

**DRAFT MINUTES OF THE AUDIT COMMITTEE
HELD ON
WEDNESDAY, 9 JUNE 2021**

**THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED
HERE: <https://meet.google.com/mhe-wxar-xux>**

Chair: Councillor Nick Sharman in the Chair

Councillors in Attendance: Councillor Ajay Chauhan, Councillor Sophie Conway, Councillor Margaret Gordon, Councillor Anna Lynch, Councillor Ian Rathbone, Councillor Gilbert Smyth

Councillor Anthony McMahon and Councillor Robert Chapman joined the meeting remotely

Lucy Nutley, Mazars, External Auditors

Apologies: Councillor Michelle Gregory, Councillor Anthony McMahon, Councillor Harvey Odze

**Officers in Attendance: Dawn Carter-McDonald (Director of Legal and Governance Services)
Bruce Devile (Head of Business Intelligence, Elections and Member Services)
Peter Gray (Governance Services Officer)
Jackie Moylan (Director of Financial Management),
Rob Miller (Strategic Director - Customer and Workspace)
David Padfield (Interim Strategic Director - Housing Services)
Michael Sheffield (Head of Audit and Investigations)
Matthew Powell (Corporate Risk Adviser)
Andrew Spragg (Governance Services - Team Leader)
Pradeep Waddon (Head of Treasury and Banking)
Ian Williams (Chief Executive, Acting)**

1. Apologies for Absence

1.1 Apologies for lateness were received on behalf of Councillors Harvey Odze and Michelle Gregory. Councillor Anthony McMahon joined the meeting remotely.

NOTED

2. Declarations of Interest - Members to declare as appropriate

2.1 Councillor Ian Rathbone declared that he was a member of the Council's Pension Scheme.

NOTED

3. Appointment of Chair and Vice Chair

3.1 To note the appointment of the Chair of the Committee, Councillor Nick Sharman and Vice-Chair, Councillor Michelle Gregory, as agreed by Council on 27 April 2021.

NOTED

4. Minutes of the Previous Meeting

3.1 RESOLVED:

- That the minutes of the meeting held on 21 April 2021 be agreed as a true and accurate record of proceedings.

4. Audit Committee - Terms of Reference

4.1 The Chair introduced the report. He told the Committee that the updated terms of reference reflected the role of the Committee. The Committee had responsibility for the overall governance and effectiveness of the Council. There was now a requirement that the Committee's annual report is reported to Council each year. He referred to the requirement to put in place an effective working relationship with the Standards Committee and the Scrutiny Commissions to ensure collaborative working, having had discussed the matter with the relevant Chairs to ensure that the Committee's scrutiny fitted in with overall scrutiny activity.

4.2 Councillor Gilbert Smyth stressed the need to emphasise the climate emergency. The Chair reported that there was a plan in place around the climate emergency with large financial implications. There was a need to ensure that there was a robust financial framework which reconciled all the pressures on the Council. There was now a timetable in place and work would need to be carried out alongside the Scrutiny Commission to ensure robust financing. A report back on this matter would be made to a future meeting.

Action: Ian Williams.

RESOLVED:

- To note that terms of reference of the Audit Committee

5. Update on the Cyber Attack

5.1 The Chair agreed that this matter be considered as urgent business.

5.2 Rob Miller provided an update on the cyber attack, highlighting the following:

- A more holistic update would be available in the coming weeks.
- Much progress has been made since the attack.
- Some areas of Council business had been severely impacted.
- Some systems had been recovered such as the elections system with elections carried out successfully. Areas of Housing Benefits and Council Tax systems had been recovered. Work was ongoing in bringing payments back into the system and reconciled against the data in the system
- Work had commenced on the backlog of cases, prioritising cases where there was risk.
- In relation to land charges, it had been possible to recover significant amounts of data to enable searches to be carried out with a partial service since January 2021.
- There were some areas where it was uncertain how to recover the data because of technical complexities.
- Data was being recovered into the new systems in both Legal and Planning Departments.

5.3 Councillor Robert Chapman told the Committee that it was hoped to have a briefing on the cyber attack for wider membership and confirmed that some of the issues arising from the cyber attack would require much time to resolve.

5.4 Councillor Ian Rathbone asked for clarification on the costs involved and any grants provided. Ian Williams confirmed that the Council had received a government grant of £50000 as assistance. As yet the financial scale of the impact of the attack was not clear. There was ongoing communication with the Government on the challenges faced by the Council following the cyber attack.

5.5 The Committee stressed the need for robust systems to be in place to ensure that there was no recurrence of the cyber attack.

5.6 Councillor Anna Lynch confirmed that from her experience, land charge searches were currently possible with some challenges. She referred to the good service provided by Hackney Service Centre staff. She asked for an assurance that those residents owing money to the Council would not be asked to pay off large amounts all at once. Ian Williams referred the Committee to the Corporate approach to debt and stated that consideration was being given to putting appropriate safeguards in place to avoid this.

6. Finance Presentation Update

6.1 Ian Williams presented the finance update, highlighting the following:

- **2020/21 Forecast General Fund Financial Position:**
- Forecast Overspend of £2.12m (after adjusting for business rates and Council tax deficits) with the Covid gap showing a small surplus.
- Some uncertainties remained, for example, final SFC return due next which will need to be applied to the bottom line position.
- **2020/21 HRA position:**
- Impact of the Pandemic was £8.6m/ £5.2m loss of rental income
£1.4m loss on repairs by Direct Labour Organisation.
- **Update on London Picture: Covid 19 impact 2021:**
- Estimated financial impact of £2.2bn.
- Estimated additional spend at £1.1bn.
- Lost fees and charges income estimated to be £487m.
- Special Educational Needs and Disabilities (SEND) pressures across London now approaching £100m per annum.
- **Annual budget 2021/22- Main factors include:**
- Saving Delivery - both directorate savings (£3.2m) and vacancy factor (£6m) delivery to be monitored through the Overall Financial Position (OFP) process.
- Ongoing impact of Covid-19 on demand and Income levels monitored through the OFP process.
- Demand pressure on social care with action plans to address cost pressures.
- Impact of the cyber attack - costs are being tracked against wide-ranging estimates, with some revenue contingency set aside, plus alignment with ICT/ investment plans brought forward where possible to minimise spend.
- Early indications that the Council is on track to deliver directorate savings agreed for 2021/22 with mitigating actions brought forward where required (£3.2m).
- **Medium term financial plan and 2022/23 budget:**
- Forecast budget gap of £11.2m in 2022/23 and £24m (cumulative) in 2022/24.
- Significant uncertainty regarding future external funding so the plan will require revision.
- Draft timetable has been issued and savings options were to be identified.
- **2019/20 Accounts:**
- Audit opinion on financial statements remains outstanding.

- Mazars were engaging a property specialist to review investment property valuations.
- Value for Money opinion was open, pending work in relation to the cyber attack. External auditors were satisfied that there is no material impact on financial statements to 2019/20.
- **2020/21 Accounts:**
- Extension to 1 August 2021 for draft accounts.
- Progress being made against the revised closing timetable, including finalised capital outturn and revenue accruals

6.2 Councillor Robert Chapman told the Committee that the Council would continue to bear down on costs and stressed the importance of the current vacancy factor. The first monitoring report on the implementation of agreed savings was awaited.

6.3 The Chair stated that the budget gap figures were robust, indicating that the Council's system was providing reasonably accurate projections. The £11m gap was considered to be a good estimate and it was necessary to be clear that the Council had mechanisms that could tackle a substantial budget deficit. The Housing Revenue Account was currently a cause for concern. The Chair stressed the need to invest earlier in housing in the Borough. He referred to the pressure on the SEND budget with the need to meet the needs of these children with limited finances available to do so.

6.4 The Chair stressed, in relation to the completion of the 2019/20 accounts that the figures were required to be validated. He expressed concerns about the delays to the production of the accounts, negatively impacting public accountability. He considered an improved way of producing the accounts was required. Jackie Moylan told the Committee that the £20m relating to valuations was material and work was underway with the Finance Department on the property valuation. Planning on the 2020/21 accounts was impacted by the need to recover data and carry out reconciliation to enable the Council to provide the account to the auditors.

6.5 Councillor Ajay Chauhan asked if a delay in the production of the 2020/21 accounts would impact on the production of the 2021/22 accounts. Ian Williams confirmed that there would be an impact. He told the Committee that public sector audit had been under-resourced and had to adhere to private sector accountability standards. The Chair stated that that basic accountability and knowledge of forward budgeting depended on the production of accounts. He considered that the crisis in public sector audit was a direct result of the abolition of the District Audit Service and the Audit Commission with an impact on public accountability.

6.6 Councillor Ian Rathbone congratulated officers on the production of the budgetary figures and asked for more detail around the Covid-19 surplus. He further asked that reports should not contain acronyms. Councillor Ajay Chauhan asked for an update on the Council's bad debt. Councillor Gordon asked for an update on SEND overspend.

6.7 Ian Williams told the Committee that from the outset of the Pandemic the Council had categorised expenditure as Covid-19 related and non Covid-19 related expenditure with a final aggregated figure also produced. There was an original budget gap of £60m, prior to funding being provided by the Government and work on the Council's income streams. A number of returns had now been completed. These initiatives ensured continued service provision.

6.8 Ian Williams told the Committee that the collection rate of Council Tax was starting to recover. The cyber attack had impacted on the Council's ability to issue bills. In relation to the business rates, £100m had been provided to businesses. He confirmed that the Council continued to monitor the impact of bad debt.

6.9 Ian Williams told the Committee that there continued to be pressure on the SEND outturn figure with a forecasted overspend pressure of £5m. The growth in the overspend figure was being maintained. He referred to the pent up demand that existed as children had not received the required educational support. This would require resourcing and arrangements put in place to ensure that catch-up support was provided.

6.10 Councillor Gilbert Smyth asked if there was scope to borrow from the Housing Revenue Account and the General Fund. Ian Williams told the Committee that regulations required the Council to finance any borrowing. He said that there was provision for taking out additional borrowing. In relation to the Housing Revenue there was currently an ambitious housing provision programme in place together with the need to maintain investment in existing housing stock.

7. Covid-19 Deep Dive Review - Presentation

7.1 Jackie Moylan reported to the Committee on the Covid-19 Deep Dive, highlighting the following:

- Covid-19 recovery was key to the Council finances going forward and the Audit Committee would continue its programme of deep dives.
- It was proposed that the review would take the form of three workshop sessions with a report to the October 2021 Audit Committee meeting.
- The scope of the deep dive centred on restarting Council services and New Ways of working and the workforce strategy.

7.2 The Chair stated that the Pandemic had revealed a range of new needs, particularly in relation to more vulnerable groups. There were also opportunities with new ways of working and involving the community in how services are provided. There would be a need to focus on young people and advanced learning with the reworking of skill, providing support to the community. The aim would be for Hackney to have a positive plan for the future.

7.3 Councillor Anna Lynch asked about the future approach to adult social care and the redeployment of the workforce across the system. She referred to the numbers of workers over 50 years of age, many of whom were in frontline services and manual work and asked what mechanisms were in place for succession planning. Jackie Moylan told the Committee that because relationships had already

been built up across the health and social care system there had been an effective response to the Pandemic. She added that the profile of the workforce could form part of the review and how it impacts on workforce strategy going forward. Ian Williams confirmed that there was an ageing workforce in Hackney Council and that there were challenges around this. He told the Committee that a refresh of the workforce strategy was necessary. The Senior Leadership Team had recently carried out work on succession planning that was to embrace inclusiveness. Ian Williams responded to Councillor Gilbert regarding the Corporate Plan that a refreshed Corporate Plan was submitted to Council and Cabinet in July 2020. Work would be carried out to further refresh the plan, to be submitted to full Council in February 2022.

7.4 Councillor Ian Rathbone asked if Public Health spend was to be considered as part of the deep dive, in particular in relation to Personal Protective Equipment. Jackie Moylan told the Committee that this would not be considered directly but tangentially in consideration of Health and Social Care.

8. Performance Review Report

8.1 The Committee considered the Performance Review Report providing an updated set of reports to be reviewed on a regular basis as part of the Committee's overview of the Council's performance. It provided an updated set of key performance indicators, together with an update on risk management with a Scorecard summarising the highest risks to the organisation as a whole.

8.2. David Padfield reported to the Committee, highlighting the following:

- Repairs work was restricted to emergency repairs during lockdown but at present the majority of repairs were being carried out. It was hoped that a full repairs service would be implemented soon with concerns about the size of the backlog.
- There were difficulties in collecting and analysing satisfaction data as a result of the cyber attack but progress was being made on the production of full data.
- The Housing Revenue Account rent arrears position was very concerning because of the rate at which arrears had increased. The accuracy of figures was being considered given the impact of the cyber attack.
- There were many difficulties associated with voids turnaround largely as result of the Pandemic and the cyber attack and because of reaching contract spend limits together with changes to contractors for voids work.
- Comprehensive recovery plans were in place for rent arrears and repairs.

8.3 The Chair asked for a report on how the recovery programme was progressing with an update on the Housing Revenue Account to the October meeting of the Committee.

Action:David Padfield

RESOLVED:

- To note the performance indicators presented in Appendix 1, the Risk Management Scorecard in Appendix 2 and the current capital monitoring update in Appendix 3.

9. Treasury Management Update Report - 2021/22

9.1 Pradeep Waddon presented the report providing members of the Committee with an update on treasury management activities over the period to May 2021, highlighting the following:

- Investment levels were at £105m at the end of May 2021 compared to £69m at the start of 2021.
- There had been no major changes to the borrowing position since the last report.
- Credit quality of investment was maintained between A plus and A.
- Close attention was being given to the Council's cash flow position, ensuring that there was sufficient cash for any unexpected events resulting from the Pandemic.

9.2 The Chair stressed that the Council would become increasingly exposed to risk as it became more involved in borrowing and that this risk required to be monitored.

RESOLVED:

- To note the report.

10. Corporate Risk Register Review - June 2021

10.1 Ian Williams introduced the report updating members on the current Corporate Risk Register of the Council as at June 2021. The report identified how risks within the Council are identified and managed throughout the financial year. The report was signed off by the management team in May 2021

10.2 Matthew Powell highlighted the following:

- Continuing impact of Covid-19 and the cyber attack.
- The situation in relation to the Pandemic had improved but serious challenges remained, particularly in regard to the Council's future funding and budgets.
- There remained uncertainty regarding the emergence of new strains of the virus, vaccine hesitancy and long Covid-19. Risks would require to be reviewed and managed at the highest level for some time.
- Risk arising from the cyber attack remained. Because of substantial progress on the recovery there had been discussion on whether this could be subsumed with the other overarching cyber attack security risks but it was considered that this required separate coverage as some vulnerabilities still remained, together with the ongoing risks relating to the data breach in January 2021.

- The workforce risk referred to recent pressures on staff and senior leadership changes, restructures and increasing financial pressures on all services and resources. There was also the risk of the Council not utilising or maximising the potential of new technology and opportunities. The cyber attack had added to this but the Council had adapted well.
- The Pandemic had forced home working and a reliance on technologies, but so far these risks had not materialised.
- There had been some concern that, in light of ambitious targets for carbon reductions, the expectation of change required may not be matched by the available capital and resources. The current consensus was that Hackney was progressing well on this with many initiatives in place. As a result the risk was not set high. The Environment Bill, currently in preparation, would place increased responsibility in this regard.

10.3 Councillor Margaret Gordon asked for an update on temporary accommodation data held by the Council following the cyber attack. Ian Williams reported that work was ongoing on temporary accommodation data. He suggested a briefing to give the necessary assurance on the data held by the Council. The Chair stressed the need for a costed robust plan in this regard.

Action: Ian Williams

10.4 The Chair highlighted risks such as SEND financial pressures and Workforce that he stressed should be monitored.

RESOLVED:

- To note the contents of the report and attached risk registers and controls in place.

11. Fraud and Irregularity Annual Report - 2021/22

11.1 Michael Sheffield introduced the report and attached documents providing status reports and analysis of reported fraud and irregularity within the London Borough of Hackney. He referred to current challenges;

- Tenancy fraud results had been negatively impacted as a result of Covid 19 with officers unable to enter houses during lockdown.
- Reduced referrals with less Council workers in the Community.
- Less scope for blue badge offences as a result of a reduction in traffic and parking.
- Partner organisations such as the Department of Work and Pensions currently had other priorities to consider.
- Many enquiries were based on the outcome of the National Fraud Initiative (NFI). Some data could not be provided as part of the last round of matching due to the timing of the cyber attack.

11.2 Michael Sheffield referred to positives in the service, as follow:

- The financial benefits of counter fraud work for the year was costed out at £2.3m.
- Outcomes on some areas had held up particularly well, such as blue badge enquiries, in terms of volume and outcomes. No Recourse to Public Funds work was approaching normal levels.
- Teams picked up new areas of fraud work.
- £30,000 worth of business grants was not provided, following investigation. Many more grants matched through NFI.
- The team was able to focus on some areas of NFI that it previously could not
- There had been increases in outcomes from Council Tax.
- The team had been subject to redeployment throughout the year, providing value to other services. All staff had now returned to the service from redeployment.
- The final stages of risk assessment have now been carried out to enable staff to safely resume some duties which have been on hold.

11.3 Councillor Ian Rathbone referred to the saving in No Recourse to Public Fund and asked for clarification on the procedure for false claims. He further asked about the degree of communication with businesses on rejected applications. He asked if those who made fraudulent Right to Buy applications could make future applications.

11.4 Regarding No Recourse to Public Funds, the Council looked at particular circumstances and if assistance was not warranted it was made clear that other measures of support were available. Businesses whose grant applications were refused were involved in a dialogue with the Council with reasons for rejections given. In relation to Right to Buy applications, the Council had to be satisfied about the provision of funds to be used in payment. If this was uncertain the matter would be investigated. Those applicants turned down in the past could apply again but previous applications were filed by the Council.

RESOLVED:

To note the report.

12. Internal Audit Annual Report - 2020/21

12.1 Michael Sheffield introduced the report detailing the performance of Internal Audit during 2020/21 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council. Michael Sheffield told the Committee of difficulties in carrying out the full range of audit activities because of the Pandemic, the cyber attack and redeployment from the service to other services. Further, the work had changed during the year with the postponement or cancellation of some audit reviews to allow attention to be focussed on emerging issues, such as around new services. The plan had been amended to consider personal protective equipment and the provision of business grants. The overall opinion for the year was that the framework was adequate.

12.2 Michael Sheffield told the Committee that all key performance indicators had been met this year. Where recommendations were raised from audit work and agreed with managers these were followed up.

12.3 The Chair said that the Audit Committee had a particular responsibility to have a direct line to internal audit, ensuring that its work is reviewed. He was reassured in regard to the levels of internal audit work that had been carried out in the circumstances of the pandemic and the cyber attack.

12.4 Councillor Gilbert Symth asked for clarification on children leaving care being referred to as limited in the report. Michael Sheffield referred the Committee to the scoring criteria in the report, defining assurance levels.

RESOLVED:

- To note the report and to approve the updated Internal Audit Charter and Strategy

13. Training for Committee Members of the Audit Committee

13.1 The Chair encouraged Councillors to take up training opportunities available and stressed that this requirement formed part of the Committee's terms of reference. Michael Sheffield updated the Committee on training opportunities available t, including the Chartered Institute of Public Finance and Accountancy online webinar with an emphasis on the assessment of risk and the Local Government Association workbook. Suggestions around training were considered.

14. Audit Committee - Work Programme

14.1 The Chair reported that the Government was increasingly asking for work around how value for money was judged by external auditors. Further, there was a need to consider the financial health of the organisation and its ability to cope with future challenges. He asked for a report to the October meeting of the Committee on this matter.

Action: Ian Williams

RESOLVED:

- To note the Audit Committee Work Plan

15. Any other business that the chairs consider urgent

15.1 See minutes number 5.

16. Date of next meeting - 26 July 2021

16.1 The Chair told the Committee that if the outturn figures were not available for this meeting, it would be used as a deep dive review.

End of Meeting.

Duration of the the meeting: 18:30 - 20:45

Chairperson: Councillor Nick Sharman

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