

AUDIT COMMITTEE

MONDAY, 14TH SEPTEMBER, 2020

Meeting held remotely

Present:

Councillors:

**Cllr Nick Sharman in the Chair,
Cllr Brian Bell, Cllr Patrick Spence and
Cllr Harvey Odze, Cllr Anna Lynch, Cllr Clare
Potter**

**Officers: Ian Williams, Michael Honeysett, Rob
Miller, Dawn Carter McDonald, James Newman**

Lucy Nutley, Mazars

1 Apologies for absence

1.1 Apologies for absence were submitted on behalf of Councillor Gregory.

2 Declarations of interest

2.1 There were no declarations of interest.

3 Minutes of the Previous Meeting

RESOLVED:

To agree the minutes of the previous meeting as a correct record.

4 Financial Statements Audit 2019/20 - Annual Governance Report (Council and Pension Fund) (Appendix to Follow)

4.1 Lucy Nutley thanked the Council's finance staff for their work during the audit that was carried out remotely with a number of technical issues arising. She referred the Committee first to the Local Authority Fund, with a lengthy list of outstanding items. The deadline had been extended to the 30th November. The key message was that the proposed opinion on the accounts was unqualified but included an emphasis of matter in that it was not a modification of opinion and centred on land and buildings. Value for money was also proposed to be unqualified. On Government accounts instruction had not yet been issued by the NAO but when they were the work

would be carried out relatively quickly. There had been no objections to the 2019 accounts.

The significant risks were:

- The presumed risk of management over ride of controls. No issues had been identified to date
- Fraud and error in revenue recognition. No issues had been identified to date
- Land and building valuations – emphasis of matter / incorrect index rate used for a number of depreciated replacement costs valuation
- Defined benefit liability valuation – assurance awaited
- Management judgement NNDR appeals provision

4.2 Lucy Nutley referred to the internal control recommendations raised including the index rates used for valuations that needed a big adjustment. There was also a recommendation on the use of suspense accounts. In relation to value for money work there was now a new code of audit practice.

4.3 Lucy Nutley told the Committee that Covid-19 only had an impact on the Council's operation, governance and finance in the last two weeks of the 2020 financial year and did not feature heavily in the conclusions.

4.4 Next steps included completing outstanding matters and the updated accounts needed to go through a second stage review. The Audit Completion report would be reissued prior to sign off.

4.5 The Chair referred to the importance of the internal controls strengthening measures in place and value for money at the present time ensuring that the Council was a going concern. He referred to work with Councillor Rennison and Scrutiny to look at ways to adjust and develop the MTFS and that this was reassuring.

4.6 Lucy Nutley reported on the Pensions Fund Audit Completion Report. An unqualified opinion was envisaged and a consistency report would be issued on the Pension Fund which had an end of November deadline. She referred to a number of outstanding items as listed. The risks included:

- The presumed risk of management over ride of controls. No issues had been identified to date
- Difficulty in valuation of level 3 investments due to Covid-19

4.7 The Chair asked if the Pensions Committee consider before sign off. Michel Honeysett told the Committee that the report would be considered by Pensions Committee on 28 September.

4.8 The Committee thanked the Finance Team and Mazars for their work in completing the audit on time.

4.9 The Chair stressed the importance of a strategic overview of the Council's governance processes and the need of Audit Committee oversight of the operation of commercial companies with a suitable reporting framework. Michael Honeysett confirmed that once the company's accounts had been audited a report would be made to the Audit Committee on this. Ian Williams agreed to report back to the Committee on a risk reporting framework for commercial companies with draft accounts on occasion for the newly established companies.

Action: Ian Williams

RESOLVED:

To note the content of the report.

5 Statement of Accounts 2019/20

5.1 Michael Honeysett introduced the report on the accounts for 2019/20 for approval by the Audit Committee prior to the issue of the audit opinion by the external auditor. The main financial statements showed the Council continued to manage its finances in line with the resources available. The final report on the accounts would be circulated to members of the Committee prior to sign off.

5.2 Michael Honeysett highlighted the following matters:

- The regulations required completion of draft accounts by 31 May but because of Covid-19 the deadline was moved back to 1 August 2020 for 2020
- Accounts had been produced by mid-june and published
- The deadline for approval by audit opinion was now 30 November with a certificate soon after
- An unqualified audit opinion was expected
- A balance of £15m maintained on the general fund
- HRA general balance reduced to £11.2m from 15m in the previous year
- Further reserves of just over £5m
- Locally managed schools balance reduced by £1.76m to just over £13m
- Earmarked reserves of £11.6 to the general fund
- Overspend on the general fund in 2019/20 of 9.3m covered by collection funds and grants received

- Implemented the savings necessary for 2019/20 financial year to help balance the accounts
- Net assets of over £3 ½ billion with the biggest element being buildings land and property
- Provisions for known liabilities and details of contingent assets and liabilities
- The collection fund account: Council tax surplus for 2019/20 of £2.7m/A deficit on the business rates collection fund of £692,000

5.2 Michael Honeysett referred to the Council's subsidiary companies in the areas of housing and regeneration and for mixed use development. Two of those companies had been grouped.

5.3 Michael Honeysett referred the Committee to the Annual Governance Statement that required to be approved by the Committee in its own right. Among other matters the Statement updated on the four significant issues that were identified in 2018/2019 and how they were addressed in 2019/20. These significant issues were:

- Covid-19
- Cost pressures in Adult and Children's services
- Issues relating to the Ofsted inspection
- Housing Contract Management

5.4 Councillor Clare Potter asked about the areas not deemed to be at a required standard by the FRC in 2018/19 such as valuations of pension fund assets, capital grants and completeness of expenditure. She said that Mazars had confirmed that this did not have any significant impact and had been addressed in 2019/20. Councillor Potter asked how these matters had been satisfactorily addressed. Lucy Nutley told the Committee that in relation to building, plant and equipment the FRC had set out a schedule detailing where it considered that insufficient work had been carried out. All those comments were included in the audit programme. FRC comments on capital grants and completeness of expenditure were incorporated into work carried out in the current year. In relation to the valuation of Pensions Fund assets it was recognised that the work carried out for the Pensions Fund was not sufficient for the Local Authority. The Chair reiterated concern that the issues that the FRC had identified were taken up in the way described. He stated that he was now reassured in this regard. Ian Williams stated that the Council had assets of £5m but that it could not leverage any debt against this. However, the Auditors must provide evidence and effectively undertake visits to check on the presence of schools. FRC had considered that this had not been carried out satisfactorily.

5.6 Tracy Barnett told the Committee that the work that been carried out by the Audit Committee on deep dives had been added to the Annual Governance statement.

RESOLVED:

1. To approve the Council's 2019/20 Statement of Accounts prior to the audit opinion being issued, subject to the circulation of the final report prior to sign off.
2. To approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.

6 Finance Update

6.1 The Chair stated that there were now concerns around long term government support for local government which had developed over the previous month. The Committee would need to review the corporate risks faced in light of any changes. The Chair had also asked for a report on IT following the recent outage and because it was one of the corporate risks that the Council faced.

6.2 Ian Williams presented on the overall financial position, highlighting the following:

- The Chancellor may move budget to January with the current threat of a second wave of COVID-19
- The spending review would be three years for revenue and four years for capital – Hackney would submit its own submissions by 24 September
- A review of business rates and business rates revaluation
- Third tranche of funding had been received of £3.5m
- Total support received approximately £21m
- Details on the scheme for compensation for loss of income had been recently circulated
- Guidance circulated on collection fund deficits
- Overspend on the General Fund of £64m with £61m relating to COVID-19
- Compensation for loss of income was £9.575m
- Pay award proposals slightly above what was budgeted for
- Pressure on the HRA in the current financial year with proposals to balance the budget for 2021/22
- The position on schools continued to be challenging behind the headline increases. The Council would continue to manage the local schools formula but beyond that there were proposals for the government to manage this centrally

- High needs funding continued to be a challenge. Hackney will benefit from additional £730m in high needs funding in 2021/22
- A number of schools recording significant schools deficits
- Further review to challenge agency spend
- Deep dives into emerging cost pressures including on PPE spend/ Rough sleeping/ council tax/ business rates rent/ capital etc.
- 2021/22 Forecast budget position: range of forecasts in the face of uncertainty
- Structural impact of COVID-19 pressures on MTFP currently under review
- Forecast on revised 2023/24 gap - £51.161m
- In relation to the Pension Fund, funding levels had dropped significantly between late february and late march, from 95% to 75.8 %. The fund was now recovering to levels nearing 90%
- Next steps:
 - Continuing review of the use of agency staff
 - Review of the capital programme
 - Continuing review of the underlying assumptions in Covid-19 related forecasts
 - Challenge of budget and essential spend
 - Budget setting timetable
 - Staff engagement
 - Future of the Finance Scrutiny and Audit Group

6.3 Councillor Rennison reported to the Committee on next steps. She told the Committee that the Council's position was largely stable but that there may be increasingly worrying headlines over the coming weeks. Work would be ongoing with other Local Authorities to call for additional government funding. In relation to compensation for income shortfall, the government was asking for costs to be shared. Councillor Rennison confirmed that one of the greatest risk was any government decision on local government funding. Going forward, everything was evidenced based at Hackney with tightly managed financial forecasts. Making forecasts presently was difficult and the work with the audit and scrutiny chairs group would continue, identifying with the Mayor any areas that would require deep dive work. There would be a need to set a balanced budget and the Government had improved some of the rules for next year. Work was ongoing on figures for the Budget next year.

6.4 The Chair said that by the end of the year the Council will need to have come to a view about a balanced budget and that there were varied forecasts with serious impacts on future savings.

6.5 Councillor Lynch asked if the potential of a further lockdown and its impact had been built in to current financial planning and asked whether options in relation to future action had been considered. She asked if the financial update was submitted to Cabinet regularly. Ian Williams confirmed

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that on forecasts, particularly on income, a range of modelling scenarios had been carried out. Whilst a second lockdown similar to the first was not anticipated a view had been taken on the sustainability and resilience in relation to the fall off in the Council's tax income and the recovery of business rates. As more data came it was becoming possible to firm up the estimates. He confirmed that Cabinet received the reports on the overall financial position each month. Ian Williams confirmed that throughout the process different tools were available should positions materially change, including re-phasing the Capital Programme and there were levers around agency spend and investment into new commitments. These measures had not been necessary, in any significant way. Councillor Rennison stated that the working group was working to the normal budget schedule and would openly share developments with members, working together. The Chair said that he endorsed the openness with which the process had been approached and it was important to understand the risks.

6.6 Ian Williams presented on the corporate risk update:

- A summary of the Corporate risk and RAG score with the addition of COVID-19, economic downturn and Brexit
- Headline corporate risks
- Other high scoring risks included: SEND funding, temporary accommodation and universal credit
- Internal Controls Assurance/ the Council's response
- Governance, Accounts and Risk Management

6.7 Councillor Clare Potter asked for further detail on the risks involved in Brexit and the Council's thinking on this and whether settlement schemes were ongoing. Ian Williams stated a lot of work had been carried out in preparation for Brexit including in relation to staff. At present it was not clear what the government expected Local Authorities to do but that more information was expected over the coming months from central government in relation to preparations. The Management team was keeping abreast of external developments and locally, preparations were updated and refreshed. He confirmed that Registrars were operating and would inform the Committee on whether the settlement schemes were up and running.

Action: Ian Williams

6.8 Ian Williams reported on the Redmond report, proposing that it was dealt with in more detail at the next meeting. The findings related to concerns about the resilience of the external audit market under current arrangements which arose from the imbalance between price and the required quality of the audit, recommending that a new regulatory body be set up to coordinate external audit procurement, contract management, regulation and oversight. It recommended that consideration should be given to including an independent member on the Audit Committee to help

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ensure that the necessary expertise and knowledge to consider reports is available. It recommended that the annual external audit report is submitted to Council by the external auditors and that the financial accounts reporting deadline should be moved to 30 September to allow sufficient time for external audit review. It recommended a new simplified Statement of Service Information and Costs should be prepared. The Chair added that the recommendations would impact on how the Council runs its internal audit function. A more detailed report would be made to the next Audit Committee.

Action: Ian Williams

RESOLVED:

To note the update on the Council's finance

7 Capital Budget Deep Dive - Update

7.1 Ian Williams introduced the report on the intention to carry out a deep dive into Capital budget monitoring.

7.2 Councillor Potter asked for an update on the previous deep dive on insourcing. Ian Williams reported that the Council had taken on Board all the matters raised in the report and a number of options would come forward in the coming months to CPC to potentially insource a number of Council services when necessary work has been carried out and it was considered that it was the appropriate course of action. Councillor Rennison confirmed that these matters were being taken forward. The Chair stressed the need for Audit Committee oversight of these developments. The control over core services had been reinforced by COVID-19 and by how the IT function has worked and has been resilient.

RESOLVED:

To note the update on the progress in respect of the 'deep-dive' to be carried out by the Audit Committee, focusing on the development of the capital budget, its monitoring and the profiling across financial years.

8 Any other business that the Chair considered urgent - Update on the work of ICT for the Covid-19 response and the August IT outage

8.1 Rob Miller reported on the COVID- 19 response, highlighting the following:

- Supporting services, including, support for rapid shift to home working from home and the vulnerability and potential impacts of COVID-19
- Virtual Council meetings

- Supporting Residents, including to access a wide range of council services
- Tools to support vulnerable residents
- Developing partnership working
- Responsive and resilient service
- Working with public health on a local contact and tracing system/ developing virtual meetings/ support to home based workers

8.2 The Chair considered that the response by IT to COVID had been impressive and those in other areas of the Council, commending partnership working. He referred to the value of having strategic capability in-house. Councillor Lynch commended the holistic approach taken by IT to the pandemic and asked that congratulations be passed on to teams.

8.3 Councillor Spence asked for an update on when residents would be seen, face to face at the Service Centre and any planning arrangements in place. Rob Miller reported that face to face contact had recommenced in the Service Centre. Registrars was the first to open. The main atrium had been colour coded and a one way system was in place with temperature checks and face covering provided. Work was ongoing to have the Service Centre as a place to provide a face to face service for other Council services. In response to a question from the Chair, Rob Miller told the Committee that attendance in the Service Centre varied and when he visited recently he had seen 10-20 residents. A lot of people came in when dealing with the backlog of birth registrations. The Committee congratulated staff on good work in this area.

8.4 Councillor Odze said that it was a long route to go to the Google Suite and the migration had been very difficult. He thanked IT for its support.

8.5 Rob Miller reported on the IT outage in August, highlighting the following:

- Unplanned and un-notified work by the network provider caused failure of the Council's new data storage infrastructure
- Internally hosted systems: Major impact
- Most key systems recovered within the first two weeks
- Work was ongoing to ensure that all systems are recovered and performing normally
- Next Steps:

- Complete recovery work
- Complete lessons learning review
- Work with BCP team to support review of business continuity plans
- Develop work plans for implementation of lessons learned

8.6 The Committee thanked staff for good work and stressed the need to have systems in place to protect the Council and also to react appropriately to any IT difficulties and that the lessons were learned. The Committee asked for a report back on these lessons learned in overseeing IT systems.

Action: Rob Miller

RESOLVED:

To note the update on the work of ICT for the Covid-19 response and the august IT outage.

9 Michael Honeysett

9.1 Ian Williams referred the fact that this would be Michael Honeysett's last Audit Committee meeting and thanked him for his support over the past ten years, during challenging times and wished him all the very best in the future. The Committee thanked Michael Honeysett for his work and a distinguished contribution to the Council.

Duration of the meeting: 6:30 – 8:30

Chair at the meeting on
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