.

The Mayor commented on specific areas of current concern, starting with the impact of Universal Credit, the risks that this creates for Hackney as a landlord, with regard to homelessness responsibilities and for residents directly impacted by the significant changes. He also talked about the proposals to provide new provision for waste disposal in North London, and the challenges this had raised due to the length of the decision making process. The Mayor acknowledged that the last ten years have seen a dramatic reduction to Hackney's resources but the Council has nevertheless been able to continue to invest in an ambitious capital programme. The Mayor shares the Chair's vision that the Audit Committee has a vital role in providing oversight of the risk management arrangements that are in place for these high-value projects.

Specific issues that the future Audit Committee should be particularly aware of include the following:

- Devolution (most immediately, risks arising from combined health and social care provision)  
Ensure that risk management processes across organisations are sufficiently aligned to allow for successful working partnerships to flourish, and that Hackney Council is an equal partner in service delivery.
- Use of reserves  
Ensure that finite reserves are managed appropriately, and that levels are maintained at an acceptable level, bearing in mind the statutory role of the Council's s151 officer, the Group Director Finance & Corporate Resources, in ensuring that reserves are held at an appropriate level.
- Role of outsourcing and of the private sector – the need to ensure that private sector partners deliver genuine value for money and deliver promised levels of performance which meet Council and service user expectations. There also needs to be an understanding that while it is possible to outsource service

provision, the Council will remain exposed to reputational and other risks in the event of a supplier failure.

- **Oversight of joint commissioning boards**  
Review to ensure that benefits of working together are realised and that risk appetites are sufficiently aligned.
- **Alternative income sources**  
Need to be satisfied that as we move away from reliance on Government grant toward reliance on other sources of income that the risks of a potentially less secure revenue stream are considered and mitigated as far as possible, and that income is maximised.
- **Managing the Council's greater exposure to commercial risk**  
Hackney has successfully delivered an ambitious capital programme against a background of continuing central Government austerity to ensure the provision of good quality services to our residents and businesses. Further projects are underway and will be required in future that rely on innovative funding solutions such as the mixed use development model successfully employed at Nile Street and Tiger Way. As a result, the Council is forecast to move away from a debt free position, resulting in greater exposure to changes in external market conditions, such as variations in property prices and the cost of borrowing. The Committee should have a key oversight role in ensuring that the exposure to financial and other risks for these projects is within the Council's risk appetite, and that the financial and social benefits which are anticipated are eventually realised.

The role of the Audit Committee as 'critical friend' throughout 2018/19 and beyond will therefore become even more important. Firstly, the Committee will need to continue to provide oversight of Council activity in key areas. Secondly, the innovative financial solutions that are developed to allow delivery of a capital programme that will meet Member and resident expectations will need to be challenged to ensure that risks are acceptable and managed. Thirdly, work should continue to develop the monitoring of the delivery of the capital programme and the financing of that programme to supplement the audit corporate performance dashboard. And finally, the Committee should provide oversight of the non-financial indicators associated with major projects, to ensure that the additional risk and challenges which are taken on actually result in the benefits to Hackney that are expected at the outset.

It is recognised that it will not be feasible to cover some of the additional work set out above within the current arrangements for the Audit Committee and therefore proposals for additional meetings, some "private", and additional participants in some of these as considered relevant, should be considered.