

# **MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON THURSDAY, 15TH SEPTEMBER, 2016, 7.00 - 9.50 pm**

## **PRESENT:**

**Councillors: Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Charles Adje, Patrick Berryman, Isidoros Diakides, Joseph Ejiofor, Stephen Mann, Sheila Peacock, Reg Rice, Viv Ross and Gail Engert**

### **87. FILMING AT MEETINGS**

The Chair referred Members present to agenda item 1 in respect of filming at this meeting and Members noted the information contained therein.

### **88. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)**

There were no apologies for absence.

### **89. URGENT BUSINESS**

There were no new items of urgent business.

The Committee noted that agenda item 8, Statement of Accounts 2015/16 and audit findings report (ISA 260) had been circulated late due to final work being undertaken on the accounts. The report could not wait until the next meeting, as it is a statutory requirement for the audited Statement of Accounts to be approved by 30<sup>th</sup> September.

### **90. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **91. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS**

There were no such items.

### **92. MINUTES**

#### **RESOLVED**

That the minutes of the meeting held on 28 June 2016 be approved as a correct record and signed by the Chair.

### 93. TREASURY MANAGEMENT UPDATE

The Committee considered the Treasury Management update report, presented by Oladapo Shonola, Head of Treasury and Pensions. The Head of Treasury and Pensions also delivered an introductory presentation on treasury management issues, covering the definition of treasury management, borrowing, investments, roles and responsibilities and highlighting the key aspects of the update report. In respect of the report circulated, the Head of Treasury and Pensions advised that the current projection for interest payable for 2016-17, set out at paragraph 14.3 of the report, should read £14.1m.

The Committee asked about the current projected deficit, and how this was going to be funded. The Chief Operating Officer confirmed that the current projected overspend was £27m and that there were a number of measures being implemented across the organisation, including spending controls, increasing income opportunities and transformation programmes, in order to reduce the deficit. In response to a further question from the Committee regarding what would happen if it was not possible to close the budget deficit, Anna D'Alessandro, Interim Deputy Section 151 Officer, advised that the Council had no option but to set a balanced budget; in the event that the measures stated above did not achieve the full savings required, it was noted that there were some reserves available for the Council to use, but this would be purely on a one-off basis. In addition to the work on addressing the current projected deficit, the Committee was advised that long-term work was being undertaken to ensure that the Council was not in the same position in future years. It was noted that the budget position was a separate issue from the matters covered by the treasury management report under discussion, which related to the Council's cash holdings.

The Committee asked how capital expenditure could be funded without increasing the Council's current borrowing, in response to which it was reported that internal borrowing and cash would be used to fund the majority of the capital programme, with only around £20m of new borrowing required. It was agreed that details of the capital programme would be provided in the next update report to the Committee.

In response to a question from the Committee about prudential indicator numbers 9 and 12, the Head of Treasury and Pensions advised that number 9, maturity structure of borrowing, set the upper and lower limits for different maturity periods within the debt portfolio, while number 12 was the same maturity structure adjusted for Lender option borrower option (LOBO) loans. The Committee asked about the possibility of exiting loans taken at previous higher rates of interest in order to benefit from current rates, and the Chief Operating Officer advised that the level of penalties that would be incurred would cancel out any benefit to the Council in doing so. It was noted, however, that the Council were monitoring the situation constantly in order to identify any opportunities to minimise borrowing costs. In response to concerns from the Committee regarding the LOBOs previously entered into, it was noted that at the time when these loans were taken out, the rates were equivalent to those of the Public Works Loan Board (PWLb).

In response to a question from the Committee regarding the structure of the Council's debt, it was agreed that officers would circulate details of the profile of the outstanding debt, including the dates and respective lenders, with details of the LOBO loans

shown separately. The Committee also asked for information on the risks associated with LOBOs and the actions being taken by the Council to mitigate these risks. It was suggested that options for changing the profile of the outstanding debt, for example the possibility of extending the maturity of the debt, and the implications of any such proposals, be considered in a report to a future meeting of the Committee.

**Action:** Chief Operating Officer / Head of Treasury and Pensions

## **RESOLVED**

That the Committee note the Treasury Management activity undertaken during the three months to 30<sup>th</sup> June 2016 and the performance achieved.

### **94. STATEMENT OF ACCOUNTS 2015/16 AND AUDIT FINDINGS REPORTS (ISA 260)**

Cllrs Engert and Rice left the meeting at this point in proceedings.

The Committee considered the report on the Statement of Accounts for 2015/16 following the completion of the external audit; Hussein Alanezi, Interim Chief Accountant, gave an introductory presentation on understanding the statement of accounts, covering the purpose of the statement of accounts, how they were presented and what they meant, along with an explanation of the Committee's role as 'those charged with governance' in relation to the accounts. It was noted that from next year the deadline for the publication of the Council's accounts would be brought forward by a month to 31<sup>st</sup> May, and the deadline for the completion of the audit would be brought forward by two months to 31<sup>st</sup> July.

Under contingent liabilities, on page 100 of the statement of the accounts, the Committee noted the issue listed in respect of Thames Water. Tracie Evans, Chief Operating Officer, and Raymond Prince, Assistant Head of Legal Services, advised that this was an issue affecting a number of local authorities, and that the Local Government Association (LGA) was in the process of collating a response on behalf of its members. In response to a question from the Committee regarding the probable timescales for the appeal being heard, it was agreed that the Assistant Head of Legal Services would circulate this information.

**Action:** Assistant Head of Legal Services.

Leigh Lloyd-Thomas and Andrew Barnes, representing the Council's external auditors BDO, gave an overview of their audit report, and highlighted the key findings for the Committee as set out under the 'key audit and accounting matters' section of their report. In response to a question from the Committee regarding the findings around funds held on behalf of others, it was confirmed that these amounts were recorded in the accounts, but the issues raised were in relation to a lack of supporting documentation to evidence the reason for the amounts held in some instances.

Mr Lloyd-Thomas indicated that the auditors had not identified any material misstatement in the statement of accounts, and that they would be concluding that these were a true and fair statement. The auditors noted that the Council had a challenging funding gap, but were satisfied that plans were in place to address this. In light of the projected position as at quarter 1, the auditors did emphasise that it was

essential for the spending controls being implemented to start to have an impact as quickly as possible.

Anna D'Alessandro, Interim Deputy Section 151 Officer, drew the Committee's attention to the management responses to the auditors' recommendations as set out in appendix three to the audit report, and advised that the Corporate Committee would receive an update on progress in implementing the actions at its next meeting. The Council had accepted all of the recommendations made by the auditors, and had developed an action plan to address these. While none of the issues identified had a material impact on the statement of accounts, it was noted that these were procedural areas where it was accepted that improvement was needed. In response to a question from the Committee as to why these issues had not been identified before, it was noted that these had been identified by the Council's new auditors BDO in their first audit for the Council, and represented the benefit of having a fresh audit perspective every five years.

The Committee noted the management responses, and emphasised the importance of addressing some of the issues listed, in particular staff contracts, at the earliest opportunity and not waiting for the deadline set out in the report. The Interim Deputy Section 151 Officer advised that the dates in the report were the final deadline by which the actions would be fully implemented, but confirmed that staff were working to address the issues raised as quickly as possible, and the Committee would receive an update on this work at its next meeting in November.

In response to a question from the Committee regarding the basis for any negotiation between the Council and the external auditors regarding the findings of the audit, it was reported that there was scope for different interpretations of the information, in particular where accounting estimates were involved. As long as the difference was within the level of materiality, this would not make a material difference to the statement of accounts. The Committee noted the reference in the Use of Resources section of the auditors' report to the award of four Crossrail stations, and questioned the accuracy of this, in response to which the Chief Operating Officer confirmed that no decision on Crossrail had yet been made. The Committee asked about the status of 51<sup>o</sup> North, and it was reported that this was owned by Homes for Haringey and was included within Homes for Haringey's statement of accounts. The Committee asked what would happen in the event that the Council was not able to reduce the projected overspend, and that this exceeded the value of the General Fund; the Interim Deputy Section 151 Officer advised that in such an event there were emergency reserves available, however these would only be on a one-off basis, however she was confident that the deficit would be reduced and a balanced budget achieved without the need for recourse to these reserves.

The Committee was advised that the Council's accounts had been challenged by members of the public in respect of the lawfulness of its Lender option borrower option (LOBO) loans and that several local authorities had been challenged on the same point. Legal advice received by the external auditors was that LOBOs were a lawful form of borrowing, but that they had to have been entered into lawfully. The external auditors were therefore working to establish that Haringey's LOBOs had been entered into in a lawful manner; it was hoped that this could be established before the 30<sup>th</sup> September 2016, in order for the audit opinion to be issued and the Council's

accounts to be signed off by this deadline. In response to a question from the Committee regarding the likelihood of it being found that LOBOs in Haringey had not been entered into lawfully and what the consequent impact of this would be, Mr Lloyd-Thomas advised that this was something that the auditors were still looking into. It was possible that, even if the LOBO loans were found to have been entered into unlawfully, they could still be held to be lawful agreements under the 2003 Act, but this was untested; it was also not yet known what the outcome would be in terms of any repayment and compensation due, in the event that the LOBO loans were found to be unlawful. The Chief Operating Officer advised the Committee that the likelihood that Haringey's LOBO loans had been taken out unlawfully was very low and that she was confident that the Council would be able to supply evidence that they had been entered into in accordance with policy. It was agreed that the Committee would be advised as soon as further information on this issue was available.

The Chair moved the recommendations of the report and it was:

### **RESOLVED**

- 1) That the Committee consider the contents of the report and the representations made by BDO at the meeting.
- 2) That the Committee approve the Statement of Accounts 2015/16, subject to any final changes required by the conclusion of the audit, in particular the resolution of the objections received regarding the lawfulness of the decision to borrow monies through LOBO loans, being delegated to the Chief Financial Officer in consultation with the Chair.
- 3) That the Committee note the Audit Findings Report (ISA 260) of the auditors, BDO LLP, and approve the management responses in the BDO LLP action plan contained within that report.

### **95. INTERNAL AUDIT PROGRESS REPORT 2016/17 - QUARTER 1**

The Committee considered the internal audit progress report for Quarter 1 2016/17, presented by the Head of Audit and Risk Management. The report set out performance figures for the completion of planned internal audit work, details of those internal audit reports completed within the quarter where a conclusion of limited assurance had been provided, and progress on the implementation of follow up actions from previous audits. In relation to the outstanding priority 1 recommendations from the 2014/15 audit of Pendarren Outdoor Education Centre as set out in the report, the Head of Audit and Risk Management updated the Committee that further information had been received from the centre manager since the report was published and evidence provided confirmed that one of the Priority 1 recommendations was now fully implemented, and that progress was taking place to implement the remaining 5 recommendations. The Committee was also advised that since the issuing of the report, all of the outstanding recommendations relating to the Fostering and Adoption service had now been implemented.

In response to concerns raised by the Committee that staff undertaking the audit of Pendarren had made enquiries at the wrong staffing level, had not understood the circumstances in which the centre was operating and had not taken into consideration the limited resources and support it had available, the Head of Audit and Risk Management advised that the internal audit staff who had undertaken their work at Pendarren, had spoken to the centre manager and that he had accepted the audit findings and agreed all of the recommendations arising from the report. The Head of Audit and Risk Management confirmed that the findings and recommendations in the original report were also discussed and agreed with the Head of Finance and the Interim Assistant Director for Schools and Learning in post at that time. The Head of Audit and Risk Management and Chief Operating Officer advised that the audit report and follow up report were both a finding of fact, and highlighted areas of non-compliance with financial procedures for the control of risk, for which there may be a number of reasons, including the need for greater support from the Council. It was confirmed that it was intended as a document to support the management of the centre in making improvements to the procedures that were required to be in place and was not intended to allocate blame. The Committee noted that the centre's accounts indicated that they had successfully implemented savings in order to reduce operating costs, and that the centre was considered a positive asset by the previous external auditors.

The Committee also expressed concern that the findings of the audit report could be used to influence upcoming decisions on the future of the centre, when it was felt that there may be a number of reasons behind the audit findings which should be considered, including the limited resources available to the centre management; in particular, Members were concerned that there was a risk that the findings could be taken out of context. The Chief Operating Officer advised that the audit findings were separate to the current process relating to decisions around future operation of the centre, which was the implementation of a decision made as part of the Council's Medium Term Financial Strategy.

In respect of the Accounts Payable audit report, the Committee asked what the current level of outstanding invoices was; the Chief Operating Officer agreed to circulate this information to the Committee.

**Action:** Chief Operating Officer

## **RESOLVED**

That the Committee note the report.

In noting the report, the Committee agreed that further information should be sought from management and the Cabinet Member on the actions being taken to support and monitor the implementation of the recommendations relating to Pendarren, and for this information to be circulated to the Committee in advance of the Cabinet meeting on 18<sup>th</sup> October. It was also suggested that any additional information on the reasons for the internal auditors' findings be requested. The Head of Audit and Risk Management noted that a further update on progress would also be provided at the next Corporate Committee meeting.

**Action:** Chief Operating Officer, Head of Audit and Risk Management

The Committee furthermore wished to express its concern that, taken out of context, the report could be construed as a personal criticism of the very dedicated staff at the centre and that any such reading would be unjustified, given the constraints within which the centre was operating and that responsibility for some of the issues identified may belong to staff at a more senior level than the centre manager. The Committee emphasised the need for the centre to receive adequate management support in order to fully implement all of the audit recommendations.

## **96. COUNTER-FRAUD UPDATE**

The Committee considered the Counter Fraud Update report, presented by Anne Woods, Head of Audit and Risk Management, and noted that counter fraud work would now be reported separately from the quarterly internal audit report. The report set out the work undertaken by the Counter Fraud Team in the quarter ending 30<sup>th</sup> June 2016, including details of proactive and reactive investigative work relating to fraud and/or irregularities and an update on the recommendations contained in the Fighting Fraud and Corruption Locally Strategy 2016-19.

In response to a question from the Committee, the Head of Audit and Risk Management confirmed that in some cases individuals would be aware that they were the subject of a fraud investigation, but not in all cases. It was confirmed that no action was taken where an individual had been investigated but no evidence of fraud had been found.

The Committee asked about contract fraud, and what work was being undertaken to address this. The Head of Audit and Risk Management advised that a number of days within the internal audit plan were dedicated to procurement processes and included looking at a sample of contracts across the organisation, including monitoring and payment arrangements. In addition to this, in 2016/17 a proactive piece of work was being undertaken by the counter fraud team looking at contracts, and a report on this would be presented to the Committee at one of its next meetings. In response to a question regarding cheque fraud, it was reported that this was now at a very low level due to low use of cheques and that the impacts of any such fraud were covered by the banks. Anything relating to this would be picked up as part of the Council's routine accounting work and by the external auditors.

In respect of appendix A to the report, covering in-house fraud work, the Committee asked about the length of time between a case being proven against an individual and a disciplinary hearing being held. The Head of Audit and Risk Management advised that internal audit had a target of completing an investigation within 8 weeks of it being initiated, but that after that point they did not have control of when disciplinary hearings were undertaken by the relevant service. It was noted that in some cases the timing of the disciplinary hearing was affected by the availability of all the parties involved.

## **RESOLVED**

That the Committee note the counter fraud work completed in the quarter and the responses to the recommendations contained within the Fighting Fraud and Corruption Locally Strategy.

**97. ANY OTHER BUSINESS OF AN URGENT NATURE**

There were no new items of urgent business.

**98. DATE AND TIME OF NEXT MEETING**

29 November 2016, 7pm.

The meeting closed at 9.50pm.

CHAIR: Councillor Barbara Blake

Signed by Chair .....

Date .....