

AUDIT COMMITTEE

WEDNESDAY 14TH OCTOBER 2020

Meeting held remotely

Present: **Councillors:**

**Cllr Nick Sharman in the Chair,
Cllr Brian Bell, Cllr Gregory, Cllr Patrick Spence
and Cllr Harvey Odze,**

**Officers: Ian Williams, Jackie Moylan, Rob
Miller, Christine Stephenson, David Panfield,
Michael Sheffield, Pradeep Waddon, Matthew
Powell, Bruce Devile**

Lucy Nutley, Mazars

1. Apologies for absence

1.1 Apologies for absence were submitted on behalf of Councillors Anna Lynch and Clare Potter.

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. External Audit UPdate

4.1 Lucy Nutley (Mazars) told the Committee that the audit was substantially completed and that the 30 November deadline would be met. There was not yet a timeline for the assurance from Auditors of their audit of the LPFA. Governments accounts instructions were about to be issued. Guidance on value for money work was to be issued in the coming weeks and arrangements

would be made for a workshop to include London boroughs finance teams.

4.2 The Chair expressed concern at the extended deadline in relation to the audit and asked what interventions had led to this delay. He stressed the contribution of the Audit Committee in being forward looking and concerned with the Council being a going concern. He asked for detail on the Code of Audit Practice.

4.3 Lucy Nutley clarified that the new Code of Audit Practice is issued by the Audit Office and was in place from April 2020. This would impact on the 2020/21 audit with a wider range of value for money conclusions that will need to be reached and reported on. In relation to the extension of the deadline Lucy Nutley told the Committee that it had been difficult to collect information from partners and that there had been a challenge with the Land and Buildings valuations because of the uncertainties that existed, causing delays with the LPFM. She told the Committee that only a small number of London Council had signed off. Delays had also occurred as a result of remote working during the current Pandemic.

4.4 The Chair sought assurance that any further change to the Audit would not be material and stressed that if such changes were material the Audit Committee should be informed of these. It was confirmed that any further changes would not be material.

5. Redmond Review

5.1 Michael Sheffield updated the Committee on the Redmond review which was tasked with considering the effectiveness and accountability of the external audit arrangements for Local Government which were introduced by the Local Audit and Accountability Act 2014 as a replacement for regulation under the Audit Commission. Michael Sheffield confirmed that Hackney Council had always been in a position to sign off the accounts on time.

5.2 The report recommended that a new regulatory body be established 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 ensure that the necessary expertise and knowledge to consider reports is available. It recommended that the annual external audit report be submitted to Council by the external auditor and the financial accounts reporting deadline should be moved to 30 September to allow sufficient time for external audit

review. In relation to transparency of financial reporting, the introduction of a further explanatory statement to reconcile the budget to Council Tax was recommended.

5.3 Michael Sheffield told the Committee that the resilience of local authority external audit was low, with local government fees decreasing while they are actually going up in other sectors. Resources were not adequate and there was a need to address the price paid. It was considered that there was a need to expand the scope of the audit with a proper test of financial resilience and sustainability.

5.4 Michael Sheffield told the Committee that if fees were to increase across the Board by 25% the financial impact for Hackney would be 47,000k. He referred to the need for training on any new arrangements and the need to consider the impact of changing the reporting date to the end of September. He told the Committee that implementation would be dependent on Government action at a time of other challenges such as COVID-19 and Brexit.

5.7 Ian Williams stated that the Hackney Audit Committee considered matters in a detailed way with an annual report submitted to Council each year and was in a strong position to take matters forward and build in new processes. He considered the Audit Committee should look forward with an emphasis on value for money, working with the external auditors on this. The Audit Committee will be kept updated on matters arising from the Redmond Review.

5.8 The Chair stated that the disbandment of the Audit Commission had resulted in a lack of support and management and the need for reform. The Audit Committee should look forward and consider now building in these new processes.

RESOLVED:

To note the update on the Redmond review.

6. Finance and Corporate Resources Directorate Risk Register

6.1 Ian Williams introduced the report updating members on the current Finance and Corporate Resources Directorate Risk Register of the Council as at October 2020. The report also identified how risks within the Council are identified and managed throughout the financial year and the approach to embedding risk.

6.2 The Chair referred to a large number of red risks and the need to make all efforts to react to these and reduce these risks. He asked for an update on the Council's Pensions fund which had many red risks. Ian Williams told the Committee that the Pension Committee had its own detailed Risk Register on pensions. In relation to the Pension Fund investment position, the last triennial valuation was carried out on the 31 March 2019. The overall funding level stood at approximately 90%. Ability to pay pensions and pension contributions was being monitored closely and managed well. There had been some challenges in relation to administration, in particular in relation to the external provider with updates on this made to the Council's Pensions Committee. There had been a delay in the distribution of annual statements but at present almost all had been issued.

6.3 The Chair stressed the importance of the systems working effectively given current heightened risk. He welcomed taking on commercial expertise in relation to the capital programme as the council could be vulnerable in relation to housing sales, given the possible negative impact of COVID-19 on sales. He stressed that these 'live risks' should be monitored, with reports back to the Audit Committee.

6.4 Councillor Gregory referred to concerns around the capital programme and in particular the Britannia scheme and asked for progress on the Capital Programme deep dive. Ian Williams responded that a date had now been agreed for a deep dive meeting on the capital programme and this matter would be taken forward with a team working on a schedule of activities.

RESOLVED:

To note the content of the report and the attached risk register and controls in place.

7. Finance Update

7.1 Ian Williams updated the Committee on the Council's overall financial position:

- 2020/21 Overall Finance position
- 21.351m government support to Hackney
- Compensation for lost income - Councils to bear first 5%. Beyond that 75 % will be compensated
- Collection fund deficits - Deficit to be spent equally over three financial years

- 1b additional funding for Local Government announced on 12th October 2020
- 2020/21 Forecast General Fund Position
- Remaining Shortfall of 13.525m / COVID related - 10.094m/ Non COVID related - 3.431m
- HRA position forecast
- challenges around income collection and arrears with individuals struggling to pay/ work was ongoing to ensure that claimants received what they are entitled to
- Ongoing pressure on the HRA relating to COVID-19 of 2m
- A rise in arrears of 2m from the beginning of the year
- No funding to alleviate pressures on the HRA
- Spending review to be finalised in the autumn
- Call for evidence from the HM treasury on a fundamental review of business rates had been published
- Next revaluation of non-domestic property in England will take place on 1 April 2021
- 2021/22 Forecast Budget Position
- Best possible COVID-19 forecast - 10,956m/ Worst forecast - 52.427m
- Positive work of the Executive/ Audit/ Scrutiny ongoing
- Finance meeting scheduled to update on progress

7.2 The Chair referred to the good work ongoing between Scrutiny, Audit and the Executive on the Budget for the next financial year with a meeting scheduled to consider ways of addressing the shortfall.

7.3 Councillor Rebecca Rennison told the Committee that financial forecasting and the understanding of the financial position for next year continued to improve, with large risks and uncertainties.

7.4 Councillor Spence asked how the Council was positioned and working to ensure Hackney residents received benefits in a timely way, given the possibility of large unemployment levels arising from the Pandemic and consequent pressures on Universal Credit. He said that many individuals who fall into arrears have problems such as mental health problems and may not, as a result engage with the Council. He asked if the Council was engaging in 'door knocking' to reach out to such individuals.

7.5 David Padfield told the Committee that there had been an increase in rent arrears in line with the modelling exercise carried out at the start of the Pandemic. The Council had modelled a 5m increase in rent arrears and had seen an increase of 2.3m. It was considering an increase in resources to financial inclusion if necessary. A large number

of residents had turned to Universal Credit with an increase in pressure on rent arrears. The Council had a Financial Inclusion Team that worked with residents to ensure that they received benefits and a current concern was that a large number of households were not in contact with the Council. David Padfield told the Committee that collection had been reinstated at the end of June and the Government moratorium on Court action had been lifted. Work was on going to put in protections for those who may have arrears as a result of COVID-19. He told the Committee that door knocking had been discontinued at the start of the Pandemic but this face to face contact would be reinstated. The Council's Inclusion Team had good contact with the mental health professionals with the Residents Sustainability Team having ongoing dialogue with advice agencies. Councillor Rennison added that this approach was set out in the Council's Corporate Debt Policy.

RESOLVED:

To note the Council's overall financial position.

8. Performance Overview

8.1 Bruce Devile introduced the report providing the overall set of reports that were selected to be reviewed by the Audit Committee on a regular basis as part of the Council's overview of the Council's performance. The report provided an updated set of key performance indicators along with an update on risk management with Corporate Scorecard and accompanying commentary on the Council's risk approach.

8.2 Bruce Devile confirmed that many of the main performance issues had been raised under the previous item on the agenda.

8.3 The Chair raised performance issues in relation to cleanliness as highlighted in the report and asked that this be monitored. Bruce Devile confirmed that the the data was not timely and that no inspections had been carried in March 2020.

8.4 The Chair raised concerns about the increase in the length of re-let times. David Padfield told the Committee that the increase was brought about by COVID-19 related factors, including the furlough of staff. Further, a manager had not been in post for some time. A manager had now been appointed. David Padfield confirmed that a performance group was considering re-let times and a range of measures were to be put in place, but that improvement in performance would take some time.

8.5 Councillor Odze sought clarification on the direction of travel of performance figures in relation to household waste for reuse, recycling and composting as figures appeared to conflict. Bruce Devile confirmed that the figures were based on quarters and that the direction of travel was in the required directions.

RESOLVED:

To note the performance indicators, the Risk Management Scorecard and the current capital monitoring update.

9. Wave 2 and Risk Management - Presentation

9.1 Rob Miller presented to the Committee on Wave 2 of Covid-19 and risk management including:

- Phase 2 Planning assumptions including:
 - scaling down of Social Distancing controls over 12 - 24 month timescale
 - Long term consequences arising from lockdown
 - Risk of second wave in Autumn/ winter

- Phase 1 Review, including:
 - additional support for homeworkers
 - development of governance arrangements
 - review of business continuity plans and redeployment mechanism

- Autumn/ winter planning, including:
 - standing up response such as PPE hub
 - scaling up areas of response such as building community sector capacity to support with needs
 - implementing new services

9.2 Councillor Gregory asked whether it was possible to quantify any shortfall in particular service provision as a result of COVID-19. She asked how decisions were made on what services were to be prioritised. Rob Miller told the Committee that because some services had been closed as a result of government restrictions some staff had been released into other services. Further, staff had volunteered to redeploy. Managers had also moved staff inservice to meet changing needs. As a result it had not been necessary to make decisions about closing services and prioritisation. He said that percentage figures were not available in

regard to how services were affected by the Pandemic. Some services had not been restored but this had been a result of Government restrictions.

9.3 Rob Miller told the Committee that he would make an interim update report to the Committee on the COVID-19 response. A report on lessons learned from the summer ICT outage would be submitted to the next meeting of the Committee.

Action: Rob Miller

9.4 The Committee thanked Rob Miller and all staff for their work during this difficult time.

RESOLVED:

To note the update on Wave 2 of Covid-19 and risk management.

10. Audit and Anti Fraud Review and Quarterly Progress Report

10.1 Tracey Barnett introduced the report on the performance of the Audit and Anti Fraud Service in the areas of work undertaken and information on current developments in Internal Audit and Anti-Fraud as well as statistical information on the work of the investigation teams.

10.2 Tracey Barnett told the Committee that given the redeployment of Auditors as a result of COVID-19 there had been few audits since March 2020. Those audits from the previous year had been completed or in progress. 53 audits had been planned for this year and consideration was being given to postponing 19 of these and adding a further 16. 90% of the plan would be completed by the end of the year, provided there was no further redeployment of staff and that managers are still able to assist in the review. Tracey Barnett confirmed that these arrangements had been agreed with the external auditors.

10.3 The Chair expressed concern that COVID-19 had opened up new opportunities for fraud, in particular in relation to new services provided by the Council and whether the necessary resources were available to react effectively to the risk. Ian Williams told the Committee that resources were shifted to other services where there may be a potential risk of fraud, for instance, in cases of new services, such as business support grants.

10.4 Michael Sheffield told the Committee that the Anti Fraud staff were involved with business grants distribution from an early stage, liaising directly with officers on that team. As concerns were raised they were passed to investigators. There was joint access to data. If issues were not resolved the grants were put on hold and were not paid. Reports were made to the Government on the numbers involved on a monthly basis. Data matching through the national fraud initiative was carried out with details of the grant applications that were submitted, comparing bank accounts to ascertain if bank accounts appeared to be associated with businesses and that the businesses were still trading. Payment of 14 grants was prevented which built up to 140,000k. Work will be undertaken on other grants to ascertain whether they were claimed incorrectly. A new scheme had been introduced for those on a low income and needed to self isolate with some individuals being eligible for 500 pounds. The Audit team had given advice to the team setting up those arrangements, from a counter fraud perspective.

10.5 The Chair highlighted the need for the Council to deal adequately with these new risk areas and to keep the anti- fraud activity at a level that would reassure the Committee and it was agreed that future updates will be provided as part of the quarterly reporting process.

10.6 Michael Sheffield told the Committee that the amount saved by Anti-Fraud was 1.6m at this time, compared to 2.2m at the equivalent point in the previous year, and that this reduction should be considered in the context of officers being redeployed to other services in the council and other COVID -19 related impacts on investigations. Tenancy had suffered more than other areas because of COVID-19 related factors. 'No recourse to public funds' and 'the blue badge scheme' had stood up well compared to previous performance and were equivalent this year to last year. There had also been an opportunity to consider matters that had not been prioritised previously. There were savings of 116k in terms of CTRS claims. More matches on the single person council tax discount had been achieved than previously. Saving stood at 392k, a significant increase on previous years.

RESOLVED:

1. To note progress and performance of the Audit and Anti Fraud Service to 30 September 2020.
2. To approve the changes proposed to the 2020/2021 Annual Audit Plan.

10. Review of Corporate Risk Policy and Quarterly Progress Report

11.1 Matthew Powell introduced the report informing the Committee about the recent revised and reviewed Corporate Risk Management Policy and Strategy. The policy detailed the framework for managing risk within the Council and the Strategy outlined how the Council intended to proceed in terms of managing its risks. The report outlined which approaches and techniques will be used to successfully carry out this.

11.2 The Chair welcomed the emphasis on raising commercial risk issues which gave a stronger bias than had been present in previous strategies. He stressed the importance of continuous review in a fast moving environment of risk.

RESOLVED:

To approve and ratify the contents of the report and the attached policy and strategy.

11. Treasury Management Update Report

12.1 Pardeep Waddon introduced the treasury management outturn report and the actual prudential indicators for 2019/20 for the Audit Committee setting out the background for treasury management activity over the previous financial year and confirming compliance with treasury limits and prudential indicators. The report at appendix 2 provided a quarterly update on treasury management activity for the period June 2020 to August 2020 of 2020/21. Pardeep Waddon confirmed that the financial environment was uncertain going forward with interest rates currently close to zero or in the negative. The Council was working closely with its advisers, monitoring the market, making no new investments and taking no risks, ensuring the safety of the Council's finances.

12.2 Ian Williams told the Committee that the mechanism for raising resources was still in place. The Council was looking to internally borrow and maintain a good cash flow and liquidity to undertake day to day transactions. The Council was working closely with its advisers to improve in this area, with different ways of working. Ian Williams offered a further briefing on treasury management if members would wish to have this. The Chair stressed the need for close monitoring on this area with an update to the January meeting of the Committee.

RESOLVED:

To note the report.

12. Work Programme

RESOLVED

To note the Audit Committee Work Plan for 2020/21

13. Any other business that the Chair considered urgent

- Deep Dive on Capital Programme

13.1 The Chair raised the issue of the deep dive into the management of capital estimates

13.2 Ian Williams told the Committee that members would be given a full overview of the capital programme with a schedule of evidence sessions, taking in department specific evidence.

- Appreciation to Council Staff

13.3 The Committee expressed appreciation to all Council staff for all the work they had carried out during the current crisis.

Meeting time; 6:30 - 8:00