Hackney

DRAFT MINUTES OF A MEETING OF THE AUDIT COMMITTEE WEDNESDAY, 21 JUNE 2023

THE COUNCIL CHAMBER, HACKNEY TOWN HALL,
MARE STREET, LONDON, E8 1EA

Councillors Present:	**Cllr Sharon Patrick (Vice Chair) in the Chair** **Cllr Zoe Garbett, Cllr Margaret Gordon, Cllr Lee Laudat-Scott, Cllr Yvonne Maxwell, Cllr Gilbert Smyth**
Apologies:	**Cllr Anna Lynch (Chair) and Cllr Shaul Krautwirt**
Absent:	**Cllr Sophie Conway and Cllr Caroline Selman**
Officers in Attendance:	**Mark Agnew, Governance Officer** **Jacquie Burke, Group Director Children and Education** **Dawn Carter-McDonald, Director of Legal, Democratic and Electoral Services** **Bruce Devile, Head of Business Intelligence, Elections and Member Services** **Georgina Diba, Director Adult Social Care & Operations** **Mario Kahraman, Senior ICT Support Analyst** **Jackie Moylan, Director of Financial Management** **Matthew Powell, Corporate Risk Advisor** **Michael Sheffield, Corporate Head of Audit, Anti-Fraud and Risk Management** **MIzanur Rahman, Chief Accountant** **Ian Williams, Group Director of Finance and Corporate Resources**
Others in Attendance:	**Cllr Robert Chapman** **Stuart Frith, Mazar** **Tom Greensill, Mazars** **Suresh Patel, Mazars**

1 Apologies for Absence

1.1 Apologies for absence were received from Cllr Anna Lynch and Cllr Shaul Krautwirt.

2 Declarations of Interest

2.1 There were no declarations of interest.

3 Minutes of the Previous Meeting

RESOLVED: That the minutes of the meeting held on 19 April 2023 be agreed as a true and accurate record of proceedings.

4 Finance Update

4.1 The Vice Chair decided, at the request of the Group Director of Finance and Corporate Resources, and with the agreement of the Committee, to take agenda item 8, Finance Update, first, which would also include agenda item 9, Performance Update, and agenda item 10, Treasury Management Update.

4.2 The Group Director of Finance and Corporate Resources gave a presentation, highlighting the following:

- The General Fund Forecast as reported to April Cabinet was an overspend of £7.844m.
- The overspend related to cost pressures including in Adult Social Care, a reduction in Planning income, and continued pressures related to Children and Education, particularly Access and Assessment, and Housing Needs.
- One-off costs related to the cyberattack, included backlog clearance, system investment, and income pressures.
- Residents and the Council would continue to face significant financial pressure as a result of inflation, which had shown no sign of abating.
- Inflation would particularly impact Council services with significant energy, fuel, and contract costs.
- The pay award for 2022/23 was higher than budgeted for, and this would be a pressure in 2023/24.
- The Housing Revenue Account (HRA) was forecasting an overspend in net operating expenditure of £10.728m, but this would be brought into balance by not drawing down on the Revenue Contribution to Capital Outlay (RCCO).
- Without a full capital programme in 2022/23 the RCCO would not be required and so could be released. However, there would be a backlog of maintenance work that would need to be funded in future years.
- There remained a difficult economic outlook due to the ongoing cost of living crisis. The Office for Budget Responsibility's (OBR) latest forecast was that GDP would fall by 0.2% in 2023.
- Despite Bank of England counter-inflationary measures, the cost of borrowing continued to rise.
- Public Works Loan Board (PWLB) interest rates had also increased, meaning a higher cost of borrowing for Local Authorities, which brought further pressure on capital programmes.
- The annual unemployment rate in 2023 was expected to be 4.1%, compared to 3.7% in 2022.
- In relation to Public Sector Net Borrowing (PSNB), total Government borrowing was expected to exceed the total UK GDP for the first time since 1961.
- Work continued on the Medium Term Financial Planning (MTFP) and progress was being made analysing the challenges to the Council's Budget, and on identifying timetables and programmes of work with the Elected

Mayor and Cabinet to have proposals in place to balance the Budget in 2024/25.
- Emerging risks in 2023/24 included the ongoing pay negotiations and the need for Group Directors and Directors to prioritise in-year recovery actions and bring forward savings proposals from 2024/25.
- The capital monitoring report prepared for April Cabinet showed a forecast of £139.8m, £28.9m below the revised budget of £168.7m. This was in part due to construction industry inflation resulting in tender prices above cost estimates, and other external factors requiring scheme reviews and re-profiling.
- As part of Closedown 2022/23, Officers undertook an analysis of variances and significant factors including external pressures which impacted the CCG Primary Care project and provided challenges for S77 applications as well as S106 applications for highway schemes.
- No new long-term borrowing had been undertaken by the Council, however the overall cost of borrowing had risen sharply.
- Higher interest rates had also resulted in an uptick in investment income, but this was a one-off gain and not sustainable.
- The Money Hub had seen over 5,000 residents request support since the team launched in November 2022, which is more than applied for Discretionary Housing Payments (DHP) and Hackney Discretionary Crisis Support Scheme (HDCSS) in the whole of the previous year.
- In 2022/23, the Money Hub had paid £198k in relation to HDCSS; £1,204k in relation to DHP; and £400k in relation to the Council Tax Reduction Discretionary Fund.
- In relation to benefits update, the Money Hub had confirmed additional benefits income worth a total of £655k, which is worth on average £1,840pa to 355 households.
- The Money Hub team was on target to meet its goal of £1m of additional income for residents during its 12 month pilot.
- Hackney was one of only 8 London boroughs to publish their 2022/23 accounts before the 31 May 2023 statutory deadline.
- Deep Dives were confirmed on Public Interest Reports, for October 2023; School Budgets and Financial Sustainability, for January 2024; and Cost of Capital and Borrowing, for April 2024.

4.3 Members of the committee asked for further information on the underspend in capital expenditure, particularly in relation to the asbestos surveys, the solar project, and community halls.

4.4 The Director of Financial Management responded:

- That in relation to underspend in capital programmes the Council would expect to see a balance over several years of capital programmes, and would update Committee members on the specific projects referenced.

ACTION: 1. The Director of Financial Management to update relevant Committee members re. solar project and community halls capital projects.
2. The Group Director of Finance and Corporate Resources to circulate the presentation slides.

RESOLVED: To note the update on the overall financial position, the Treasury Management Update Report, and the Performance Update.

5 **External Audit Completion Report 2021/22**

5.1 The Director of Financial Management introduced the report highlighting that the 2020/21 Audit draft final letter had been received, and the 2021/22 Audit completion reports had been finalised.

5.2 Suresh Patel, Mazars, confirmed that the letter for the 2020/21 Audit had been expected to have been signed-off, but the final review had identified a small number of narrative adjustments that needed to be made, and highlighted that Mazars had been unable to certify closure of 2018/19 and 2019/20 Audits because of outstanding objections, but that once the 2020/21 Audit was signed-off, they would be closed.

5.3 Tom Greensill, Mazars, discussed the 2021/22 Audit, which was substantially complete and an unqualified opinion was anticipated, but highlighted the IAS19 disclosures related to the defined benefit pension scheme. The latest triennial review had been received, providing actuals for 31 March 2022, and as these were different to estimated values, Auditors would require the results of the Pension Fund Auditors, whose work was unlikely to commence until July 2023.

5.4 It was confirmed that no significant findings had been reported in relation to Management Override of Control and the approaches taken in relation to both Property and Plant and Equipment (PPE) Valuations and Investment Property Valuation were discussed. Small misstatements in relation to grant income, extrapolated adjustments required for property valuations, PPE valuations, low traffic neighbourhood PCN provisions, were highlighted.

5.5 Stuart Frith, Mazars, confirmed that work on IAS19 disclosures still needed to be completed, and discussed the Significant Findings highlighted in the report, including Management Override, which must be included in every Audit and the valuation of level 3 investments, which were investments that were harder to value. In addition, there had been no adjusted or unadjusted misstatements that had been identified.

5.6 In response to a question about the beacon valuation methodology in relation to Council dwellings, Tom Greensill, Mazars, confirmed the methodology for confirming the valuation of Council dwellings and the sample selection process.

RESOLVED: The Audit Committee to note the contents of the reports.

6 **Children & Education Directorate Risk Register**

6.1 The Group Director Children and Education introduced the report and began by highlighting that further to the publication of the Local Safeguarding Practice Review relating to Child Q, a new directorate-wide risk had been added under the title “management of partnership agencies in ensuring the well-being of children”.

6.2 In addition the following risks were also highlighted:

- Delays responding to Subject Access Requests: this reflected the impact the cyberattack in October 2020 had on care leavers experiencing delays in receiving their records, but highlighted the additional processes that had been put in place and the support that had been made available.
- Reduction of the use of residential placements: this reflected the impact of the cost of living and fuel price crises, but highlighted both the robust review that was underway and the “foster first” approach to ensure that provision remained suitable and children’s needs were being fully met.

6.3 The Group Director Children and Education also discussed the risks in relation to Special Educational Needs (SEND) and disabilities, including:

- The meeting of the statutory 20 week deadline: highlighting that performance had improved following the restructure of the SEND service.
- Budget pressures: the overspend remained a concern, but the statutory override allowing the Directorate to carry over the deficit in accounts had been extended to March 2026, and the Council had been working with the Department of Education’s ‘Better Value Programme’.

6.4 In relation to School Place Planning, the Committee were asked to note the impact of falling school rolls across Hackney, in line with other local authorities in London, which had resulted in there being 22% excess places in the Primary sector. The impact on the projected surplus secondary school places was also discussed.

6.5 Members of the committee asked whether there was any cross-London work that could be done in relation to ensuring an increase in local authority SEND facilities; about Hackney’s risk profile in comparison to other local authorities; whether the level of risk was manageable; whether in relation to falling school rolls, the number of SEND places had been falling proportionally; about the result of the external finance consultant’s review of special school expenditure; for assurances in relation to the tracking of unaccompanied asylum seeking children; and, whether the pilot scheme related to families with No Recourse to Public Funding (NPRF) would continue;

6.6 The Group Director Children and Education, responded and confirmed that;

- there was a Directors of Children Services group, co-ordinated by London Councils, developing initiatives focused on Looked After Children and secure facilities, and there had been some local sub-regional commissioning of residential placements;
- The impact of the cyberattack had meant that Hackney’s risk register was different to other local authorities;
- The Directorate had highly evolved quality assurance and performance management systems;
- Service areas worked hard to mitigate risk;
- Recent analysis had indicated that, despite rolls falling overall, SEND place demand had had not decreased;
- The review of special school expenditure had resulted in an uplift in special school budgets;

- Safeguards with partners were in place to ensure the safety of unaccompanied asylum seeking children;
- The commitment was provided that the service supporting NPRF would remain in place.

RESOLVED: The Audit Committee to note the contents of the report, the risk register, and controls in place.

7 **Adults, Health and Integration Directorate Risk Register**

7.1 The Director Adult Social Care & Operations highlighted the key risks from the report, which included;

- access to sexual health services: reflecting that demand for services had increased, resulting in challenges to provide appointments and clinician availability. This had been mitigated by the development of a draft strategy on sexual health access and provision.
- the impact of the cyberattack on Adult Services: Mosaic had been recovered in the last year, but there was ongoing work to ensure the system was safe and effective.
- growing demand for care: there had been an increase of approximately 30% in those needing long-term support needs compared to before the Covid pandemic. This meant there was insufficient budget to provide a statutory service. Work was underway to mitigate the risk without impacting the care and support that residents received.
- sustainability of the market: The Council worked with a small market of providers and was working to ensure providers did not hand back contracts as had been seen in other areas. This was being mitigated by maintaining good relationships and paying fair, but affordable rate for care.
- recruitment within the social care workforce: this had been mitigated by the appointment of a Principal Social Worker, and the analysis of how the Directorate retained and recruited staff and the culture of work, in order to attract the right calibre of staff.

7.2 Members of the committee asked whether placements within the Borough could be provided through the Council's capital build programme; why there was a risk of substance misuse grant monies not being spent; whether there could be any further consideration of insourcing; inequality of access to services; in relation to recruitment and retention, what had been learned from exit interviews; and, about plans to deal with future pandemics and vaccine hesitancy.

7.3 The Director Adult Social Care & Operations responded and highlighted that;

- the capital build programme had focused on ensuring there was adequate accommodation options, particularly supported living, but had not included residential or nursing care. However a business case was being developed and would be brought back to the Health in Hackney Scrutiny Commission.

- the City & Hackney Combating Drugs Partnership has been developed and work was underway to ensure all allocated grant monies would be spent.
- social care commissioning was a large financial pressure, and insourcing care would come at a higher cost to the Council and would lead to an increase in the Adult Social Care (ASC) budget.
- a significant piece of work had been completed in 2022 with exit interviews and interviews with existing staff to understand why individuals remained as agency staff and why some staff had stayed in Hackney. The work confirmed that for agency staff wage had been a driver, and working environment and organisational culture had been more important.

ACTION: 3. The Director Adult Social Care & Operations to arrange for relevant Committee members to receive answers for questions relating to Public Health.

RESOLVED: The Audit Committee to note the contents of the report, the risk register, and controls in place.

8 **Corporate Risk Register**

8.1 The Corporate Risk Advisor introduced the report and highlighted the main changes in the Corporate Risk Register since it was last considered by the Committee in January 2023, including;

- the impact of the cost of living crisis; with descriptions and controls updated to reflect changing circumstances, even though inflation and energy costs had begun to decrease;
- that the temporary accommodation risk had risen to the maximum score, illustrating the extreme pressure on the service and the limited resources to effectively deal with demand;
- that the overall cybersecurity risk and cyberattack impact risk had been merged to form one, larger risk;
- that the risk relating to surplus school places and the impact on proposed primary school closures, was a new risk which was likely to have a long-term impact that could also affect secondary schools;
- that the two new corporate risks that were escalated in the January 2023 Risk Register, relating to major service outage and children's residential placements, had remained on the current iteration of the Risk Register;
- and, with the Climate Change Action Plan having been approved, it was now an important ongoing control to mitigate the climate change risk. However the score remained red, reflecting the continued long-term pressures.

8.2 Members of the committee asked about the commercialisation of services, and evictions from supported housing.

ACTION: 4. The Corporate Risk Advisor to arrange for answers from the relevant Heads of Service on the evictions from supported housing risk.

RESOLVED: The Audit Committee is recommended to note the contents of this report and the attached risk registers and controls in place.

9 Internal Audit Annual Report 2022/23

9.1 The Corporate Head of Audit, Anti-Fraud and Risk Management introduced the report and confirmed the conclusion was that the Council's control framework was 'adequate' and remained robust, despite recent challenges.

9.2 Significantly more Audit reviews were undertaken during 2022/23 than in the previous year; 41 reviews compared to 29 reviews. As a result significantly more recommendations arose from the Audits; 140 compared to 56. However, the implementation of high priority recommendations was lower, 90% compared to 96%, though this was still within the bounds of the key performance indicator (KPI). For medium priority recommendations it was 84%, compared to 92%. This was in part a result of the increased productivity of the team, in relation to undertaking Audit work, which had taken resources from chasing progress on implementation. More implementation may have taken place than the figures might have indicated.

9.3 Most of the Audit work undertaken had resulted in a positive Audit opinion of either 'reasonable' or 'significant' assurances for the services reviewed. There was one 'no assurance' Audit, which related to a tenant management organisation (TMO), and within the course of the year the follow-up review had been completed and the TMO had moved to 'reasonable' assurance. Overall levels of assurance had been within the parameters of recent years.

9.4 The Corporate Head of Audit, Anti-Fraud and Risk Management noted that 22 Audits from the 2021/22 Audit plan had been postponed or cancelled. This was in part because many services still had interim arrangements in place following the cyberattack. In those service areas it would not have been unreasonable to think that assurance levels might be lower.

9.5 The recovery from the cyberattack had also impeded the planned ICT Audit programme, due to the service's necessary focus on recovery. The service had also undergone a considerable restructure in-year. Audits were now underway and one was close to completion. The expected result of that Audit indicated a positive outcome.

9.6 The committee was also asked to note that Audit work undertaken year-to-year was different, with different services being risk assessed in different years. In addition, the work that the team undertook was in accordance with the public sector internal audit standard and Committee members were aware that the Council's internal Audit service was being reviewed to ensure they were compliant with required standards. This external review, which should happen every five years, had not taken place since 2016. That delay was a result of both the cyberattack and the Covid pandemic. On that measure alone the service was not compliant, but internal assessments had been undertaken since 2016, and the most recent assessment in February/March 2023 indicated that the service was compliant with expected standards in all other meaningful ways.

9.7 Appendix 8 to the report contained the draft Annual Governance Statement 2022/23, and this would accompany the Council's accounts when they were submitted to the Committee later in the year.

9.8 Members of the Committee asked for details about the deferred reports; about high priority recommendations; whether residents are included in the Audit process; about what is referred to by the term 'draft; and, whether the repairs backlog included damp and mould.

9.9 The Director of Financial Management and the Corporate Head of Audit, Anti-Fraud and Risk Management responded and confirmed that;

- Audits that had been delayed had been brought forward into this year's Audit plan, and that the Committee's role would be to ask about particular Audits that were being consistently delayed, when that happened;
- that concerns about a lack of implementation related to recommendations appear when there is no feedback from service areas, but every Audit report agreed recommendations with a timeline for implementation allowing for tracking of performance;
- the Audit process is based on an informed analysis of risk;
- the internal control statement involved a fundamental review of internal control systems carried out within directorates and signed off by Group Directors, which included a lot of evidence provided by resident engagement and feedback;
- 'draft' Audits had reached a stage when the Audit conclusions had been prepared, but before a service area had commented and agreed recommendations and associated timescales;
- the repairs backlog Audit had focused on the backlog that developed as a result of the Covid pandemic, and would not have included the work related to damp and mould as that work would not have been in scope, but would likely be part of a future Audit.

RESOLVED: 1. To comment upon and note this report of Internal Audit's performance and opinion of the Council's framework of governance, risk management and internal control.
2. Approve the updated Internal Audit Charter and Strategy.

10 **Annual Fraud and Irregularity Report 2022/23**

10.1 Introducing the report the Corporate Head of Audit, Anti-Fraud and Risk Management highlighted that the referral volumes for all fraud types, excluding fraud enquiries, had increased by 35% since 2021/22. Fraud enquiries were incoming queries from other external organisations who require information for their investigations.

10.2 The main areas that had been focused on included;

- tenancy fraud: 49 tenancies were ended following investigations, a 44% increase;

- blue badges and other parking enquiries: this involved reactive investigations following referrals to the team and proactive actions targeted at parking hotspots in the Borough;
- NPRF: the number of support packages cancelled doubled from 2021/22, however it was the previous year was anomalous. The Anti-Fraud team remained mindful that misuse in this area was driven by need, not greed.

10.3 The Corporate Head of Audit, Anti-Fraud and Risk Management presented a case study where a business premises above a pub that had been converted into 13 residential units, but had not applied to Planning, where none of the units met minimum requirements for space, and where enforcement notices had been ignored, was successfully prosecuted resulting in the Council receiving a £261k award under the Proceeds of Crime Act, with a fine of £15k and costs of £8k also in the Council's favour.

10.4 HM Treasury would receive 50% of the £261k, with the remaining 50% split between the Court, the investigating agency, and the prosecuting agency. In this case the Council had been both the investigating and prosecuting agencies.

10.5 Members of the Committee asked for details on tenancy fraud, and how the case study had been referred to the service.

10.6 The Corporate Head of Audit, Anti-Fraud and Risk Management responded and confirmed that;

- tenancy fraud referrals had resulted from tenancy audits, when Housing Service staff had checked on resident's housing eligibility, and also in relation to succession applications;
- the case study had resulted from the Planning service becoming aware of unapproved works having taken place, then taking legally binding enforcement action which, when ignored, meant that the proceeds became a criminal benefit. They referred the case to the Anti-Fraud team knowing they could prosecute under the Proceeds of Crime Act.

RESOLVED: To note the contents of the report.

11 **Audit Committee Work Programme**

RESOLVED: To note the work programme.

12 **Any Other Business that the Chair Considers Urgent**

12.1 On behalf of the Audit Committee and the Chair, the Vice Chair noted that this meeting would be the final session for the Group Director of Finance and Corporate Resources, thanked him for all the work he had done for the London Borough of Hackney, and wished him well for the future.

End of meeting

Duration of the meeting: 6.30 - 8.25 pm

Wednesday, 21 June 2023

Cllr Sharon Patrick
Vice Chair of the Audit Committee