MINUTES OF THE AUDIT COMMITTEE HELD ON MONDAY, 27 JANUARY 2025, 7:05PM – 9:05PM

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

ALSO ATTENDING: Reyaaz Jacobs (Independent Member), Reene Deba (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 Councillor Adam Small.

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. TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26

Ms Josephine Lyseight, AD Finance & Deputy Section 151 Officer, Mr Daniel Lynch, Senior Accountant (Pensions & Treasury) and Ms Taryn Eves, Director of Finance & Section 151 Officer, introduced the report.

The meeting heard:

- A query was raised regarding the figure outlined on Table 3 on page 11 of the agenda papers which stated an estimate raise of new borrowing from £79.9 million to £399.9 million. In response, the meeting heard that it was driven by the capital financing requirements which was driven by the capital programme. The figure of 79.9 was capturing the last quarter of the financial year whereas the 399.9 was for the whole of the following year. The figures were basically one quarter against a whole year. It was both for the general fund and for the HRA.

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- The increase of the new borrowing was to just to cover the capital expenditure that was projected for the coming years. The total was a cumulative total.
- The Council had applied for exceptional financial support on 13 December 2024 and the draft budget report was published for the upcoming Overview and Scrutiny Committee. The report showed that in order to set a balanced budget or to recommend a balanced budget for 2025/26, the exceptional financial support was estimated at £37 million. When the Treasury Management Strategy statement was published for the Audit Committee, the estimate that could be seen in the report was £20 million (in Table 1 of the report). As a local authority, the Council were not currently allowed to borrow or use capital receipts for revenue spend which was a day to-day running cost. The exceptional financial support would, if approved, at the end of February 2024, would give the Council a special permission called a capitalisation direction. The Council's capital programme within the budget report included the figure of £37 million as exceptional financial support could be seen listed. This was not earmarked around particular services. The Council approached its budget by recognising all of the pressures it was facing particularly around social care, temporary accommodation and across every single service. It was important for the Council to set a budget that it felt was realistic. This would give the Council a budget gap position, then it would later identify any savings. The £37 million was similar to the Council identifying the budget gap that remained after the assumed savings. The figure was an outline of what the Council would need in order to deliver all of the services that it wanted to deliver in Haringey next year and still recognise all the spending pressures. The Council's income was £37 million short from where it needed to be. The Council may be setting a budget at this stage with an assumed £37 million of exceptional financial support. This did not mean that it needed to use £37 million worth of support. The work that the Council would continue to do into next year would be to reduce the amount that needed to be drawn down. Any increased reliance on borrowing with interest rates still high was challenging and was not sustainable. The Council had factored in some use of capital receipts, but the remainder would be through borrowing. Exceptional Financial Support was not a long-term solution. There was one amendment already to the treasury management strategy statement in that the exceptional financial support was now estimated at £37 million. The Council was not expecting any other significant changes. The Council could share with the Committee any changes before a recommendation was made to Full Council.
- The meeting agreed that Audit Committee would be updated before any recommendation was made to Council.
- The Committee noted how problematic some of the issues were and full transparency was necessary. Councillors would be asked in their local areas to explain to residents what was happening and what accountability they were taking.
- Although there was economic pressure, the labour market had been quite robust, so although unemployment was rising, it was at a fairly low level historically. In terms of borrowing costs, the main problem was going to be inflation and whether inflation came down to or stayed at an adequate level for the Bank of England to be able to cut interest rates. There were fears that some of President Trump's policies would prove to be inflationary such as trade tariffs which could lead to higher inflation and higher borrowing costs across the globe. This had been factored into the borrowing forecast as part of the 5% borrowing assumption in the report. The country was in a low growth economy with higher interest rates.
- In terms of the funding of exceptional financial support, as reported in the budget report published in the prior week, it was £37 million and the working assumption for

the budget was that £10 million of it that was funded by capital receipts and £27 million was funded through borrowing. The £10 million was based on capital receipts already received and those planned during 2025/26. The Council had a pipeline of already planned capital receipts. This was not because of the financial position, but capital receipts that were going to be generated anyway. The Council had taken a prudent view and only assumed £2 million from the capital receipts expected to come through in 2025/26. There was no assumption around immediate urgent sales. The Council had a duty of best value and therefore any sale of any asset needed to demonstrate best value. If the Council took the planned capital receipts in 2025/26, the estimated value would be more than £2 million. If generated, it was better to use it than to borrow, otherwise there would be a borrowing cost for a very long period of time. The Council would need to take a view if more capital receipts could be used. Setting the budget was a working assumption, but effective use of capital receipts was required. There was no assumption around emergency sales from any assets.

- Exceptional financial support should be a last resort. It was not a long-term solution. External support had been acquired to help the Council go through every single budget line to make sure that it was as efficient as it could be. The Council also had an exercise looking at its general financial resilience. That included reserve balances, the Council’s levels of debt compared to others, governance arrangements, setting of budget and delivery of savings. It was important to get this right.
- There would be regular contact with the Ministry of Housing, Communities and Local Government (MHCLG) who was supporting the exceptional financial support process. The Council would want to demonstrate that it was doing everything it could to reduce the reliance on the £37 million.
- In terms of the treasury management strategy, the Council’s approach to both investment and borrowing was largely in line with previous years. There was an option to expand or look at opportunities within commercial activity. The Council would not necessarily rule anything out and the strategy provided an opportunity to explore options if needed. Given the Council’s financial position and its low levels of balances and reserves available for investment, it was highly likely that the Council would continue to take a very risk averse approach. However, if an opportunity arose, expert opinion would be taken and reported through to the Committee. Income generation was equally as important as cost reductions for balancing the Council’s budget.
- The Community Infrastructure Levy (CIL) was part of one of the Council’s funding streams for the capital program. The full budget report also included a capital strategy which was a separate document and the draft was published for an upcoming Overview and Scrutiny Committee. It clearly set out some key funding streams that the Council would consider whether there were any appropriate schemes within the capital programme that met the requirements of the community infrastructure levy that the Council had received.
- A query was raised regarding whether CIL should be reviewed as the Council was undercharging for development in the west of the borough. This would be a query taken up outside of the meeting and explored.
- There were three options for exceptional financial support. One was the use of capital receipts, one was borrowing and one was to request the ability to increase council tax above the 4.99% threshold which was currently the referendum threshold. The Council had not put forward an option to increase council tax above the 4.99%. It was an option and could have been part of the application. However, it would require a very significant increase in council tax to address the £37 million shortfall.

- To set a realistic budget, the Council had to look at all of the pressures it would be facing next year and one of those pressures was the increase in National Insurance. The Council was expecting to get fully funded for direct employees, but was possibly expecting an increase in the cost of contracts, particularly within social care and children's services. The budget in terms of pressures amounted to £56 million. This included an assumption around increased costs as a result of the National Insurance increase. This was not the only driver for the £37 million shortfall, but was one of them.
- The CIL was very low on some developers and not only the west of the borough as more building was done in the east.
- The strategy set out the Council's approach to borrowing and investment. There would not be any change in terms of the strategy itself. There would be £37 million in exceptional financial support of which £10 million was from capital receipts and £27 million was from borrowing. The figures would be re-run, but the Council could not go over its borrowing limit.
- The £27 million would be borrowed from the Public Works Loans Board (PWLB) and would be at the PWLB rate. There would be no premium incurred. The Council would still only borrow at the point it needed to. Rates would be tracked to make sure that the borrowing would be done at the best rates possible.
- The PWLB had different loan margins. Different rates were applicable depending on the expenditure. This was the Government cost of borrowing plus 0.4% for housing expenditure, for general fund expenditure it was Government's cost of borrowing plus 0.8%.
- Treasury management investments basically covered all regular treasury management activities, but non treasury management investments would be things like commercial property, such as buying commercial assets for returns.

The Committee felt that it was not clear that the exceptional financial support did not imply exceeding the current capital receipts. This had not been written into the report. In response, the meeting heard that the update was probably more appropriate for the capital strategy which was a separate document that was part of the budget report, but efforts would be made to see if clarification for this could be made into the treasury management report which was about the borrowing aspect of the exceptional financial support as opposed to the capital receipts.

The meeting reconfirmed that any changes or updates would be subject to notification to members by email. The email would be sent in the coming week in case the Committee felt that an extraordinary meeting was required.

RESOLVED:

1. To recommend the proposed updated Treasury Management Strategy Statement for 2025/26 to Full Council for approval.

2. To delegate to the Section 151 officer in consultation with the Chair of Audit Committee, authority to agree any updates to the Treasury Management Strategy Statement for 2025/26 to Full Council for approval.

3. To note that the Overview and Scrutiny Committee (at its meeting on 20 January 2025) and the Cabinet Member for Finance and Corporate Services have been / are being consulted in the preparation of the Treasury Management Strategy Statement.

7. 2023/24 STATEMENT OF ACCOUNTS - EXTERNAL AUDITORS ANNUAL REPORT

Mr Kaycee Ikegwu, Head of Finance (Housing & Chief Accountant) and Mr Tim Cutler, KPMG, introduced the report.

The meeting heard:

- In relation to the use of agency staff, KPMG highlighted it as a risk they felt it was an area not just from a cost point of view, but from an ethical standpoint. Ideally, the Council would have more substantive people in place for cost neutrality. Whilst an individual member of agency staff may be more expensive than a directly employed member of staff, when all the additional costs of employment was taken into consideration, there was not a huge amount of difference. Efficacy was not present as directly employed permanent staff had greater continuity, career ambition and cumulative knowledge. People coming in and out of the organisation on a regular basis meant that knowledge was potentially lost. Although not a significant financial loss, it was a point worth reflecting.
- A query was raised regarding recommendations made for tracking recommendations going to in future years. In response, the meeting heard that there were two ways this was done. Firstly, they formed part of the annual governance statement. In the next Annual Governance Statement (for 2024/25), each recommendation would need to have an update provided. KPMG would also be looking at progress against any recommendations. Any recommendations KPMG raised this year would be followed up. The recommendations put in the auditor's annual report would be in the public domain, the ones in the ISA 260 report would be public in the sense they were on the agenda papers, but they were not ones that necessarily would be subject to response regarding significant weaknesses within the value for money conclusion. Any that did relate to the significant weaknesses, if not addressed by the time that KPMG concluded its audit for next year, clearly remained a risk and the weaknesses would remain in place for the following year's conclusion.
- Part of the reason any concerns would be raised was because KPMG’s conclusions should mirror the Council’s own assessment of internal control through the Annual Governance Statement (AGS). As a key aspect of internal control, there were things that the Audit Committee should have oversight of and ensure these were being actioned. Issues being flagged as significant weaknesses with significant recommendations matched against them would probably give the Council some impetus to say that unless the issues were actioned, the weaknesses and arrangements would remain as flagged.
- The AGS was submitted to the Committee twice a year and it may be useful to have it submitted more often and this would be considered. The AGS was submitted to the Committee in July 2024. An update would usually be brought six months later.
- In relation to voids, this was where KPMG had the most debate and challenge as to whether or not it merited the status of significant weakness. KPMG believed it had reached the right conclusion. In the end, it was clearly a risk and one that KPMG spent a lot of time talking to Housing Leadership and other directors. KPMG were previously party to a lot of the correspondence with the regulator on some of the issues. Whilst voids was an area of concern and one that KPMG felt appropriate to bring out in its commentary in the public report, KPMG’s role was to assess whether or not there were weaknesses in arrangements that required resolution. Having sight of some of the

assurances or the more positive tone of the correspondence from the regulator about the action that management had taken to address some of the issues, KPMG had felt more assured that the area fell short of a significant weakness. Management had started to put the foundations in place for how to respond. Voids remained an issue, but one KPMG would keep a watching brief on through the FY25 risk assessment. If KPMG did not feel that the pace of response was as quick as it was expected, the issue could then return to significant risk and weakness status in the future.

- In relation to Procurement, the use of an IT application or system did not change compliance, culture or behaviour. The system would support the Council's compliance with the Procurement Act, help the Council keep track of the contracts register and help to publish all the notices that needed to be published under the new Act. Some of the significant weaknesses that KPMG had picked up in their report had also been reported to the Committee in the past. It was important to get both procurement and the commissioning arrangements right.
- Across capital and revenue, the Council was spending about £600 million on contracts. There was an incentive to look at the Council's contract spends and its procurement processes just to ensure that the Council was getting value for money. This might be part of the solution to the £37 million shortfall.
- The Council's track record was not where it wanted to be in terms of delivery of savings. This had also become subject to KPMG's annual auditor's report. The Council, as part of the work to develop the budget, had gone back over existing savings including those that may have been approved in previous years. Budget holders had been challenged to deliver savings. In terms of new savings, there was between £22-23 million of new savings proposed for next year's budget. It was difficult to recommend a budget to Cabinet only to then inform Council that it was not likely achievable. There was no absolute assurance that the savings proposed were completely achievable and so there was a contingency to manage some of the risks around delivery. However, the Council could not afford to not deliver any 'Category A' projects (big transformation projects). These were monitored and had a good governance framework. However, the Council often forgot about other savings that needed to be delivered. A tighter corporate grip would be taken regarding the delivery of all savings. Responsibility for this sat generally with the service area, but there would be increased oversight.
- The use of monitoring tools included holding conversations with the budget holder and benchmarking. An electronic monitoring system may be useful in the future.
- Any modification in the KPMG audit opinion this year was purely due to the backstop date. There was work that would have to be done on reserves and the valuation of property plant and equipment, which would mean KPMG going back to previous periods. For example, the valuation report from FY23, which was subject to a time limitation. KPMG were hoping to agree a more efficient effective approach for FY25 which would mitigate the need to do a lot of that work. The significant risks noted was likely to be noted in the plan for FY25 as those significant risks were driven by either the largest or most subjective areas of the Council's financial statements. For example, valuation of property pensions. There was nothing KPMG had come across as part of its work to suggest that there was a material error, but KPMG had not been able to do the sufficient work to say there was not.
- In relation to journals, the recommendation raised was one that was common in public sector organisations. The ideal and most effective control from an audit point of view was that the Council had a 100% approval process on journals, so that when a journal was posted, it would immediately go to a different individual to approve that journal

with an appropriate audit trail so that they had the information they needed to show that it was a valid Journal. This functionality did not always exist in some organisations and there was also an issue whereby, often, a lot of time was required by management to implement this control. KPMG usually saw a more refined control whereby some over a certain level would need approval or a scan review would be taken of a batch of journals. However, this would fall short of how well this method could be relied upon on by KPMG as auditors. Management could simply say they did not wish to implement it, but KPMG was discharging its duty so that the Council was aware. It would not prevent KPMG giving assurance on journals in the future, but KPMG would probably have to do more work on them than it would normally have to because of the lack of control in terms of the high-risk journals.

- The journals were not high risk by management's definition or even by the Council's definition, but KPMG would apply a series of lenses to its journal screening, such as journals posted by a certain individual.
- KPMGs recommendation was more around management bringing in a certain level of review of the journals that had been posted.
- The Council had a mechanism in place for posting journals. Any journal above £50,000 was reviewed by senior officers. In terms of posting of journals, individuals would go through approval and was reviewed by a service Assistant Director, before it was posted by someone else. Any that were £50,000 and above, another individual would check it, before it was reviewed by a different person and posted. A spot check of journals would be done including who reviewed it before it was posted to see if that person had the appropriate rights.
- In terms of following up the value for money weaknesses, this would be done as part of KPMG's FY25 risk assessment. If KPMG did not feel that recommendations had been addressed satisfactorily, they would remain as risks or weaknesses. This was true for the significant ones but also for areas like social housing and governance weaknesses. It had been decided that they were not significant, but these would be looked at again to check that there's been no significant change in those areas.
- In terms of management's approach to the audit, it had been a very difficult period for them as they had been without auditor challenge for quite a while and there was an element of "ring-rust" regarding how to respond to an audit. One of the first visits KPMG had to Haringey, there appeared to be a desire from wider members of the finance team to get involved with the audit. Although there had been problems, they largely came from an unfamiliarity with the level of the request, not from a place where there was a resistance to providing information.
- In relation to fraud, the £160,000 threshold required a more flexible control approval to go out to procurement. The Council was looking to change this and bring in more stringent controls and challenging if the £160,000 limit was too high. This was being reviewed. The Council was also looking at low spend contracts as collectively it was quite high. A change in behaviour was likely required to understand the procurement rules so a whole communications and engagement piece was needed for anybody involved in any purchasing to remind them of their responsibilities.

The meeting acknowledged that the Legal advisor to the Committee, Ms Benita Edwards, was leaving Haringey Council and thanked her for her hard work and dedication to her role.

RESOLVED:

1. That the Committee consider the contents of the report and any further oral updates given at the meeting by KPMG.

2. That the Committee notes the Audit Findings Report of the auditors, KPMG and the management responses in the KPMG action plan contained within the report.

3. That the Committee gives the Chair of the Committee and Chief Finance Officer (S151 Officer) authority to sign the letter of representation to the Auditor.

4. That the Committee delegates the approval of the Statement of Accounts 2023/24, subject to any final changes required by the conclusion of the audit, to the Chair and to the Chief Financial Officer (S151 Officer).

CHAIR: Councillor Erdal Dogan

Signed by Chair ………………………………..

Date …………………………………