

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

ANNUAL REPORT OF THE AUDIT COMMITTEE Audit Committee 10 April 2019	Classification Public	Enclosures Appendix 1 AGENDA ITEM No
	Ward(s) affected 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 2018/19 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 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 2018/19.

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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Appendix 1 Annual Report of the Audit Committee 2018/19

ANNUAL REPORT OF THE AUDIT COMMITTEE 2018/19**1. CHAIR'S INTRODUCTION**

- 1.1 The Audit Committee has had a successful year, ensuring the Council's services are achieving value for money and are mitigating the risks these service face. Over the last few years that job has become ever more important. The Council and its services face remorseless budget reductions and ever-increasing political pressure. Threats to service delivery in many areas remain at a high level while three key changes in the local government environment are widening the range of risk. As a result, this year we have taken a number of steps to develop our approach to assessing risk and securing value for money.
- 1.2 First, cuts in central government grant have led local government to become increasingly self-funding. That means less government oversight, but it also means Councils themselves have to take more responsibility for compliance and performance and for ensuring we have robust plans in place to secure value for money. Over the last year the Audit Committee has therefore reinforced the depth and range of its reports on performance and corporate risks. A key innovation has been its 'deep-dive' reviews of areas of high risk. For example, working alongside the responsible Cabinet Member, it has formed a sub-group to examine the financial and resource planning behind the SEND budget. This will report shortly and will be followed by further deep-dive reviews this year.
- 1.3 Second, there has been a significant increase in capital borrowing as a source of local government funding as Councils seek to cover Government grant cuts with investment income. The result has been a greater exposure to commercial property and financial risk and to internal project management risk. Hackney's approach has minimised these risks by confining its investment to capital regeneration schemes within the Borough itself and by building up its management expertise. The Audit Committee has reinforced this prudential strategy by increasing its focus on monitoring management of the Council's capital programme and on the Treasury Management of the Council's funds and borrowing.
- 1.4 The third change has been the increase in joint working across Council departments and in partnerships with other public bodies. In Hackney there are now a range of inter-departmental boards as well as the Joint Commissioning board with the NHS. While welcome, this trend is a challenge to traditional approaches to ensuring clear lines of accountability. The Audit Committee has therefore developed its oversight range with review of the key interdepartmental boards and of the Borough's part in joint commissioning work.
- 1.5 This changing environment has also led to important national and London-wide initiatives to reinforce the local audit function and Hackney has played a full part in these. In December the City of London, responding to calls, including from Hackney, for better support for local government audit convened a meeting of London Audit Chairs to coordinate action. Last month the House of Commons Public Accounts Committee launched an inquiry into local audit in wake of the Northamptonshire Council and East Sussex NHS failures. Recognising the work that we've done in this area, Hackney was asked to give evidence about the strengths and weaknesses of the current system. Reforms to strengthen the external audit system are expected.

- 1.6 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. Overall 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.
- 1.7 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 in detail twice, in addition to quarterly updates in the performance report. I am delighted to see that risk management is embedded as a normal management function helping services achieve their objectives. For their part, new Committee members had a training session on their role in the risk management process, with specific reference to obtaining assurance and risk appetite.
- 1.8 Finally, I want to thank my fellow Council members for their enthusiastic support, including, I am delighted to say, an opposition representative. Thanks too to the very supportive team of officers especially in the Finance Directorate. I’ve also been impressed by the seriousness with which departments have taken the risk assessments and our comments and questions.

2. COMMITTEE MEMBERSHIP & ATTENDANCE

- 2.1 The composition of the committee changed following the local elections in May 2018, following which we were pleased to welcome four new Members. The following Councillors were members of the Audit Committee during the 2017/18 municipal year:

Cllr Nick Sharman (Chair)	Cllr Sem Moema
Cllr Brian Bell (Vice Chair)	Cllr Ajay Chauhan
Cllr Rob Chapman	Cllr Harvey Odze
Cllr Michelle Gregory	Cllr Patrick Spence
Cllr Carole Williams	Cllr Yvonne Maxwell

- 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				
	18/04/19	21/06/19	25/07/19	15/10/19	28/01/19
Cllr Nick Sharman	P	P	P	P	P
Cllr Brian Bell	P	A	P	P	P
Cllr Michelle Gregory	P	P	A	P	P
Cllr Robert Chapman	A	n/a	n/a	n/a	n//a
Cllr Sem Moema	A	n/a	n/a	n/a	n/a
Cllr Carole Williams	P	n/a	n/a	n/a	n/a

Cllr Ajay Chauhan	n/a	A	P	P	A
Cllr Patrick Spence	n/a	P	A	P	P
Cllr Yvonne Maxwell	n/a	P	P	A	P
Cllr Harvey Odze	n/a	n/a	n/a	P	P

Key: P = Present A = Absent L = Late

3. WORK UNDERTAKEN IN THE 2018/19 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 was 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, this will continue to apply to the 18/19 iteration. 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 2018/19 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 2018/19 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. I am pleased to say that management take the implementation of recommendations arising from audit work seriously with the result that we only rarely need to pursue managers for non-compliance.
 - 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.

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 2017/18 detailing arrangements for the management of risk in place during 2018/19.
- 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.
- Reviewing a summary of the corporate risk register on a quarterly basis as part of the Performance Management report that was introduced in 2017/18.

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 2019/20.
- Review of quarterly and half-yearly updates on treasury management detailing performance.

3.6 External Audit

3.6.1 The Council's new external auditor, Mazars, attended 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 the previous external auditor, KPMG: -

- Annual Audit and Inspection Letter 2018 – 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 2017/18 – 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 2018 the following savings were made as a direct result of the work of the anti-fraud teams:

Outcome	Outcomes 2017/18 to date	Savings Realised
Council service or discount cancelled	47	(1) £948,425
Blue Badges recovered	31	(2) £3,100
Other fraudulent parking permits recovered	6	n/a
Parking misuse warnings issued	9	n/a
Penalty Charge Notice (PCN) issued	22	(3) £1,430
Vehicle removed for parking fraud	2	(4) £400
Recovery of tenancy	41	(5) £885,998
Housing application cancelled or downgraded	38	(6) £152,000 - £684,000
Right to Buy application withdrawn or cancelled	8	(7) £864,000
National Fraud Initiative	80+	(8) £69,460
Total	284	Between £2,924,813 and £3,456,813

1. Overstaying Families Intervention Team (OFIT) savings – 47 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, plus value of additional financial sanctions
6. Calculated using Audit Commission estimated values of either £4,000 or 18,000
7. Calculation based on discount of £108,000
8. Savings in various area arising from NFI data matching, including minimum 80 SPD removals

- 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 2017/18 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. The External Auditors reassured us that our plans to cope with the expected level of resource reduction are soundly based.

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 treasury management, risk management and an introduction to the Committees' role for new members. 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. To maintain our capacity to review past compliance and correct any issues, the Council's final accounts will again be turned around by July, just four months after year end
- 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.
- 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 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.

- 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 2018/19 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).

