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| REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES | | |
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| ANNUAL REPORT OF THE AUDIT COMMITTEE | Classification | Enclosures |
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Public

Appendix 1

Audit Committee 22 April 2020

Ward(s) affected

**AGENDA
ITEM No**

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 2019/20 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 2019/20.

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 throughout the year through a programme of development sessions and deep dive reviews on issues including:
- 1) Regeneration
 - 2) Human Resources monitoring
 - 3) Special Educational Needs
 - 4) Insourcing

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 2019/20

Appendix 1 - ANNUAL REPORT OF THE AUDIT COMMITTEE 2019/20

1. CHAIR'S INTRODUCTION

- 1.1 The Audit Committee has had another active and successful year. We have continued our essential job of monitoring the Council's overall performance and its capacity to deliver value for money services. The relentless pressure on local government as demand for services has gone up and Government support has gone down, has meant Council services continue to be under great strain. This made it vital that the Committee develop its initiatives to deepen our monitoring of the Council's performance and its capacity to deal with the growing risks facing key services.
- 1.2 A central initiative has been our 'deep dive' reviews of high-risk services. These have involved the Committee meeting as a working group to take evidence from officers about issues where there are significant political and financial impacts. Over the year we conducted three of these deep dive reviews. In September we completed our investigation of the financial and resource planning behind the SEND budget. Our report concluded that the Council had robust and credible plans in place to manage the pressure of increasing (and legally required) service provision in the face of wholly inadequate government funding.
- 1.3 The two other deep dive reviews this year have investigated the Council's capacity to define and deliver its policy commitments in the use of contract workers, and its promise to insource the provision of its services wherever feasible. In the case of contract workers, we were satisfied that the processes are in place to ensure they are employed only where there is a clear case for doing so and where employment terms and conditions are protected. The review of insourced services has looked at the criteria the Council use to justify employment of external contractors where these are necessary and at how both insourced and external contracts are both strategically and performance managed.
- 1.4 In a second key initiative, we reinforced the depth and range of our reports on service performance and the Council's corporate risks. For example, with capital spending now playing a much bigger role in the Council's budget, we have significantly tightened our monitoring of capital schemes. One result of this closer monitoring is to highlight the need to improve our departmental systems for planning and scheduling capital works. We will therefore be launching a deep-dive investigation of the way departments manage their pipeline of capital schemes later in the year.
- 1.5 Thirdly, we have established a reporting system for the Council's joint Boards which deliver complex projects and cut across the reporting and accountability of individual Council departments. We were impressed with the approach taken in the comprehensive risk and performance report of the complex Britannia development project in Shoreditch. It is reassuring to note that this model is also followed on other similarly complex projects.
- 1.6 Over the past two years, widespread national concerns over shortcomings in the external auditing of both commercial (Carillion) and public sector (Northamptonshire Council) bodies has meant the audit function has been subject to an extensive (and unusual) level of political debate. There has been added concern in the local government sector this year with the failure of many private external auditors to meet the terms of the new audit contracts. This has highlighted the gap left by the abolition of the public sector District Audit function and more recently, the Audit Commission itself. Reforms to strengthen the external audit system are expected later in the year but it is likely that more rigorous processes will add to the audit costs.

- 1.7 Fortunately, in Hackney our officers were this year able to work well alongside our external auditors, Mazars, and our annual accounts were completed on time. This was the third year in succession we have achieved this, a tribute to our excellent staff. It is important we retain the commitment to rapid reporting of annual results if the accounts are to act as a useful form of political and public oversight of the Council. We therefore do not believe the Government should relax this important target in its proposed reforms, as some of the private auditors are suggesting.
- 1.8 In our core oversight role, the Committee has worked hard during the year to ensure we have strong, well-embedded internal control and governance arrangements in place. These are critical for the Council's service improvement programme and for public credibility. We reviewed each directorate's risk register in detail (twice in the case of the corporate risk register) in the course of the year. We also evaluated the Council's key performance each quarter, by reviewing in detail the key indicators from each of the Council's core services and following up issues with local managers where necessary. We can report that risk management appears to be generally well embedded as a normal management function that helps services achieve their objectives. There is however still a need for services to achieve a better standard of consistency in their reporting of risk.
- 1.9 Finally, I'd like once again to thank all my fellow Council members for their enthusiastic support, in both the main meetings and our deep dive investigations. As always, we owe much of the Committee's success to the keen and supportive team of officers especially in the different parts of the Finance Directorate.

2. COMMITTEE MEMBERSHIP & ATTENDANCE

- 2.1 The composition of the committee has been largely stable during the year. There was one change in personnel when we welcomed Cllr Clare Potter to replace Cllr Ajay Chauhan. The following Councillors were members of the Audit Committee during the 2019/20 municipal year:

| | |
|------------------------------|---------------------|
| Cllr Nick Sharman (Chair) | Cllr Yvonne Maxwell |
| Cllr Michelle Gregory | Cllr Harvey Odze |
| Cllr Brian Bell (Vice Chair) | Cllr Clare Potter |
| Cllr Patrick Spence | Cllr Ajay Chauhan |

- 2.2 The table below outlines members' attendance at committee meetings during the 2019/20 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 | | | | |
|-----------------------|---------------|----------|----------|----------|----------|
| | 10/04/19 | 19/06/19 | 24/07/19 | 10/10/19 | 15/01/20 |
| Cllr Nick Sharman | P | P | P | P | P |
| Cllr Michelle Gregory | P | P | P | P | A |
| Cllr Brian Bell | P | A | P | A | A |
| Cllr Ajay Chauhan | P | n/a | n/a | n/a | n/a |
| Cllr Patrick Spence | A | P | P | A | P |
| Cllr Yvonne Maxwell | ? | P | P | P | P |

| | | | | | |
|-------------------|-----|---|---|---|---|
| Cllr Harvey Odze | A | P | P | A | P |
| Cllr Clare Potter | n/a | P | P | P | P |

Key: P = Present A = Absent L = Late

3. WORK UNDERTAKEN IN THE 2019/20 MUNICIPAL YEAR

3.1 The Audit Committee operates in accordance with the CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police*, 2018 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 2018/19 continued to reflect the current 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 AGSs and verify that any actions identified in the previous year AGS have been actioned. The 2018/19 corporate AGS was included in the final accounts and reviewed by the Committee with future actions for improvement noted. This process will continue for 2019/20.

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 2019/20 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 meet its' key performance measures again this 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 2018/19 detailing arrangements for the management of risk in place during 2019/20.
- 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 Neighbourhoods and Housing, Children Adults and Community Health and Chief Executives, as well as fully reviewing the corporate risk register on two occasions. The Finance and Resources risk register will be reviewed in April 2020. 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 2020/21.
- Review of quarterly and half-yearly updates on treasury management detailing performance.

3.6 External Audit

3.6.1 The Council's 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 External Audit: -

- Annual Audit and Inspection Letter 2019 – Mazars issued an unqualified opinion on the Council's accounts; subsequently, an unqualified opinion on the pension fund was also received.

- The report also concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its 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 2019 the following savings were made as a direct result of the work of the anti-fraud teams:

| Outcome | Outcomes 2019/20 to date | Savings Realised |
|---|--------------------------|---------------------------|
| Council service or discount cancelled | 71 | (1) £1,288,295 |
| Blue Badges recovered | 17 | (2) £1,700 |
| Other fraudulent parking permits recovered | | n/a |
| Parking misuse warnings issued | 16 | n/a |
| Penalty Charge Notice (PCN) issued | 36 | (3) £2,340 |
| Vehicle removed for parking fraud | 6 | (4) £1,200 |
| Recovery of tenancy | 64 | (5) £1,152,000 |
| Housing application cancelled or downgraded | 35 | (6) £140,000 - £630,000 |
| Right to Buy application withdrawn or cancelled | 12 | (7) £1,326,000 |
| National Fraud Initiative | Multiple | (8) £29,448 |
| Total | 257 | Minimum £3,940,983 |

1. No Recourse to Public Funds Team (NRPF) savings – 71 support packages cancelled, average saving £348 per week and assuming saving of one year support

2. Calculated using Audit Commission figure of £100 per badge recovered

3. 36 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 £110,500

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 2018/19 Statement of Accounts prior to the completion of the audit by Mazars. The Committee also considered Mazars 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 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.

3.11 Audit Committee Deep Dive Reviews

The Chair has initiated and led a series of 'deep dives' into areas of activity that are particularly topical or which have been considered by the Committee previously and it was felt that a more forensic understanding of the issue was needed. In doing so, more detailed assurance has been provided over areas of greater concern. Areas reviewed in 2019/20 were SEND Funding, Agency Staff and Insourcing of Services. These reviews are a new initiative and have been carried out as an additional activity to the scheduled Committee meetings.

4. PROPOSED WORK PROGRAMME FOR 2020/21

- 4.1 The Committee will review and, if appropriate, approve the External Auditor's Annual Governance statement covering the Council's main and the Pension Fund accounts and value for money judgements.
- 4.2 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 published in draft and ready for audit by the end of May and subsequently audited by the end of July, just four months after year end.
- 4.3 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.
- 4.4 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.
- 4.5 The Committee will continue to focus attention on the high risk areas which are identified from the risk management framework.
- 4.6 The Committee will receive and approve the Internal Audit annual plan to ensure that Audit work provides an appropriate coverage during the year.

- 4.7 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.
- 4.8 The Council's whistleblowing arrangements and performance will be reviewed annually and as part of the quarterly reporting process.
- 4.9 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.
- 4.10 The programme of deep dive reviews will continue, to focus on areas of specific concern.

5. SUMMARY OF ACHIEVEMENTS OF AUDIT COMMITTEE

- 5.1 The Audit Committee has contributed to the Council's overall internal control process in 2019/20 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).