



MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

HELD ON THURSDAY 20 OCTOBER 2022

AT 6:30PM

HACKNEY TOWN HALL

The meeting was live streamed and can be viewed here:

Main - <https://youtu.be/wJ1SNhfHVks>

Backup - <https://youtu.be/eOrrLMNYpBs>

Present: Councillors:

In Person:

**Cllr Anna Lynch in the Chair
Cllr Frank Baffour, Cllr Zoe Garbett, Cllr
Margaret Gordon, Cllr Gilbert Smyth**

Councillor Robert Chapman

Virtually: Cllr Lynne Troughton

Officers:

**Dawn Carter-McDonald (Director of Legal,
Democratic and Electoral Services), Peter Gray
(Governance Officer), Jackie Moylan (Director of
Financial Management), Michael Sheffield
(Corporate Head of Audit, Anti-Fraud and Risk
Management), Matthew Powell (Corporate Risk
Adviser), Ian Williams (Group Director of
Finance and Corporate Resources)**

Suresh Patel (Mazars - External Auditors)

1. **Apologies for absence**
 - 1.1 Apologies for absence were submitted on behalf of Councillor Polly Billington, Councillor Caroline Selman and Councillor Sarah Young.

2. **Declarations of Interest**

2.1 There were no apologies for absence.

3. **Minutes of the previous meeting on 8 June 2022**

RESOLVED:

That the minutes of the meeting on 8 June 2022 be agreed as a true and accurate record of the proceedings subject to amending minute number 6.23 to reflect the correct date.

4. **Finance Update**

- **2022/23 General Fund Forecast**
- At the end of August 2022 the Council was forecast to have an overspend of £7.856m after the application of the cyber attack and cost pressures set asides, cyber reserve and savings from the National Insurance reduction;
- Both residents and the Council would continue to face significant financial pressures as the inflation surge was showing no sign of abating;
- Inflation will impact on various components of many of the Council's services but in particular on those with significant energy, fuel and contract costs;
- A considerable pressure as a result of 2022/23 pay negotiations was forecasted;
- **2022/23 Housing Revenue Account Position (HRA)**
- The HRA was forecasting an overspend in net operating expenditure of £9,530m. However, an overspend could be brought back into balance by a reduction in revenue contributions to capital outlay;
- £9.530m could be used of the £10.712m RCCO budget to mitigate the overspend because a full capital programme was not being delivered in 2022/23 due to the delay in the procurement of the housing maintenance main contracts;
- The main areas of overspend were in energy cost, reactive repairs and a forecast increase in supervisions and management costs and bad and doubtful debts;
- **London Picture: Boroughs plan to make an estimated £2.5bn of savings over the next 4 years;**
- **London picture - An increase of c.£1bn from the 2021 survey and higher than at any point since 2016;**
- **London picture - Upward pressure on contracts. The largest general pressure (£650m) over the 4 years followed by pay award (£521m) and other running costs (£379m);**
- **Economic context and pay award;**
- Bleak economic outlook with ongoing cost of living crisis;
- Bank of England forecasting 13 % inflation by the end of the year;
- Counter-inflationary measures of the Bank of England had seen the cost of borrowing rising;

- PWLB rates had increased, meaning a higher cost of borrowing to fund the capital programme;
 - Relief from energy prices for households was announced by the Prime Minister;
 - **Economic Context and Pay Award;**
 - The 2022-23 pay award was likely to have a significant financial impact on the Council. A flat rate of £1,925 was made by the National Employer (£2,355 inner-London). The cost to the General Fund of the employer proposal was estimated to be £11m in 2022-23 with a cost to HRA of £2.2m;
 - **The Mini-Budget;**
 - Series of measures put in place including a significant package of cuts and other measures;
 - Since then announcements had been made, culminating in the statement by the new Chancellor reversing many of these proposals;
 - On a related matter, counter-inflationary measures of the Bank of England had seen the cost of borrowing rising with the official bank rate increased from 1.75% to 2.25% on 21 September 2022;
 - **The Council's Energy Costs;**
 - From late 2021, wholesale prices had reversed their usual trend and were now higher nearer the point of delivery. In response, for 2023/24, the Council authorised Laser to purchase energy earlier to try to take advantage of the volatility and to seek to buy in the price dips;
 - **Pension Fund Impact;**
 - The Hackney Pensions Fund had not been affected by current issues;
 - **The Council's Capital Programme and Borrowing;**
 - Update on the Council's capital programme forms part of the performance report with total forecast spend for the current financial year estimated at £180m;
 - **Cost of Living**
 - A corporate response was being put in place to cover the ways that the cost of living crisis was impacting residents, council staff and businesses. Enhanced governance was also under development to support the response;
 - The Council already had a poverty framework in place. Key aspects of work underway builds on learning from the pandemic with delivery in partnership with health and voluntary community sector providers:
 - Financial support made available: Household Support Fund. Information to residents including Help at Hand.
 - Council approach to debt in cost of living crisis set out;
 - **Accounts Update;**
- The Director of Financial Management highlighted:
- Opinion on the 2020/21 accounts remained outstanding as a result of the moratorium that Mazars have placed on audit opinions resulting from the infrastructure asset issue previously advised;
 - 2021/22 draft statement of accounts published on 29 July in line with statutory deadline;
 - Audit of 2021/22 accounts has now started with Mazars due to report progress to the Audit Committee in November 2022;
 - Progress report on the 2021/22 audit to come to the November Audit

Committee, but with the draft Audit Committee Completion Report in January 2023;

- **Deep Dive - Term of Reference**
- The deep dive would be an overall analysis of the General Fund reserves. The terms of reference would be circulated to members and comments would be welcomed.

- 4.2 The Chair thanked the Finance Team for their work during a time of much change nationally.
- 4.3 Councillor Gilbert asked for details of the take up on the discretionary hardship grant and Pensions credit.
- 4.4 Councillor Gordon asked for clarification on the Council's relationship with the Pan London Energy Framework (PLEF) and how much control there was over the sources of energy and the sustainability of energy sources.
- 4.5 Councillor Garbett asked for clarification on the impact of the reduction in the contributions to the Capital Outlay. She referred to good presentation on benefits team at a recent ward forum. She asked for clarification on the payment of the £150 Council Tax refund.
- 4.6 Councillor Baffour asked for clarification on the rent cap.
- 4.4 The Group Director of Finance and Corporate Resources responded as follows:
- That the Council had set up a team to signpost residents to ensure maximum take up of all benefits available. The Group Director agreed to circulate details how the team was operating together with case studies that have come through. It was proposed that the team present to the Committee on their activities;

Action: Group Director of Finance and Corporate Resources

Take up of the discretionary grant was part of the Council Tax billing for the current financial year with increased communication to residents on it. It was anticipated that it would be used by the end of the financial Year;

- The PLEF was a framework that the Council participated in enabling it to lock in within the 6 month period. Work was ongoing with Laser to see what can be locked by 1 April 2023. Work was also underway with the Head of Energy and the Head of Procurement on this. The Council bought green energy as opposed to brown source energy;
- The reduction in contributions to the Capital Outlay for the HRA this year to mitigate the overspend was deliverable because we are not delivering a full capital programme in 2022/23 due to the delay in the procurement of the Housing Maintenance main contracts;

- Government consultation on the rent cap had been carried out at the end of the summer with a closing date of 12 October. Work had been carried out with other Councils to ensure that a considered message was conveyed to the Government in regard to the pressure on the HRA and the need for proper investment in housing. The inflation figure in September 2022 was 10 per cent and this plus one per cent would normally be the indice applied to the calculation for rent setting. The Government consultation sought views on various caps including 5 per cent but with no compensation proposed for the Housing Revenue Account For the difference. The Group Director suggested that these matters could be the subject of member finance training in the future.

5. Directorate Risk Register- Chief Executive

- 5.1 The Director of Legal, Democratic and Electoral Services introduced the report advising the Committee of the key risks facing the Chief Executive's Directorate in 2022/23 and the actions being taken to reduce the likelihood and impact of those risks. The Committee was referred to the summary of the key risks at paragraphs 4.2 to 4.8 of the report. The key risks facing the Legal and Governance Service centred on ensuring that directorates seek timely Legal and Governance advice in any decision making and follow the advice received. The Director of Legal, Democratic and Electoral Services confirmed that the Cost of Living crisis would require constant review on how it impacts on other risks in the Directorate.
- 5.2 The Director of Legal, Democratic and Electoral Services confirmed that there was an emphasis on the importance of the Council communicating clearly and transparently together with effective and meaningful community engagement. Long Covid had become an important issue and a motion on this matter would be made at a forthcoming Council meeting.
- 5.3 Councillor Troughton asked for clarification on the difficulties in the use of Windows and Microsoft products.
- 5.4 Councillor Garbatt asked for clarification on the reference to trust and confidence in the report.
- 5.5 Councillor Gordon asked for an update on the volume of claims that were being made against the Council. She referred to the large indices of inequality and whether this would be fed into the risk registers.
- 5.6 Councillor Smyth asked for a timeline on the production of frameworks and strategies referred to in the report.
- 5.7 The Director of of Legal, Democratic and Electoral Services responded that;
- There was an ongoing and constructive conversation with the Council's ICT Department on the use of Windows with the development of workarounds to tackle these issues. The use of Windows documents was currently being reviewed in regard to contracts;

- The reference to trust and confidence related to the local council and to institutions of the state;
- Claims that were made were directed to the Insurance Team. They would be asked for an update on the volume of these claims

Action: Director of Legal, Democratic and Electoral Services

5.8 The Group Director of Finance and Corporate Resources clarified that:

- The frameworks referred to included the poverty framework and details of these frameworks would be circulated to members;

Action: Group Director of Finance and Corporate Resources

- The budget setting process took account of the Inequalities impact assessments. However, it was considered that the average indices of the Inequality did not properly capture ?

RESOLVED:

- To note the report and the Directorate Risk Register.

6. Directorate Risk Register - Finance and Resources

6.1 The Corporate Risk Adviser introduced the report updating members on the current Finance and Corporate Resources Directorate Risk Register of the Council as at October 2022. It also identified how risks within the Council are identified and managed throughout the financial year and our approach to embedding risk management.

6.2 The Corporate Risk Adviser highlighted the following risks:

- The cost of living crisis and the broader impacts on increased costs for the council including on contractors and suppliers.
- Pressures on temporary accommodation;
- The aftermath of the cyber-attack - although recovery was proceeding well, vulnerabilities remained.

6.3 Councillor Garbett referred to the high turnover of Council staff and asked for clarification on any trends that emerged from the exit polls.

6.4 The Corporate Risk Adviser told the Committee that the high turnover centred on the ICT Department. The Group Director of Finance and Corporate Resources reported that ICT staff had highly transferable skills and significant numbers of staff had left to other organisations. The Recruitment and Retention Package was under review.

6.5 Councillor Troughton asked for clarification on the impact of the current interest rate rises on the Capital Programme. She asked how decisions on

prioritisation of projects were made and whether ward councillors were involved in the process.

6.6 Councillor Smyth asked for details of any action currently taken in relation to the Capital Programme and whether improvements would be made to the current strategy to mitigate against the increase in interest rates.

6.7 Councillor Gordon asked for an update on the current difficulties with temporary accommodation and any solutions being explored.

6.8 The Group Director of Finance and Corporate Resources highlighted:

- That the levels of expenditure on capital was very significant with a current increase in costs. Schemes were being reviewed to ascertain ongoing affordability and viability with an increase in resourcing or reprofiling in relation to some schemes. Work was ongoing to ensure that the best was made of the available opportunities with creative procurement. Further, the Council had refreshed its approach to the Capital Programme to improve monitoring and profiling. The Group Director of Finance and Corporate Resources offered a session on this matter at a future meeting of the Committee.

Action: Group Director of Finance and Corporate Resources

- That efforts were taken to manage slippage in relation to the highways management programme. A detailed management plan was in place and work was carried out on a priority basis with the acceleration of schemes and amalgamation of projects where appropriate.
- Temporary accommodation was a priority with consideration being given to the Council's approach in this area, reflecting demand. A further hostel was to be purchased in the Woodberry Down area.

6.9 The Director of Financial Management highlighted

- That it was necessary to consider the viability and affordability of schemes;
- There was a need to improve on profiling of capital schemes;
- The capital governance arrangements were currently being strengthened;
- Borrowing in advance was not carried out to ensure that additional interest rates were not incurred.

6.10 The Chair asked that an update be made to the next meeting on the Capital Programme.

Action: The Group Director of Finance and Corporate Resources

RESOLVED:

- To note the report and the Directorate Risk Register.

7. Corporate Risk Strategy and Policy

- 7.1 The Corporate Risk Adviser introduced the report and informed Members about the recently 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. It also outlined which approaches and techniques would be used to successfully carry this out.
- 7.2 Councillor Smyth asked for clarification on the methodology used in the formulation of risks. He considered that engagement with staff on risks resulted in good outcomes.
- 7.3 Councillor Troughton stressed the importance of engagement with frontline officers on the management of risk, seizing any opportunities arising.
- 7.4 The Chair stressed that this engagement with staff formed part of the culture of the council.

RESOLVED:

- To approve and ratify the contents of this report and the attached Policy and Strategy

8. Performance Update

- 8.1 As the Head of Performance was not present at the meeting it was agreed that any questions be made in writing to him.

9. Audit and Anti-Fraud Progress Report to September 2022

- 9.1 The Head of Audit, Anti-Fraud and Risk Management introduced the report on the performance of the Audit & Anti-Fraud Service, the areas of work undertaken, and information on current developments in Internal Audit and Anti-Fraud together with statistical information about the work of the investigation teams.
- 9.2 The Corporate Head of Audit and Fraud highlighted the following:
- The service was currently undergoing a restructure, addressing temporary staff solutions, offering new ways of working, increased flexibility and succession planning;
 - 40 percent of the Audit Plan was in progress in October with 56 audits planned and underway, compared to 35 audits in progress at the same stage in the previous year;
 - The Council was continuing to recover from the cyber-attack with work

- that could not be carried out previously now progressing;
 - The implementation of recommendations arising from Internal Audit work remains at a high level and is meeting the Division's KPI;
 - Overall the number of 'no' and 'limited' assurance reports was comfortably within the range experienced in previous years, although it was also noted that some audits have not been able to start because of service issues arising from the cyberattack;
 - Investigation area: estimated saving arising from enquiries:
 - Tenancy Fraud £1,951,400
 - No Recourse to Public Funds £686,095
 - Blue Badge/Parking £11,585
 - Other investigations £10,000
 - Total £2,659,080
 - The number of fraud referrals had increased , driven by tenancy and parking cases;
 - In regard to the National Fraud Initiative the number of outcomes had significantly reduced;
 - Hackney participation in the 2020/21 National Fraud Initiative was limited because of the timing of the cyber attack. The following round of matching was in progress with results in January 2023;
 - The parking investigation outcomes appear lower than in previous years. This may be a reporting issue following the introduction of a new case management system;
 - No Recourse to Public Funds explanation of circumstances when action is taken given to the Committee;
 - Tenancy Fraud Outcomes were recovering well;
 - 1000 units of housing had been recovered since 2010 and used to provide secure accommodation;
- 9.1 The Committee congratulated officers on the recovery of these 1000 units of housing. Councillor Chapman reiterated the congratulations for this Achievement which significantly assisted in meeting housing need in the Borough.
- 9.2 Councillor Gilbert asked when the postponed audits - climate change, etc would be carried out.
- 9.3 Councillor Garbett referred to the new relationship between housing benefits and the Department of Works and Pensions in regard to information sharing and whether consent was required in this regard. She referred to the human impact in relation to fraud investigation and what support was provided going forward. She asked for an update on the whistleblowing hotline.
- 9.4 Councillor Troughton asked whether any comparison had been carried out on Housing benefit fraud investigation performance of the Department of Work and Pensions as compared to that of the Council.
- 9.5 Councillor Baffour asked when properties were recovered were tenants referred directly.

8.6 Councillor Gordon referred to the fact that investigations could be stressful for those investigated and asked for details of the average duration of investigations.

8.7 The Head of Anti-Fraud and Risk Management responded as follows:

- That the postponed audit on climate change would be carried out, if not in the current year, in the following year;
- Investigations into housing benefit fraud was transferred to the Department for Work and Pensions in 2013/4. It was confirmed that the Department had the authority to carry out these investigations;
- The Whistle Blowing policy was agreed by the April 2022 meeting of the Audit Committee and circulated to staff. The provider of the service had changed;
- No comparison had been carried out on the relative Housing benefit fraud investigation performance. This no longer sat with the Fraud Section of the Council. Officers agreed to investigate if this information was available and circulate to members.

Action: The Head of Anti-Fraud and Risk Management

- In cases where properties are recovered the sub-tenants were signposted to other services where appropriate. In some cases the tenancies were sourced through the private sector, causing delays;
- Timescales varied considerably. Some older tenancy fraud cases were more than one year old, whereas some parking offences are identified proactively and may be dealt with on the spot. Court backlogs are extending the time to resolve some investigation enquiries.

10. Treasury Management Update

10.1 The Group Director of Finance and Corporate Resources reported that much of the contents of the report had been covered in the finance update and that if members had any questions these could be made in writing to the Head of Treasury.

11. Financial Statements Audit 2020/21 – Draft Audit Completion Report (Council) & Final Audit Completion Report (Pension Fund)

11.1 The Director of Financial Management highlighted the following:

- The Auditors had substantially completed audit work for 2020/21 accounts, subject to final checks;
- The Auditors would issue an non moderated opinion for 2020/21;
- The 2021/22 draft Statement of Accounts was published on 29 July in line with statutory deadline;

- The audit of the 2021/22 accounts had started with Mazars due to report progress to the Audit Committee in November 2022;
- Progress report on the 2021/22 audit to come to the November Audit Committee, but with the draft Audit Committee Completion Report in January 2023;

11.2 Suresh Patel (Mazars) introduced the report, highlighting the following:

- The material uncertainty relating to funds in the Pensions Fund resulting from the impact of COVID-19 on the valuation of the fund;
- There was one unadjusted mis-statement in the accounts of £8.5m relating to an extrapolation of an error when sample testing was carried out on income. Given the amount this was not considered to be material;
- The national issues relating to infrastructure were still not resolved. It was hoped that these would be resolved in the current year so that the 2020/21 audit could be concluded in January 2023;
- The Completion Reports would be submitted to the January 2023 meeting of the Audit Committee.

11.3 Chipote Tete (Mazars) highlighted the following in relation to the Pension Fund audit:

- There were no outstanding matters;
- Additional internal procedures to get assurance on level 3 investments;
- The valuation report supporting £155m of Pooled Property Investments included a material valuation uncertainty arising from the impact of COVID 19. Mazars would include an emphasis of matter paragraph in the audit report in respect of the disclosure;
- No adjusted or unadjusted statements had been identified above the trivial threshold of £448,000.

11.4 Councillor Smyth asked when the work on Value for Money would be completed.

11.5 Suresh Patel responded that the 2020/21 Value for Money audit was now complete and a Value for Money commentary was being prepared which Mazars would aim to submit to the November meeting of the Committee.

11.5 Councillor Garbett asked for clarification on the statement that there had been no long term investment in 2020/21 and whether there had been a move to short term investment.

- 11.6 The Group Director confirmed that questions such as these could be addressed at training in advance of the final approval of the accounts in January 2023. He asked that members send questions to the relevant officers in regard to the accounts. The Director of Financial Management suggested a training session in regard to the 2021/22 accounts in advance of the January 2023 meeting of the Audit Committee.
- 11.7 The Group Director of Corporate Finance and Resources thanked all those involved in the preparation of the accounts, recognising the good relationship with the Council's External Auditors, Mazars. The Chair reiterated this thanks to all those involved with the preparation of the accounts.

RESOLVED:

To note the report

12. External Audit Plan 2021/22

- 12.1 Suresh Patel introduced the 2021/22 Audit Strategy Memorandums from Mazars, the Council's external auditors, in respect of both the Council's Accounts and the Pension Fund Accounts. The Memorandums set out the key risks identified in respect of the financial statements audit, the approach to be taken for the audits along with information on the audit team, proposed deliverables from Mazars, timescales for the audit and related fees. Memorandums have been agreed with relevant officers of the Council. These documents were presented later than in the normal cycle, this is due to the backlog created by covid and the cyber attack.
- 12.2 Suresh Patel highlighted the following:
- The cyber-attack had the most impact on the preparation of the Accounts for 2020/21 which resulted in several significant audit risks;
 - For 2021/22 there was only one significant risk around the estimates showing positive work on the behalf of the Council in relation to liabilities it had estimated as a result of the cyber-attack;
 - One objection on the 2021/22 accounts had already been received.
- 12.3 Councillor Gilbert asked for clarification on the objection received also asked for clarification on materiality and what Mazars reports . Suresh Patel stated that it was related to parking control notices.He clarified that they report to the Committee all misstatements above their calculation of trivial (circa £600,000).
- 12.4 Councillor Troughton referred to the significant risk in relation to management override of control and whether this related to middle manager budget holders and whether this related to procurement fraud rather than matters such as false accounting.
- 12.5 Suresh Patel confirmed

- that management override of control was pursued in all audits. The most risky areas were considered such as the Council's journals, estimates and anything outside the normal course of business;
- That the objection to the accounts related to a parking control matter;

The Committee was reported on where errors were identified only over a certain threshold of over £600,000, the amounts that the Council has chosen not to adjust and significant disclosure on the accounts. All errors were reported to officers.

13. Audit Committee Work Plan

- 13.1 The Chair asked that as the Statement of Accounts would now be submitted to the January meeting of the Committee, where possible, reports from that meeting be moved forward to the November meeting.

RESOLVED:

- To note the work plan.

14. Any other non-confidential business that the Chair considers urgent

- 14.1 There was no other non-confidential business.

End of Meeting

Duration of Meeting

6:30 - 9:00pm

Chair - Councillor Anna Lynch

Contact: Peter Gray, Governance Officer
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