MINUTES OF THE AUDIT COMMITTEE HELD ON THURSDAY, 18 JULY 2024, 7:00PM – 9:41PM

PRESENT: Councillors Erdal Dogan (Chair), Isodoris Diakides, Ahmed Mahbub, Cathy Brennan (Vice-Chair), Mary Mason and Alessandra Rossetti

ALSO ATTENDING: Reyaaz Jacobs (Independent Member)

1. FILMING AT MEETINGS

The Chair referred to the notice of filming at meetings and this information was noted.

2. APOLOGIES FOR ABSENCE

Apologies had been received from Independent Member, Reene Deba, who joined the meeting online.

3. URGENT BUSINESS

There was no urgent business.

4. DECLARATIONS OF INTEREST

There were no declarations of interest.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were none.

6. MINUTES

RESOLVED: That the minutes of the meeting held on 7 March 2024 be agreed and signed as a correct record.

On the Action Tracker, it was unclear whether the second action on page 11 and the last action on page 14 of the agenda papers should be marked as completed.

7. TREASURY MANAGEMENT UPDATE AND OUTTURN 2023/24

Mr Tim Mpofu, Head of Finance (Pensions & Treasury), introduced the report.

The meeting heard:

- A query was raised regarding the decrease in LOBOs (Lender Option Borrower Option). In response, the meeting heard that over the last year, the Council had refinanced one of the Lobos, which was worth about £25 million. The LOBO lender had exercised their option in this case. This had been expected and prior discussions were held with the Council's treasury advisors. As a result, the Council were able to refinance that specific loan at a lower rate. There was about £15 million of LOBOs which would be due at some point this year. The Council was still communicating with its treasury advisor and it was unlikely that any of the lenders would want to exercise their options. These were considered to be relatively low risk, unless markets started operating differently. However, the bigger portion of it - the £50 million - was due in four years' time so there was no risk of refinancing for these.

- In relation to the credit rating, a lower score was better. The table in the report suggested that the Council's risk was lower than other local authorities. This was mainly because the Council only had invested through the debt management office.

- A query was raised regarding the Private Finance Initiative (PFI). The meeting heard that the number for PFI included finance leases as well and that the PFI had actually decreased by £5 million during the year. However, the leases had increased because of renewals throughout the cost of the year.

- A query was raised regarding section 4.7 of the appendix which stated that a new HRA PWLB (Housing Revenue Account Public Works Loan Board) rate was made available to qualifying authorities at a further 0.40% discount, if the Council qualified for it and if there had been any plans to replace the HRA loans. The meeting heard that the Council did qualify and that the rate had been in place since last year. A lot of the borrowing the Council took was more for the HRA than it was for the Council. It had been a great opportunity for the Council to be able to replace some of the previous borrowing. This included the LOBOs as much of the refinancing for the LOBOs was done using the HRA rate resulting in a better rate.

- A query was raised regarding the implication of section 6.2 of the appendix which stated a rate of return of 4.93%, with the Council having an investment portfolio balance of £81 million. The meeting heard that the paragraph was articulating that at the beginning of the year, the Council had made some assumptions of what it felt its average balances would be, but also what the Council could earn in interest rates. The Council had underestimated both of these and as a result, the Council was able to receive more treasury income than had been expected at the beginning of the year. The average rate was higher at 4.93% than the expected 2.5%. Also, due to grants, the Council had higher cash balances than expected. The Council thought it would have £20 million, but on average had about £80 million. This was likely a 'one-off' based on the specific factors to that year. The money was part of the revenue budget for the Council and it did help with overspend.

- A query was raised regarding the impact of treasury reports regarding a recent change in Government and expectations from local authorities that there would be an improvement in circumstances. In response, the meeting heard that from a treasury specific area, the key things to look out for included the impact the Government's decisions would have on the cost of borrowing. This would be the main aspect from a risk management perspective. It would be driven by what the fiscal position was going to be. The Government would announce some of the policies they would put in place in order to try and boost growth. The Committee would be informed of any updates and changes of circumstances.

- The Treasury Management report was part of the Council's financial position, but there were also more wider implications that could be considered. Members would have heard previously that, along with other local authorities, the Council was in a challenging position financially. It was too early to comment regarding the impact in relation to a newly elected government. The Council would keep an eye on any announcements around new funding or requirements but this was too early to say. The Council was proactively looking at its medium-term financial strategy (MTFS) over the next five years. The Council would look at the financial position and look at an overall approach about how it was going to address it, in particular, looking at the Council's financial sustainability, which would get picked up as part of value for money reports. The Council was working on the assumption that there were some challenging years ahead. Irrespective of any changes from Government, it would not necessarily change the approach. The five-year planning exercise was being initiated and officers would report later in the year to members.

- There had been no confirmation that the Government would offer a multi -year settlement. However, officers had lobbied regarding the importance of this. It was difficult to plan year to year. Being able to have three to five year funding arrangements from the Government would be important to the Council. The Council was working for next year's budget with the mind that it would be receiving similar levels of funding in relation to what it received currently.

- A longer settlement, particularly, three to five years would enable the Council to plan across a longer period of time rather than one year. One year budget setting was difficult because sometimes short-term decisions had to be made. The Council wanted to be in a position whereby it was planning over a five-year period.

- A query was raised regarding paragraph 6.13 of the report regarding the benchmark of how much could be borrowed. In response, the meeting heard that there were two key things that the Council used. There was a liability benchmark, which looked at working capital arrangements and stated the maximum amount that could be borrowed if the borrowing was being done for working capital reasons. This set a limit. There was also an operational boundary which would limit the Council as to how much borrowing could be done. This was set on the basis of the capital programme and how much the Council could afford to borrow. Above that, there was an authorised limit. If this was breached, it would have to be reported to the authorities because this was not supposed to be breached. There was impact that went into the cost of borrowing, which was part of the MTFS process to make sure that it was affordable. However, the key benchmarks from a treasury perspective were the operational boundary and the authorised limit. The Council was not close to breaching these limits.

- In relation to rates, the Council would want to keep borrowing to a minimum, irrespective of the Council's financial position. It was important that the Council kept in mind the borrowing cost. This was particularly notable at a time when rates would remain high, at least across the short term.

RESOLVED:

1. To note the treasury management activity undertaken during the financial year to 31 March 2024 and the performance achieved which is attached as Appendix 1 to this report.

2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

8. PROCUREMENT SYSTEMS REPLACEMENT PROJECT UPDATE

Ms Jeanine Long, THF Change Consultant and Mr Barry Phelps, Chief Procurement Officer, introduced the report:

The meeting heard:

- There were some concerns with the project at the moment. There was a review which was currently underway. This was anticipated to be completed by the end of the coming week and then further details could be provided in terms of the progress of the report once the review was completed.

- In relation to the training, the intention was to have a “train the trainer” model. The internal administration would be trained and then focus would be placed on “super users”. These were the key contract managers, procurement officers internally before moving out to general users and suppliers externally. The intention at the moment was to not have an external resource to do the training.

- Part of the project cost was the training and this was included. The training would be delivered by Council officers, not external organisations.

- In relation to if the budget was contained for the additional extensions, this would have to be referred to Digital Services because it came under their budget. The Committee could be updated in relation to this.

- Digital Services had overall responsibility for the project. This was why the report was drafted from Digital Services. Some concerns had been raised which was why the review was underway. Appropriate action was being taken and the concerns were being addressed through the review. Once the review had been undertaken, then there would be a better understanding as to whether the concerns could be addressed.

- There were some risks, but the risks were predominantly around the functionality and whether the functionality requested would be delivered and around the time scales outset in the original requirement. Most of these were covered within the report.

- This was an important project for the organisation. Procurement and contracts was a big area in spending and it was important to support the review that was underway to ensure that the right process and the right project management was in place. At the next meeting, the Committee would have a more general discussion around procurement and compliance around contract management.

- The chosen supplier was already in place with other councils. The Council had explored trying to work with other authorities in terms of some procurement platforms more regionally. This had been challenging because different boroughs were at different points and had different digital strategies. This was not just the procurement platform, but also finance systems, HR systems and other systems. If further opportunities arose, then they would be explored.
- Testing of the system would be done before it went live.

- On page 39 of the agenda papers, there were some key gateways listed and these were key points to evidence the testing the data migration and the usabilities in place.

- The costings or budget allocations would be looked into, but as far as the subject matter expertise of using the system, especially the ‘train the trainer’ model would be part of the internal resources. Internal digital resources would be used for interfacing to the SAP and the finance systems. The supplier was not customised just for Haringey. It used the functionality that multiple that multiple councils were using.

- In relation to functionality for the working system, a disaster cover business continuity was also part of that system that needed to be in place. As for delivering the project, an audit of the project was underway as well as a review of the project to mitigate that.

- Page 34 of the agenda papers showed a high-level timeline, the top half of this was the technical delivery. There were three key stage gates functionality being delivered. The yellow stars represented milestones of functionality being delivered. This included data migration, configuration, testing and the ‘go live’ of that module. By the end of October 2024, all three modules would be available with a solution in place. The timeline and the gateways represented the three key milestones including if the supplier met the functionality and met requirements. This was why the Council was constantly rechecking those gateways to make sure that each of those modules as a whole, by the end of October, would be fully functional for the Council’s needs.

- Part of the reason that the review being undertaken was because there were serious concerns regarding the timetable. This was what the review was looking at. Once the review had been undertaken, it would be possible to take stock of actually where things were in terms of delivering the functionality expected at various points in time. An update would be provided once the review had been completed. The review would be completed by the end of the coming week.

- The new software was replacing two old pieces of software. The numbers outlined on page 40 of the agenda papers specifically related to shutting down the licence cost for the two pieces of software, replacing it with the supplier and what the savings would be.

- The contract was fixed. There was only some CPI uplift in relation to some of the licences. If the Council required developments or additional modules over and above what had been specified, then there would be additional cost, but that would be subject to the relevant gateways being put in place by Digital Services. Apart from this, it was a fixed price contract. There were fixed rates and there were fixed licence costs associated. The Council had not put forward any client changes, but this was subject to the review and the assessment of the functionality that was being developed to ensure that it met requirements. The Council was trying to retain the standard functionality as much as possible with the relevant controls and workflows, but not all of the functionality had been examined yet, so it was not yet possible to identify if any additional amendments to the system that needed to be made. It was anticipated that there was no additional cost being incurred other than potentially extending the existing licences for the current systems if there was a delay in relation to the project.

- The purpose of the review was to be able to assess the functionality to ensure that it was aligned to what the Council went to market with and what the Council was expecting to be delivered. In terms of the cost and the budget, the focus had been more around the functionality and it was going to be delivered as opposed to if there was a risk in terms of additional costs being drawn in. This would all be factored into the review.

- The table that was on page 35 of the agenda papers reflected the change management activities as far as communications training. The activities had started since May 2024 and were planned to go through the life cycle of the project. The timeline that was outlined on page 34 of the agenda papers, section 6.4.9, reflected the Council's reassessed timeline starting in June and the review was underway to validate that the timeline was still achievable. The table had a lot of activities that were not yet started represented the gateways of the activities that needed to happen. Data needed to be put into the system so that users could be trained. All aspects of data had been loaded except one part and this was why some areas were reflected as 'not yet started'.

- The Council had expected the data to have been loaded, but there were some delays in the configuration and retrieving of the data from the previous system.
- In relation to having adequate staff in place, Mr Phelps' team would lead on the training. Staff would be trained in the system and the new procurement processes. Most of the most of the activity in terms of procurement would be centralised into Mr Phelps' department. This narrowed down some of the intense training within the system. There was broader corporate training that was required for contract managers and for those procuring below £25,000. This would consist of online training material and sessions. The Council had the resources from what it understood, but until the level of training that was required across the whole of the Council had been assessed, then any resource issue could become apparent.

- There would be enhanced controls throughout the system which would help minimise fraud. There was more transparency and more controls put in place in the new system.

- In relation to scope, analytics was a key part of the requirements because data could be used much more effectively to inform procurement strategies and understand markets. There were two phases to this. The first provided enhanced reporting capability and using tools to assist in understanding the data. Conversations had been held with Digital Services regarding going beyond this and potentially using AI to provide further insight into data. However, the first step was to get the system in place and then look to see if there was any added value for additional process.

- The review was focused on making sure that the functionality was meeting the requirements requested that were originally part of the tender and the contract. Based on that outcome, a report could be made to the Committee of whether it was fit for purpose. This was regarding the quality and the scope of what the system was able to do.

- The review appeared to be happening at the right time to do it because monitoring and conducting due diligence had been made regarding managing risks and issues. Risks were the possibility of something happening versus the issues actively happening. Based on the risks and issues identified, the review had been initiated and allowed for a more neutral perspective on making sure that the project was still going to be meeting requirements.

- Based on the most recent project delivery assessment, the RAG Rating (red, amber, green rating) could be provided to the Committee. The audit performed by Mazars had been completed, but the report had not yet been submitted.

- The Committee would be informed when the project was initially signed off and funding was afforded and what the monetary benefits would have been.

- In relation to getting access to the system, it could be seen as a working model. The first module had been submitted recently. This would identify any functionality issues. There were contract signing delays so the timeline overall was compressed. The project was still somewhat in its early stages, but the risks and issues were being monitored weekly and mitigated. It was important to be transparent.

- There were two reviews. There was one review which looked at the overall governance, which was undertaken by external auditors. There was then a separate review which was being led by the project and senior members in digital services, which was looking at the functionality, the timelines and the project itself.

- Checks would be made to see if there was a break clause, but the contract was very clear in terms of what the Council were looking for from a deliverable perspective and the provider was expected to adhere to the requirements in the contract. This was part of the Digital Services review that was being undertaken. The Council could change the contract, but compliance, transparency, visibility the collaboration of all of the different systems currently in place was the baseline of the contract itself.

- Different issues could potentially affect the contract but that would depend upon what issues were identified, but there were clear milestones and deliverables within the contract and if they were not adhered to, then checks would be made to see if there was a breach of contract. It was important to wait and see what the review would find.

- At the next Committee, a joint report by by Digital Services and Procurement that covered a range of issues with a single update would be submitted.

The Legal advisor to the Committee that stated that if there were concerns about whether the supplier was able to deliver the specification, then it was possible that this was a failure that went to the heart of the contract and may amount to a repudiatory breach of the contract. If so, it may entitle the Council to treat the contract as terminated and the Council may then be able to exit the contract and sue the supplier for damages in order to put the Council in the position that it would have been in but for the breach of contract.

The meeting requested that the new Director of Finance considered some the issues outlined particularly regarding the cost and if it was contained in the budget.

The Chair felt that there would be a slight delay with the implementation with the project and it was important to note that there were two systems in operation. The licence arrangement may need to be examined before it expired. The two systems in addition to the new system would also have to be examined as ultimately all arrangements would have costs attached to it.

RESOLVED:

1. That the Committee note the progress to date and the mitigating actions against risks and issues.
2. To note that at the proper time the internal audit by Mazars would be presented to the Committee and the recommendations followed in respect of the operating model for procurement for the authority.
3. That the Committee note the concerns relating to the project and will receive a paper at its next meeting setting the outcome of the review by Digital Services.

9. DRAFT STATEMENT OF ACCOUNTS

Mr Kaycee Ikegwu, Head of Finance (Housing) and Chief Accountant, introduced the report. Mr Tim Cutler, KPMG, was asked a query regarding how well the Council was doing or if other approaches needed to be sought and regarding the reduction of balances by £30 million. In response, the meeting heard that it would be premature for KPMG to offer assurance or nervousness about the process about to be conducted. KPMG had been met with positive engagement from the Council. Originally there was a nervousness upon the appointment that the Council would be very risk averse in how the Council interacted with KPMG and how the Council shared information, but the Council had engaged well. A document producing a set of accounts covering the operations as large and diverse as Haringey was a fair achievement.

The meeting heard:

- Regarding the use of balances in the overspend position, page 60 of the agenda papers summarised the draw down from reserves that the Council had to make at the end of 2023/24 (£19.2 million). This was not where the Council wanted to be and it was aware of what was driving the drawdown, such as social care cost and temporary accommodation cost. It was not ideal for the Council to be in such a position as levels of reserves were not excessively high especially when compared with other authorities. The Council would like to, in the next few years, rebuild the reserves. This was important due to the uncertainty over the next few years and it was important to be in a position where reserves were adequate for unexpected events should they arise. Work was underway on next year's budget. Some of this work being done was looking at what was driving the overspend and its impact on the current and future years.

- In terms of Haringey reserves, compared to other Councils that issued Section 114 notices, the benchmarking information published by certain government departments would be useful in assessing this. For boroughs that had issued Section 114 notices the level of reserves would not be the only reason why and therefore it was important that a direct correlation not be assumed between one and the other.

- The Committee was considering the Draft Statement of Accounts. The outturn report had been considered by Cabinet in the prior week and would be considered by the Overview & Scrutiny Committee. This was a more detailed outline of what drove the overspend. Members would be encouraged to read the narratives to the statement of accounts and the outturn report because the context was better set in these documents than the Statement of Accounts. It was important to see if the reasons for the overspend impacted on 2024/25 and its impact on future years and what actions could be taken if needed.

- The work that was underway examining next year's budget that but future year's budget involved looking at internal processes and services subject to increased demand especially social care and temporary accommodation. The Council was looking internally to make sure that it had its processes right. It was also important to be honest about what some of the demand pressures were. It was important that the Council used all the data and insight that it had to get the budget in the right position to avoid any significant overspend.

RESOLVED:

That the Committee note the contents of the report and the appended Draft Statement of Accounts.

10. DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24

Ms Vanesa Bateman, Deputy Head of Audit and Risk Management, introduced the report.

RESOLVED:

1. That the Committee approve the draft 2023/24 Annual Governance Statement, attached at Appendix A of the report.
2. That the Committee note the approval timescale and processes for the draft 2023/24 Annual Governance Statement.

11. ANNUAL INTERNAL AUDIT REPORT 2023/24

Mr Minesh Jani, Head of Audit and Risk Management, introduced the report. Members welcomed the report stating that it was easy to follow and had provided clear information.

The meeting heard:

- In addition to the audits that the Council did which were compliance type audits, there were some audits classed as “consultancy”. In those specific areas, the work that the auditors tended to more to inform what the service was trying to do. In regard to recommendations for community engagements, the Council had an audit on the plan to carry out a review of how effective it was in engaging with the community, but the service was of the view that if Mazars could share some of their expertise from other boroughs or organisations, the information could be used to inform the Council’s methods. Any recommendations that were made would be shared with the Committee.
- The Council had asked Mazars for their expertise and this contributed to the audit process. Management also put time and effort into allowing audit to look at their systems and also contributed to how it was possible to improve the dialogue between auditors and management to make improvements. This was lost if recommendations were not implemented. More focus would be placed on this for the future. The number of recommendations not implemented had come down, but some of the older recommendations were worth reflecting on. If a recommendation was valid - and some older ones were - they would remain on the register, but if things had moved on or if they could be combined with other recommendations, this would be actioned. In relation to resources, the Council had compared the level of audit resource in other London boroughs and Haringey was not the lowest. There were some boroughs with very low levels of audit days, The Council’s audit plan tended to be about 820 days whilst other London boroughs probably ranged from 900 to 950. Boroughs with a lower number of days would be around 500. There was no concern regarding the assurances the Council could bring to members to fulfil professional auditing needs. There had been a lot of focus on areas where things needed to improve. On balance,

this was probably the right approach. The Committee would see audits where the risk was relatively, but less so where the risk was lower.

- In relation to how auditors could work in a way where their recommendations were implemented so that risks were managed even after they had left, the Council had arrangements whereby it reported on the follow-ups that were done. There was a mechanism to report the status of recommendations to the Statutory Officers Group. This was the Chief Executive, Director of Finance and the Head of Legal. Previous reporting had been done where recommendations which did not get implemented quickly enough. An audit was a point in time reference. When an audit was completed, a certain level of assurance could be given at the time with a view to improve systems, but sometimes, things could go backwards, especially if there was a factor such as a change in personnel which could undermine the control environment. Funding was the other thing that could be an issue. There were areas where there were control issues which were probably not linked to the follow-up work, but to other fundamental issues such as void management.
- The Director for Housing had a view to doing less audit work this year, more follow-up work on the recommendations already raised. However, only a small window could be provided.
- Monitoring of the outstanding recommendations and the actions was going to be important. Discussion with the statutory officers group strengthened internal reporting. It was the director's responsibility to be accountable for ensuring that recommendations were dealt with in the timescales and the key milestones. Reporting could be done, not just to the Statutory Officer's Group, but to the Corporate Leadership Team.
- In the quarterly update of the recommendations not implemented, a column or some text around the risk could be added. This could be done for the Statutory Officer's Group as well as the Corporate Leadership Team.
- In relation to recommendations that had not been implemented which were classified as priority one, two, or three, it would be useful to translate what this meant for the Committee. At the next meeting, the "P1" recommendations which were outstanding specifically would be useful. It would also provide a chance to refresh the recommendations.
- The Chief Executive had made it a priority to make sure that all FOIs, Members Enquiries and Subject Access Requests were responded to in a timely way. This was important not just from a data protection act point of view, but also being transparent and being engaging with the community. Efforts had been made to create an application which was more up to date with the enquiries.

The Chair wished to draw attention to the leisure services as there was likely some risks involved in addition to governance and processes that needed to be examined. The cloud strategy status appeared to state that the risk associated had been re-evaluated and the audit was not deemed to be needed at this point. This appeared to be a risk prone approach as cloud services tended to have minimum control. In response, the meeting heard that was an audit in the plan which was about to start to look at the implementation route by which Leisure Services would come back in-house. This was not to review the leisure service in function, but the program in place for the delivery of insourcing leisure functions. The report for this would be submitted to the Committee in October 2024. Risks were high for the cloud strategy, but the audit was pushed out because of all the other audits that were on the plan. This would be brought back into the audit space.

RESOLVED:

To note the content of the Head of Audit and Risk Management's annual audit report and assurance statement for 2023/24 and the accompanying appendices.

12. ANTI FRAUD AND CORRUPTION Q4 PROGRESS REPORT

Ms Vanessa Bateman, Deputy Head of Audit and Risk Management, introduced the report.

The meeting heard:

- In relation to gas safety, the risks the team were capturing were for properties that had been abandoned or the person there had died or even that the occupant had moved into sheltered accommodation. These cases were tracked. Sometimes the tenancy management team struggled to keep oversight of everything that was going on. There was a backlog of visits to do and some teams were still clearing backlogs from the lockdown period.
- Quite a lot of the pure fraud work of the team was hindered by the control breakdowns within the organisation. There were cases where there was an element of fraud ready to be pursued, but holistically there were control failures around this.
- The Council had reasonable systems of internal control and fraudsters would always try to find a way of breaking that system. A balanced and mindful approach was needed as there were people who presented to the Council to make a claim and it was important to balance what was needed from them against the fraud risk that existed. This was difficult, but the Council tried to get to a point where it would not over-inconvenience residents genuinely in need of services, but also deter fraudsters from being able to get through. Part of dealing with this involved keeping abreast of continuous changes.
- There was an audit in this year's plan looking at how the Council as an authority enforced its regulatory powers where necessary and this was really with a view to establishing whether the Council had the right control environment to take action or whether there was any actually monitoring arrangements to ensure compliance. Fraud Call was a tool for people to report any worries about fraud, the Council likely had tools for reporting other concerns that did not technically fit the fraud category. This could be pursued and publicised.

RESOLVED:

To note the activities of the team during quarter four of 2023/24.

13. NEW ITEMS OF URGENT BUSINESS

There were no new items of urgent business.

14. DATES OF FUTURE MEETINGS

The next meeting would be held on 8 October 2024.

CHAIR: Councillor Erdal Dogan

Signed by Chair ………………………………..

Date …………………………………