

Audit Committee Progress Report – April 2019

London Borough of Hackney

Year ending 31 March 2019





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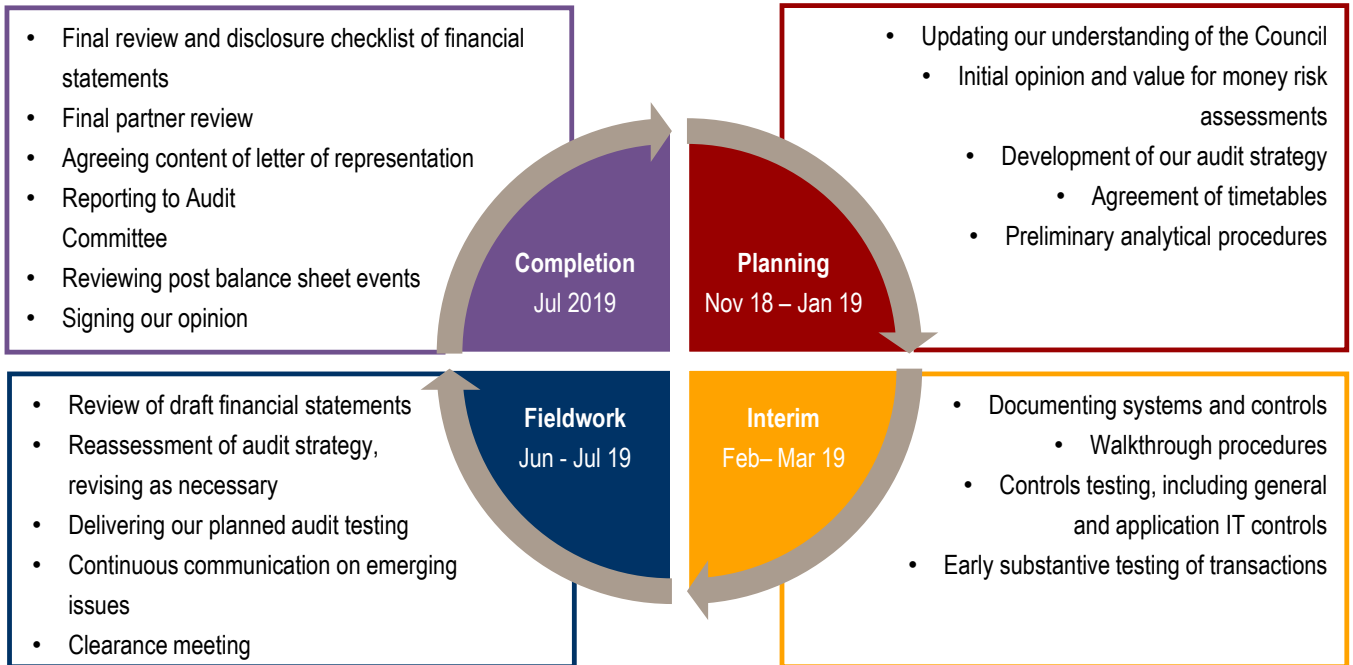
1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor for London Borough of Hackney. We have also included at Section 2 our briefing for the Committee on recent publications which are relevant to your responsibilities.

Audit progress

Our key audit stages are summarised in the diagram shown below, together with the key tasks.



Interim Audit

Following our issue of the Audit Strategy Memorandum, and its presentation at the January 2019 Audit Committee, we have subsequently completed the majority of our interim audit work, where we have documented and reviewed the Council's systems and controls which are most relevant to our audit, namely:

| Income Systems | Expenditure Systems | Other Systems |
|-------------------------------|-------------------------------|---------------------------------|
| Non-domestic Rates | Accounts payable (Creditors) | Payroll |
| Council Tax | Housing Benefits | LMS |
| Accounts receivable (Debtors) | Adult Social Care | Treasury |
| Cash | Property, Plant and Equipment | General Ledger (incl. Journals) |

We are currently finalising our work to consider and review the Council's general IT controls supporting the operation of systems that are material to the audit.

1. AUDIT PROGRESS (CONT.)

Update to risks and areas of judgement

The consideration of risks is a process that continues throughout the audit, and we are currently updating our assessment of issues in relation to both our audit opinion and value for money conclusions. We note the following points to the committee:

- We have noted a further area of estimation within the financial statements, specifically in respect of the amount of additional NNDR income arising from the operation of the London wide pooling arrangement, which necessitates the reliance on estimation processes, as performed by both London Borough of Hackney and the lead authority on the pooling arrangement (City of London), which we will consider during the audit.
- The process for obtaining audit assurance over the NNDR income arising from the operation of the London wide pooling arrangement is being managed through a single auditor, and as such our work will now include reliance on the work and judgement of other auditors.
- We have engaged with the Council on the valuations of various council properties that have been completed to date, discussing issues arising from some of the specific valuations and their potential impact on other valuations included within the financial statements.
- In response to queries from the Council we have discussed, and provided appropriate external audit commentary on, the various complex property transactions with which the council is currently involved. We continue to engage on how the content of these transactions, and the associated year end positions, will be disclosed within the financial statements.

We will continue to review the above issues and previously identified risks. At this stage we do not consider that the above points give rise to any additional significant risks that we are required to report to you. Should our assessment be revised as a result of additional information, we will update the committee accordingly.

Financial Reporting Workshops

We held a workshop during February 2019 to provide clients with an update on the latest technical developments as well as a forum for our clients to discuss emerging issues. Agenda items included a revisit of 2017/18 issues including early close implications, changes in the 2018/19 Code and a forward look to future regulatory and policy changes.

Other Issues

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018. The current scale fee set by PSAA is £148,240.

We are continuing to discuss with the Council the potential completion of audit work on a number of grant claims and returns to Government, this work being outside of our appointment by PSAA. Before agreeing to undertake the work we will consider whether there are any actual, potential or perceived threats to our independence.

We are satisfied that we continue to comply with the Financial Reporting Council's Ethical Standard and there are no matters or relationships which we believe may have a bearing on our independence or the objectivity of the audit team. We will further confirm this, or report any relevant matters in our Audit Completion Report.

Technical Update

Section 2 includes, for the Committee's information, summaries of recent technical and other sector publications (from Mazars, CIPFA and the NAO) which we believe are relevant to your responsibilities. The reports covered in this section, and the key messages, are summarised overleaf.

2. TECHNICAL UPDATE

| | Publication/Update | Key points |
|--|--|--|
| Mazars | | |
| 1 | Horizon scanning – Challenges and opportunities in 2019 | In November 2018 Mazars issued its annual Horizon Scanning document, which identifies the key topics which Councils' Internal Audit teams should be considering in preparing their Audit Plans. |
| 2 | Summary of NHS long-term plan | The NHS Long Term Plan was published on 7 January 2019. |
| Chartered Institute of Public Finance and Accountancy | | |
| 3 | Managing risk in the Local Government Pension Scheme | CIPFA has worked with Aon to revise and update its 'Managing Risk in the Local Government Pension Scheme' publication. |
| 4 | Social care risk tool | CIPFA and the Association of Directors of Adult Social Services (ADASS) have released the 2018 edition of the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility. |
| 5 | CIPFA guidance on streamlining accounts | CIPFA has released its publication on Streamlining local authorities' accounts. The publication covers a range of issues relating to streamlining both the financial statements and the accounts closure processes and includes information provided by local authorities who are already driving change in this area. |
| 6 | CIPFA Bulletin on closure of the financial statements | CIPFA has issued its bulletin in respect of the closure of the 2018/19 financial statements. The Bulletins are to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, and are intended to be best practice, but are not prescriptive. |
| National Audit Office | | |
| 7 | Local auditor reporting in England 2018 | The NAO reports that the number of NHS and local government bodies with weaknesses in their arrangements for delivering value for money is increasing. |
| 8 | Local Authority governance | In order to mitigate the growing risks to value for money in the sector MHCLG needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network. |
| 9 | Departmental overview: Commercial and contracting 2017-18 | Using ten case studies from NAO's work over the last 18 months, this overview identifies the main things that government departments need to look out for as they develop commercial relationships with their suppliers. |
| 10 | Financial sustainability of local authorities 2018 visualisation | The NAO has made available its on-line 'interactive visualisations' which describe changes in local authorities' financial circumstances since 2010-11. |
| 11 | Planning for new homes | This report is part of a series on housing in England, including Housing in England: overview (2017) and Homelessness (2017). The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average. |

TECHNICAL UPDATE (CONT.)

1. Horizon Scanning – Challenges and Opportunities in 2019 (November 2018)

In November 2018 Mazars issued its annual Horizon Scanning document, which identifies the key topics which Councils' Internal Audit teams should be considering in preparing their Audit Plans. The document acknowledges that austerity continues to provide the framework for the many challenges that Councils face, and the increase in the number of authorities highlighted at risk of financial failure. The report highlights the £16b reduction of government funding to councils this decade and a warning of a £8b funding blackhole by 2025. Most of the key challenges highlighted in the document relate to budgets being squeezed and an increasing demand for services. The report summarises the difficulties faced from financial and services pressures and other technological and demographic changes as a 'perfect storm'. The pressures are summarised as:

Austerity and the accompanying budget cuts:

A 49.1% real-terms reduction in central government funding from 2010/11 to 2017/18, slower than forecast increases in council tax and delays in the plans for local government to retain 100% of business rates, have severely reduced local authority income.

Changing and increasing demand pressures:

With an increasing and aging population, increased and more complex child referrals, an increase in homelessness and a growing demand for services for children with special education needs or disabilities, there have been increasing cost pressures on local authorities.

Demographic and technological changes:

Millennials now make up much of the workforce and have different values and work expectations to preceding generations, while technological changes continue at pace and bring different challenges to the workplace. The council of the future is a digital council that is more connected and integrated.

Other cost pressures:

The removal of the freeze on public sector pay increases, increased employer national insurance contributions, the national living wage and the apprenticeship levy have all put additional cost pressures on local authorities.

The report acknowledges the pressures on Internal Audit resources, the need in some cases for changes to the approaches for gaining sufficient assurances and the importance of organisations having assurance over the strength of key corporate and governance arrangements (for example ethics, governance, project management, change control and financial management).

The report identifies the current and emerging challenges under the following topic headings:

| | |
|---|-----------------------------------|
| Financial resilience | Brexit |
| Adults and Children' social care funding gaps | Scrutiny |
| Pupil and SEN funding | Information Governance |
| Workforce | Single Client Record/Big Data |
| Apprenticeships | Digital Transformation |
| Off-payroll Engagement (IR35) | Cyber Security |
| Alternative Delivery Models | Deprivation of Liberty Safeguards |
| Supplier Resilience and Risk | Affordable New Homes |
| Care Homes | Crime |
| VAT – making tax digital | Fraud Issues/Business as Usual |
| Premises Health and Safety | Looking over the Horizon |

The report is not widely published outside of Mazars' Internal Audit clients but can be shared with the Council's Internal Audit team and be provided separately to the Audit Committee members if requested.

TECHNICAL UPDATE (CONT.)

2. Summary of NHS long-term plan (January 2019)

The NHS Long Term Plan was published on 7 January 2019. It sets out the priorities for the new funding settlement announced in June 2018 – a real terms increase of £20.5bn by 2023/24 representing an average increase of revenue funding of 3.4% per annum, compared to an average of 2.2% in recent years.

Views on the deliverability of the plan will vary, particularly as some aspects of implementation will depend on spending review decisions later this year and the direction of travel for social care. The plan recognises existing financial pressures and workforce challenges and takes some steps to manage these risks whilst accepting that further nationally-led work is necessary to alleviate these constraints.

The briefing can be found at the following link:

<https://www.mazars.co.uk/Home/Industries/Public-Services/Health/NHS-Long-Term-Plan-summary>

3. Managing Risk in the Local Government Pension Scheme (December 2018)

CIPFA has worked with Aon to revise and update its 'Managing Risk in the Local Government Pension Scheme' publication. The guidance explores how risk manifests itself across the broad spectrum of activities that constitute LGPS financial management and administration. The publication then explains how, by using established risk management techniques, these risks can be identified, analysed and managed effectively.

A briefing on the updated publication can be found at the following link:

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-says-lgps-funds-need-to-take-the-right-view-of-risk>

4. Social care risk tool (February 2019)

CIPFA and the Association of Directors of Adult Social Services (ADASS) have released the 2018 edition of the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility.

The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer.

The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances.

The risk tool is available on CIPFA's website:

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

TECHNICAL UPDATE (CONT.)

5. CIPFA guidance on streamlining accounts (December 2018)

CIPFA has released its publication on Streamlining local authorities' accounts. The publication covers a range of issues relating to streamlining both the financial statements and the accounts closure processes and includes information provided by local authorities who are already driving change in this area. These local authorities report that clearer and shorter financial statements that are code compliant, can be prepared to a high standard, with a reduction in the time and resources required to complete them.

The publication Streamlining the Accounts: Guidance for Local Authorities is split into 2 parts as follows:

Streamlining financial statements

This involves streamlining the presentation of financial statements by ensuring that local authorities have identified the needs of the users of the financial statements and that financial statements convey key messages clearly, concisely and efficiently. In this part of the publication, CIPFA considers three aspects of streamlining the presentation of local authority financial statements and these include:

- *materiality* - using materiality to avoid key messages in the financial statements being obscured by excessive detail;
- *accounting policies* - reviewing accounting policies so that only relevant information is disclosed; and
- *presentation and layout* – considering the presentation of the financial statements so that the layout is such that it allows readers to navigate through the statement and focus on key messages.

Streamlining year-end closure

In the publication, CIPFA summarises the key elements to streamlining the accounts closure process as effective planning and project management – focusing on what is important and starting the process early to promote a “right first time” culture.

CIPFA has also included several examples of good practice in the publication, but also notes that these examples should be tailored to each individual authority's circumstances.

The publication is available on CIPFA's website:

https://www.cipfa.org/~media/files/policy%20and%20guidance/panels/local%20authority%20accounting%20panel/streamlining_guidance_pre_publication_version.pdf?la=en

6. CIPFA Bulletin on closure of the financial statements (March 2019)

CIPFA has issued its bulletin in respect of the closure of the 2018/19 financial statements. The Bulletins are to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, and are intended to be best practice, but are not prescriptive.

The Bulletin provides additional guidance on a number of areas on which there have been developments since the initial code was published:

- Financial instruments, and the implementation of IFRS9 – where a new interpretation by CIPFA/LASAAC resulted in some edits to the structure of the Code's provisions and therefore cross references to the Code in the issued early guidance required updating.
- Revenue from contracts (IFRS15) – with amendments implemented in the Code to more clearly illustrate the revenue recognition treatment for different revenue streams.
- Transactions between segments – which are now explicitly prohibited from being presented in the Comprehensive Income and Expenditure Statement, and should be eliminated in the Expenditure and Funding Analysis.
- EU withdrawal – which is dependent on events, but recognises that reference within the annual accounts may require consideration, based on an authority's assessment of their organisation's own specific circumstances and the needs of the readers of the annual accounts. It notes some potential areas for consideration.
- Guaranteed Minimum Pension – which relate to situations where a pension scheme was 'contracted out' and the pensions benefits are less than the pensioner would have received if the contracting out had not applied. The pension scheme would be required to increase the pension paid to reach the GMP. It is unclear whether estimates of the impact are available for all public sector pension schemes

TECHNICAL UPDATE (CONT.)

7. Local auditor reporting in England 2018 (January 2019)

Each year, local auditors give an opinion on whether local public bodies produce financial statements that comply with reporting requirements and are free from material errors and conclude whether local public bodies have arrangements to manage properly their business and finances (the conclusion on arrangements to secure value for money).

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. This report:

- provides an overview of the work of local auditors
- describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework; and
- summarises the main findings reported by local auditors in 2017-18.
- considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015; and
- highlights differences between the local government and NHS sectors.

The NAO found that the number of NHS and local government bodies with weaknesses in their arrangements for delivering value for money is increasing. Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. Only three of the bodies (5%) NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses auditors reported. This suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

The number of qualified conclusions on local arrangements to secure value for money is high and increasing. The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is high. This is regarded as a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

NAO state that local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Government departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is regarded as serious, with trend lines pointing downwards.

The full report can be found at the following link:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

TECHNICAL UPDATE (CONT.)

8. Local Authority governance (January 2019)

NAO's report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable. The report addresses this question in three separate parts:

- Part One examines the pressures on the local governance system;
- Part Two explores the extent to which local governance arrangements function as intended; and
- Part Three assesses whether the Department is fulfilling its responsibilities as steward of the system.

The report finds that Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (MHCLG) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network.

The full report can be found at the following link:

<https://www.nao.org.uk/report/local-authority-governance-2/>

9. Departmental overview: Commercial and contracting 2017-18

Using ten case studies from NAO's work over the last 18 months, this overview identifies the main things that government departments need to look out for as they develop commercial relationships with their suppliers. Overall the NAO found that:

- Many problems arise before procurement begins. Good contracting requires getting the basics right at the start by:
 - Understanding what you are trying to contract out and the risks attached
 - Understanding, by both sides carrying out due diligence, who is best placed to take on those risks
 - Ensuring that the contract correctly allocates risks and responsibilities to those best able to manage them.
- There is a need for better performance measures and use of intelligence in managing contracts:
- Commercial capability is improving but contract management remains weak
- Performance measures need to be established at the start and assess quality as well as cost to ensure that the contract delivers value for money.
- Government departments need good intelligence on their suppliers to help them manage contracts effectively
- Government has had mixed results in managing markets, and to ensure that risks are managed and value for money is delivered it needs to develop a more interventionist approach to the markets it has created.

The full report can be found at the following link:

<https://www.nao.org.uk/report/departmental-overview-commercial-and-contracting-2017-18/>

10. Financial sustainability of local authorities 2018 visualisation

The NAO has made available its on-line 'interactive visualisations' which describe changes in local authorities' financial circumstances from 2010-11 to 2016-17. They can be used to explore broad trends identified in their report Financial sustainability of local authorities 2018 in order to gain a more detailed understanding of the experiences of individual local authorities. The data shows changes in income and spending alongside analysis of factors such as budget overspends and use of reserves.

The data and the original March 2018 report can be found at the following links:

<https://www.nao.org.uk/highlights/financial-sustainability-of-local-authorities-2018-visualisation/>

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

TECHNICAL UPDATE (CONT.)

11. Planning for new homes (February 2019)

The NAO has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively. Auditors may find the report useful when considering their VFM arrangements risk assessment.

The data and the original March 2018 report can be found at the following links:

<https://www.nao.org.uk/report/planning-for-new-homes/>

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