

ANNUAL REPORT OF THE AUDIT COMMITTEE 2020/21**COUNCIL**
30 June 2021**CLASSIFICATION:**
Open

Appendix 1**WARD(S) AFFECTED**
All Wards**Ian Williams, Acting Chief Executive and Section 151 Officer****1. CORPORATE DIRECTOR'S INTRODUCTION**

1.1 The purpose of this report is to detail the role of the Audit Committee (the Committee) and summarise the key activities and achievements in 2020/21 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

2.1 It is recommended that Full Council 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 2020/21.

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 Where opportunities for further strengthening the performance and effectiveness of the Audit Committee are identified, development sessions and deep dive reviews are utilised to assist with this.

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 implications 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 OF LEGAL AND GOVERNANCE 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 ensure 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.

List of Appendices

Appendix 1 - Annual Report of the Audit Committee 2020/21

BACKGROUND PAPERS (as defined by Local Government (Access to Information) Act 1985)

None

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Appendix 1 - ANNUAL REPORT OF THE AUDIT COMMITTEE 2020/21

1. CHAIR'S INTRODUCTION

- 1.1 The Audit Committee has had another active and successful year. Despite the impact of Covid-19 we have continued our essential job of monitoring the Council's overall performance and its capacity to deliver value for money services. We were particularly pleased to be one of the first Council Committees to hold online public meetings after the first lockdown in March 2020. As a result, we've been able to help ensure the public were part of the process of information provision and accountability during this extraordinary time of financial and service turmoil.
- 1.2 The impact of the Covid-19 epidemic on the Council's services and systems has been profound and far-reaching. It meant a reconfiguration of services to meet a wide range of new, often emergency, needs while continuing to provide the full range of every-day services and support. New systems of procurement, cost and contract management and performance management had to be established often from scratch and working with outside organisations (especially the NHS) by a workforce, the majority of whom were working from home. The Audit Committee received regular reports from front line services and from our internal audit processes on how the new systems were operating. It is encouraging that the evidence to date shows that accountability and control has been maintained though we are also very aware that effective review continues to be more important than ever.
- 1.3 We kept a particularly close eye on the state of the Council's finances thanks to regular and full reports from the Group Director, Finance & Corporate Resources and his colleagues. Throughout, we were reassured to see that, despite the inevitable risks that were involved in rapid decision-making involving substantial financial commitments, the Council continued to keep a tight grip on its finances. This is a tribute both to the Council's sound underlying financial health and to the careful balancing of expenditure with projected income flows. This has been particularly difficult in dealing with Government financial support which has been announced piecemeal and at short notice. Despite an original promise to 'spend what it takes', the burden of meeting the costs of emergency service support in the community has often been passed back to the Council, whether meeting shortfalls in our income sources or forced Council Tax rises to fund the increased costs of social services. However, the most significant challenge remains the Government's failure to provide councils with a secure medium term financial commitment which would enable effective planning to deal with both the immediate impact of Covid-19 and the social and economic challenges posed by the recovery phase.
- 1.4 The oversight of the Council's financial state and its projected income and expenditure throughout the year was greatly helped by the regular meetings

of representatives of the Executive, the Scrutiny Chairs and Audit Committee. In a fast-changing financial situation this approach enabled Councillors outside the Executive to be fully briefed by the Cabinet Member for Finance and senior finance officers on the Council's financial prospects. As attention has turned to setting a 2021/22 Budget and a 3-year medium term financial forecast, this high-level oversight committee has also been able to bring a reassurance of external scrutiny to these key processes, before rather than after the event. We recommend this approach is carried forward after the pandemic as a matter of good practice.

- 1.5 The Audit Committee was also deeply involved in overseeing the Council's response to the Cyberattack on its IT systems in October. This attack posed enormous problems for the effective monitoring of service provision and performance management, potentially opening up avenues for exploitation of data and manipulation of financial flows. I am encouraged that the regular reports we received from the IT service to date, together with the results from ongoing internal audit work and updates from the services themselves have not identified further system breaches. A mixture of staff commitment and the existing, together with on occasion ad hoc control systems have contributed to this outcome. We have maintained and will continue to insist on a robust reporting system during the recovery phases.
- 1.6 Despite the upheaval we have continued to organise our 'deep dive' reviews of high-risk services. These have involved the Committee meeting on-line as a working group to receive evidence from officers about issues where there are significant political and financial impacts. Over the year we finalised one review into the Council's management of its commitment to insourcing services. In September we initiated a new deep dive into our growing capital programme with a focus on improving our forecasting and profiling of spend. We are now spending over £200m a year on new investment in schools, highways, housing etc. (compared to our net annual revenue spend of £500m). It is therefore vitally important to give the same attention to the management of this budget as we do to the control of our annual revenue budget. The review's recommendations involve a range of best-practice initiatives to ensure our estimated and actual expenditure projections match and are as robust and accurate as far as is feasible. We will continue to monitor the effectiveness of these measures which were fully supported by Members at our January Committee meeting.
- 1.7 On external audit, national concerns over shortcomings in the current system has led to significant tightening of the processes of checking and oversight. In the local government sector, a Government review of the external audit function was driven by the financial fragility of a number of local authorities and the failure of many private external auditors to meet the terms of the new audit contracts. The Redmond report proposed a new body with interventionist powers to oversee the process. Although explicitly ruling out the return of the supportive function played by the Audit Commission, the Government has accepted the report's proposals to reform the brief for external audits to include a much fuller 'value for money'

assessment of Councils' forward prospects. It has also accepted a more rigorous regulatory regime for managing the process (though it is likely that the new regime will add to our external audit costs). We have been disappointed that our external auditors were unable to complete their audit of our 2019/20 accounts in line with the extended deadline, despite our draft statements being prepared in a timely manner. We are committed to working with them in respect of the 2020/21 accounts but note that timeframes and tasks will be impacted by the cyber attack in October 2020.

- 1.8 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 & Corporate Resources 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 Anna Lynch to replace Cllr Yvonne Maxwell. The following Councillors were members of the Audit Committee during the 2020/21 municipal year:

Cllr Nick Sharman (Chair)	Cllr Yvonne Maxwell
Cllr Michelle Gregory (Vice Chair)	Cllr Harvey Odze
Cllr Brian Bell	Cllr Clare Potter
Cllr Anna Lynch	Cllr Patrick Spence

- 2.2 The table below outlines members' attendance at committee meetings during the 2020/21 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					
	22/4/20	10/6/20	27/7/20	14/9/20	14/10/20	13/1/21
Cllr Nick Sharman	P	P	P	P	P	P
Cllr Michelle Gregory	P	P	P	A	P	P
Cllr Brian Bell	A	P	P	P	P	L
Cllr Anna Lynch	n/a	n/a	n/a	P	A	P
Cllr Yvonne Maxwell	P	P	A	n/a	n/a	n/a
Cllr Harvey Odze	P	P	A	P	P	P
Cllr Clare Potter	A	P	A	P	A	P
Cllr Patrick Spence	P	P	P	P	P	P

Key: P = Present A = Absent L = Late

3. WORK UNDERTAKEN IN THE 2020/21 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.”

The Committee’s terms of reference were reviewed at the January 2021 meeting to ensure that they continue to meet the best practise as set out by CIPFA.

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 2019/20 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 reviews the local statements and verify that any actions identified in the previous year’s AGS have been actioned. The 2019/20 corporate AGS was included in the final accounts and reviewed by the Committee with future actions for improvement noted. This process will continue for 2020/21.
- 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 2020/21 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.

- Revisions to the Internal Audit Plan were considered and approved at the October meeting, this recognised the reality of auditees facing additional operational pressures from the Council's Covid response and the impact of the cyber attack, and also the fact that audit and investigation staff were redeployed to other key services to assist with the pandemic response.
- Review of quarterly progress reports of the Head of Audit & Corporate 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.

3.3.2 The Committee noted that the Internal Audit Service expects to meet its other key performance measures again this year despite the exceptional circumstances of the last twelve months.

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 2019/20 detailing arrangements for the management of risk in place during 2020/21.
- 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 Directorates (Finance & Corporate Resources, Neighbourhoods and Housing, Children Adults and Community Health and Chief Executives), 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 2021/22.
- 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 presented external audit progress reports for review and comment. There have been no additional reviews undertaken by the external auditors.

3.6.2 The external auditors attended the September committee meeting when reports from officers and a verbal update from Mazars anticipated a timely unqualified opinion of the accounts. This has subsequently been delayed as set out at paragraph 9 below.

3.6.3 The Committee were also briefed on the findings of the Redmond Review on local authority external audit arrangements which also touches upon local authority Audit Committee arrangements, the financial reporting timetable and financial transparency. We will continue to monitor the government response and proactively adopt best practice.

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 to 31 March 2021 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) £1,432,729
Blue Badges recovered	47	(2) £4,700
Other fraudulent parking permits recovered	7	(2) £700
Parking misuse warnings issued	15	n/a
Penalty Charge Notice (PCN) issued	46	(3) £2,990
Vehicle removed for parking fraud	31	(4) £6,200
Recovery of tenancy	11	(5) £198,000
Right to Buy cancelled	1	£112,800
Housing application cancelled/downgraded	86*	
Covid business grants cancelled	40	£353,672
National Fraud Initiative	Multiple	(6) £508,705
Total	355	£2,620,496

1. No Recourse to Public Funds Team (NRPF) savings – 71 support packages cancelled, average saving £387 per week and assuming saving of one year support

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

3. 71 x £65 PCN charge

4. £200 per removal in addition to the PCN charge

5. Calculated using Audit Commission figure of £18,000

6. Savings in various area arising from NFI data matching, including SPD removals

*Further outcomes are likely to materialise from work already carried out in these service areas but this cannot yet be confirmed until systems are finally verified post-cyber attack.

3.7.2 The Committee noted that revised investigation priorities were set through the year to respond to limitations to regular activity arising from the pandemic and the cyber attack. New emphasis was placed on enquiries based on National Fraud Initiative matching, this has delivered new benefits while other work has at times been interrupted.

3.7.3 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

Regular reports were received from our external auditors, Mazars, during the year. The Committee scrutinised and approved the 2019/20 Statement of Accounts prior to the completion of the audit by Mazars which is still awaited (as at February 2020). At the time that the Committee approved the accounts Mazars had provided assurance that an unqualified opinion on the accounts and a positive conclusion on the Council's arrangements for ensuring value for money was proposed and that these would be provided by the deadline.

However, following the Audit Committee's approval, there have been delays to both the signing of the opinion on the financial statements and on the auditor's conclusion on the Council's arrangements for ensuring value for money statement.

The delays in relation to the financial statements were initially due to Mazars awaiting assurances around the LPFA audit alongside clarification required on dedicated schools funds deficits. However, once these items were resolved it transpired that Mazars needed to undertake further specific testing on ICT controls which had been missed as part of the initial audit. During this period whilst the financial statements remained open officers identified an anomaly regarding fixed assets which needed investigation and clearance before an opinion could be given. This work is anticipated to be concluded in the next couple of weeks and we anticipate an unqualified opinion on the financial statements will then be forthcoming.

The conclusion in relation to the value for money statement is more problematic in that it has been delayed due to the cyber attack. During the 2019/20 external audit work was completed by the external auditor in support of the value for money conclusion. No issues came to light during this work that would indicate that the Council did not have appropriate arrangements in place to secure value for money. However, due to the cyber attack in October 2020, the external auditor requires to perform audit work to give assurance over the recovery arrangements in place at the Council. As such, the external auditor has been unable to form a conclusion on the value for money arrangements at this time, but will conclude following IT audit work that will be completed as soon as is practicable.

Updates have been presented to every Committee meeting held during the municipal year to keep members informed of the Council's financial position in the light of the pandemic and the unprecedented impact this continues to have on Council finances. The updates included commentary on the overall financial position, the level of government support that has been provided, budget forecasts and support that Hackney has been able to provide to its residents. The Chair has commented on the effective working between the Executive, Scrutiny and the Audit Committee in response to the pandemic during the year.

3.10 Performance Reporting

Quarterly updates to the 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 explanations 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. Reports arose from this work during 2020/21 concerning the Council's arrangements for insourcing services and the process for setting the capital budget and associated monitoring arrangements. A review of benchmarking data established that Hackney performs comparatively well in terms of the budget outturn, although all participants in the sample were subject to a significant level of slippage. Assurance was received around the corporate and departmental processes that are in place, and feedback from the review will be included in the 2021 Capital Management Review which will consider improved target setting arrangements, structured training for staff and continuing challenge of capital budget profiles that are submitted.

4. PROPOSED WORK PROGRAMME FOR 2021/22

- 4.1 The 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 in order that the accounts are ready for audit at the earliest reasonable opportunity within the constraints of the cyber attack and the ongoing pandemic response.
- 4.2 The Committee will continue to receive regular performance reports from the Internal Audit Service, Anti-Fraud Teams, Treasury Management, directorate and corporate risk registers. As well as reviewing corporate policies and strategies relating to these services.
- 4.3 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.
- 4.4 The Committee will continue to focus attention on the high risk areas which are identified from the risk management framework.

- 4.5 The Committee will receive and approve the Internal Audit annual plan to ensure that audit work provides an appropriate coverage during the year.
- 4.6 The Committee will continue to improve its 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 Councillors and the public with a sense of how the Council is performing overall and give an early warning of any potential problems. Another initiative to reassure the Council about its ability to cope with current threats and opportunities is the quarterly review of corporate risks to ensure that emerging issues are properly considered in service reviews.
- 4.7 The Council's whistleblowing arrangements and performance will be reviewed annually and as part of the quarterly reporting process.
- 4.8 The 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.
- 4.9 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 2020/21 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.
- 5.4 The Committee has played a significant role in highlighting the importance of implementing Internal Audit recommendations to agreed timeframes.
- 5.5 The deepdive review of the Capital Budget Setting process was carried out and the insourcing of services report was also reviewed.
- 5.6 The Committee worked alongside the Executive Member for Finance and the Chair of the Scrutiny Commissions as part of the Budget Scrutiny

Group to keep the state of the Council's finances under close review throughout the crisis.

- 5.7 The Committee also undertook the role of oversight of the Council's use of Regulation of Investigatory Powers Act (RIPA).