

# Audit Committee Minutes

Tuesday 12 September 2023

## PRESENT

**Committee members:** Councillors Patrick Walsh (Chair), Paul Alexander, Florian Chevoppe-Verdier, Ashok Patel and Adrian Pascu-Tulbure

**Other Councillor:** Councillor Rowan Ree (Cabinet Member for Finance and Reform)

### **Officers:**

Sukvinder Kalsi (Strategic Director of Finance)

Nicola Ellis (Strategic Director Chief Operating Officer, Corporate Services)

David Hughes (Director of Audit, Fraud, Risk and Insurance)

James Newman (Assistant Director – Finance)

Chris Harris (Head of Finance)

Moira Mackie (Head of Internal Audit) (attended remotely)

Patrick Rowe (Strategic Finance Manager, Treasury and Pensions)

Sophie Green (Treasury Manager)

Jules Binney (Risk and Assurance Manager)

Debbie Yau (Committee Coordinator)

**Guest:** Andy Conlan (Grant Thornton)

## 1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

An apology for lateness was received from Councillor Ashok Patel (who entered the meeting at 7:20 pm)

## 2. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 3. MINUTES OF THE PREVIOUS MEETING

The minutes and exempt minutes of the previous meeting held on 26 July 2023 were agreed as an accurate record.

4. **STATEMENT OF ACCOUNTS 2021/22, INCLUDING PENSION FUND ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT AND UPDATE ON 2020/21 ACCOUNTS AND 2022/23 EXTERNAL AUDIT**

Sukvinder Kalsi (Strategic Director of Finance) introduced the 2021/22 Statement of Accounts (SOAs) of the London Borough of Hammersmith & Fulham (LBHF), including the Pension Fund Accounts and Annual Governance Statement for approval.

Andy Conlan (Audit Senior Manager, Grant Thornton (GT)) briefed the Committee on the timeline and progress of the audits of the various accounts in 2020/21 and 2021/22 and noted the 2021/22 audit was substantially completed more efficiently with the Council's current Finance team. He then elaborated on the details of a main item remaining outstanding in the 2021/22 audit, i.e., the requirement for an updated triennial actuarial valuation of the net pension fund liability which was calculated by all local governments every three years. He further highlighted the adjustments and disclosure changes identified during the audit which were fewer than those found in the previous audit in 2020/21. The 2021/22 audit also made positive progress in the implementation of prior year recommendations.

Andy Conlon anticipated that after he and Paul Dossett (Key Audit Partner, GT) completed the detailed audit review, they would be able to give an unqualified opinion to the LBHF's 2021/22 SOAs, including the Pension Fund Accounts. The Committee noted that the External Auditor had completed the field work for the Value for Money Auditor's report for both 2020/21 and 2021/22 which, together with the signed SOAs, would be laid before the Full Council in November 2023.

Members noted that the accounts were subject to changes until they were formally signed and in the event of any further changes, it was requested that these be approved by the Chair of the Committee, in consultation with the Director of Finance and any significant changes would be notified to Committee (page 14, para. 4). In response to Councillor Florian Chevoppe-Verdier's concern about the procedures involved, the Chair said that he would consult the Committee on significant changes before he signed the accounts.

**ACTION: The Chair/Sukvinder Kalsi**

Councillor Adrian Pascu-Tulbure asked about potential solutions to the issues that the External Auditor had in obtaining suitable analyses and populations of debtors and creditors and the need for more resources to complete the required testing (page 359). Andy Conlan clarified that whilst this was an issue identified in the 2020/21 audit findings, the Council's responses in this area were much improved for the 2021/22 process with no problems encountered. Chris Harris (Head of Finance) added that it was caused by the legacy balances brought forward in debtors and creditors listings provided to audit and the management had undertaken housekeeping exercise to review legacy balances which would be carried out regularly going forward.

Councillor Chevoppe-Verdier remarked that while the External Auditor had identified risk associated with Aviva Infrastructure in the Pension Fund Annual Report 2021/22,

the Pension Fund Committee had already taken action to replace it. Separately, he appreciated the Council's ability to deliver an underspend against the budget despite the increasing cost pressures due to the cost-of-living crisis, high inflation and interest rates.

Echoing his appreciation, Councillor Rowan Ree (Cabinet Member for Finance and Reform) commended the hard work and contributions of the officers, in particular those in Finance and Pension teams, in finalising the 2021/22 SOA report. Andy Conlan added that the External Auditor had worked well with both teams in areas such as sample testing and creditor/debtor listings which were carried out in a timely and efficient manner.

Referring to the Government's new proposed backstop publication dates for prior year accounts which remained open, Councillor Ree asked about the impact, if any, on the LBHF's 2022/23 audit. Andy Conlan remarked that GT was looking forward to completing the LBHF's 2022/23 and 2023/24 audits, having been appointed by the Public Sector Audit Appointments (PSAA) to undertake LBHF's audits for the next five-year period from 2023/24. He said that audit fees in the market were going up, enabling investments in the local government audit sector to strengthen and expedite the audit process more efficiently. GT planned to commence the 2022/23 audit in October with the field work done by December 2023. It was expected that the 2022/23 audit report would be signed off before the end of the financial year, i.e. March 2024, provided that no major issues remained unresolved in the process.

The Chair noted with concern that some contractors' performance was below targets for Key Performance Indicators (KPIs) in some areas (page 140). In response, Nicola Ellis (Strategic Director Chief Operating Officer, Corporate Services) highlighted that there was a significant improvement in housing repairs work and constant dialogues with the relevant contractors on their performance to meet the KPIs would continue.

The Chair asked for the reason(s) for delivering the 2021/22 audit faster and better than the last one. Andy Conlan advised that for 2020/21, the pandemic and changes to working from home had disrupted the audit work as it usually took place on site, with face-to-face meetings held between the External Auditor and LBHF's Finance team. Besides, there had been a prolonged shortage of trained auditors in the public sector and a lot of turnovers in the local governments' finance teams. The combined effect had contributed to the substantial delays in the delivery of the local governments' audit findings for 2019/20 and 2020/21. Andy Conlan highlighted that with the adaptation to the current hybrid working, and the strengthening of GT's Audit team and LBHF's Finance team, GT was hence able to complete the 2021/22 audit more efficiently and effectively.

In reply to the Chair's question about the transfer of information between the External Auditor and LBHF, Andy Conlan noted that a digital Audit system called In-flow had been in place for many years and information/files transferred electronically upon audit requests would be uploaded to the system. He further advised that In-flow was enhanced about a year ago which had enabled them to work remotely and bring further efficiency.

## **RESOLVED**

That the Committee:

1. approved the 2021/22 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).
2. approved the Statement of Accounts for 2021/22, including the Pension Fund Accounts (Appendix 1).
3. noted the content of the external auditor's 'Audit Findings Report' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2).
4. approved the 2021/22 management representation letters (Appendices 3 and 4).
5. approved the Pension Fund Annual Report 2021/22 (Appendix 5).
6. noted that the accounts remain 'unaudited' until final sign-off by the external auditor.
7. delegated authority to the Chair of the Audit Committee, in consultation with the Director of Finance to approve any further adjustments to Appendices 1, 2, 3, 4 and 5 which may be required as part of the completion of the audit work.
8. noted the supplementary updates on the conclusion of the audit of the 2020/21 accounts and publication of the draft 2022/23 accounts and associated appendices.

## **5. RISK ASSESSMENT AND AUDIT PLAN 2022/23**

Andy Conlan (Audit Senior Manager, GT) introduced the document which provided an overview of the planned scope and timing of the LBHF's statutory audit and Pension Fund for those charged with governance. He highlighted the auditor reporting delays and the reasons outlined by National Audit Office (page 405), and the New Auditing Standards by International Standards Auditing (ISA) (UK), i.e. ISA 315 and ISA 240 (page 409).

Responding to the Chair's question about value for money of the audit service in view of the proposed increase of the audit fee for 2022/23, David Hughes (Director of Audit, Fraud, Risk and Insurance) noted that the PSAA was responsible for the appointment of local government External Auditors and acceptance of the proposed audit fees. While competition might have driven down the fees, investment to enhance the quality of staff was also essential. In comparing the audit fees for local governments and private companies, he considered that the audit service provided by GT, which was subject to external quality assurance review, was value for money.

In this connection, Councillor Ashok Patel recalled that at the meeting held last year, he had requested to see the other bids for the contract but the information was not yet provided. Andy Conlan pointed out that while all audit fees were publicly available, they were not directly comparable because the scale set by PSAA for each body was different and each had its own historical basis. The Chair urged officers to provide the information requested by Councillor Patel.

**ACTION: Sukvinder Kalsi**

Replying Councillor Adrian Pascu-Tulbure's enquiry about materiality and reputation, Andy Conlan noted that materiality was a broad concept used in financial statements to indicate significance in decision-making while reputational risk was less of an impact than materiality. It was related more to value for money.

## **RESOLVED**

That the Committee noted the Risk Assessment and Audit Plan 2022/23.

## **6. TREASURY MANAGEMENT OUTTURN REPORT 2022/23**

Patrick Rowe (Strategic Finance Manager, Treasury and Pensions) presented the Council's annual Treasury Management outturn for 2022/23, in accordance with the Council's Treasury management practices. He highlighted that no new borrowing had been undertaken in the 2022/23 financial year. In view of current interest rates, it was prudent to consider the borrowing strategy carefully and utilise the Council's cash balances as far as possible.

Councillor Rowan Ree (Cabinet Member for Finance and Reform) expressed appreciation to the work of the Treasury team in taking no borrowing under a volatile market environment of 14 consecutive Bank Rate increases.

Councillor Florian Chevoppe-Verdier asked about the Treasury Limits and Prudential Indicators. Patrick Rowe responded that they were drawn up in accordance with CIPFA guidance and approved by Full Council. Assessment was carried out on a quarterly basis to ensure that the Treasury function was operating within the limits set in the Treasury Management Strategy with reference to the Capital Strategy.

The Chair asked if there would be an opportunity to re-negotiate for a better interest rate upon maturity of loans. Patrick Rowe remarked that the treasury team would continue the strategy of utilising the cash balances to fund the capital programme as appropriate. Among the broad range of borrowing options available, the authority could access competitive rate from the Public Works Loan Board. For short-term borrowing opportunities, consideration would be given to taking multiple smaller deals over a period of 6 months with different durations to reduce maturity and interest rate risk.

Referring to the recent S114 notice issued by Birmingham Council, Councillor Ashok Patel was concerned about the depletion of the Council's cash balances, highlighting the importance of reserves for emergency situations. Patrick Rowe noted that the

Council's current cash balance totalled £246 million and would be monitored in line with other strategic considerations.

Replying to Councillor Adrian Pascu-Tulbure's question on the optimal level of cash balances, Patrick Rowe suggested that this was subject to other strategic considerations at the time such as yields on investments relative to borrowing costs, and cashflow projections. He suggested that were balances to drop below a threshold of £50 million, officers would carefully consider the cashflow projections over the immediate term and consider taking new borrowing. In this regard, Councillor Ree reminded members that the purpose of Treasury was not serving hedge fund functions. It was prudent to ensure that the Reserve yielded appropriate returns with easily accessible cash when it was needed.

## **RESOLVED**

That the Committee noted the annual Treasury Management Outturn Report for 2022/23.

## **7. LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN ANNUAL REVIEW LETTER 22/23**

Nicola Ellis (Strategic Director Chief Operating Officer, Corporate Services) introduced the report on the Local Government and Social Care Ombudsman (LGSCO) annual review letter 2022/23 which was received in July 2023. The letter provided a summary of the performance of LBHF from April 2022 to March 2023 which had improved when compared to 2021/2022 and was in the top four when compared to all London Boroughs. She further noted that the LGSCO covered majority of council services excluding those under the purview of the Housing Ombudsman who usually published performance data annually in December.

Noting that of the 28 requests investigated by the Ombudsman with decisions issued, 18 of them were upheld (representing 64%), the Chair asked about how were the lessons learnt. Nicola Ellis noted that after receiving the detailed decision from the Ombudsman, discussions were held among staff in the complaint handling and resident experience teams as well as those providing the service in question to see what individual learning could be taken away. The management would generally focus more on decision findings with a view to initiating changes across the Council.

Councillor Ashok Patel considered that 64% of cases being upheld was not impressive and even unacceptable from the commercial sector perspective. Nicola Ellis clarified that among all the services provided by the Council during the period of April 22 – Mar 23, the Ombudsman received 88 cases and 28 of them were investigated with decisions upheld for 18 cases. In reply to Councillor Patel's further enquiry about referring unresolved cases for external review before they reached the Ombudsman, Nicola Ellis noted that the Council had followed the Ombudsman's recommendation for local governments and implemented a 2-stage complaint handling process.

Councillor Adrian Pascu-Tulbure noted with concern about the increasing trends on the number of full decisions made by the Ombudsman (10 in 2020/21, 17 in 2021/22,

28 in 2022/23) and the number of decisions upheld (7 in 2020/21, 13 in 2021/22 and 18 in 2022/23). Nicola Ellis pointed out that the 2020/21 Decisions were lower as the Ombudsman had stopped accepting complaints for a period during the pandemic. For the same reason, there was a time delay in publishing the decisions. As regards the use of “disappointing” and “concerning” in the Ombudsman’s letter under “Your organisation’s performance” (page 442), Nicola Ellis noted that it referred to the same area of Housing service where improvements were happening at the moment.

Councillor Florian Chevoppe-Verdier agreed that the Ombudsman’s letter had demonstrated that performance of Hammersmith and Fulham Council had improved when compared to 2021/2022 as the recovery from the pandemic entailed a lot of changes such as working from home and hybrid working. Nonetheless, the LBHF was doing a much better job, with 20% less decisions upheld than its neighbours.

In reply to Councillor Paul Alexander’s enquiry about the forecast for the number of cases going through investigations and decisions by the Ombudsman for 2022/23, Nicola Ellis believed that it would be around the same level as in this year. On what could be the differences, she advised that many improvements had been made in respect of complaint handling for services across the Council, particularly for Housing services. Services aimed to resolve complaints early by directing them to the appropriate officers who would respond in a timely manner, avoiding the cases advancing to stage 2 and further to the Ombudsman. She agreed to provide information on the compensation awarded for the 18 upheld cases.

**ACTION: Nicola Ellis**

Councillor Alexander highlighted that there were different policies in respect of noise-related environmental pollution and some of the noise complaints were handled by the Housing service. Referring to complaints containing noise elements he came across in his casework, he observed that there was a lack of confidence in the Council among residents who might copy in the Ombudsman and/or Members of Parliament for written complaints. Nicola Ellis noted that noise complaints were dealt with by the Environmental Health and Public Protection and some were considered by the Housing Ombudsman if they were part of the landlord’s functions. In general, noise complaints had been identified by the Ombudsman as being an area where they received high levels of complaints across the country but it was not a major issue in the cases referred to the Ombudsman from this borough. Noise complaints would be judged by the Ombudsman against the relevant policies prevailing at that time.

Councillor Alexander remarked that the Environmental service might not be able to deal with complaints about noise and nuisance caused by Council home repairs. In this regard, Nicola Ellis undertook to liaise between the Environment department and Housing services and would provide feedback after the meeting.

**ACTION: Nicola Ellis**

Noting that the LGSCO would work with the Housing Ombudsman Service to develop a joint complaint handling code that would provide a standard for organisations to work to, Councillor Chevoppe-Verdier asked about the timeline of

consultation. Nicola Ellis said she expected that the consultation for the joint code to be held soon. She advised that the Council had been carrying out self-assessment of the Housing Ombudsman’s complaint handling code as a basis for improvements. The Committee would be briefed in due course on the most recent self-assessment.

**ACTION: Nicola Ellis**

Councillor Rowan Ree (Cabinet Member for Finance and Reform) considered the Ombudsman’s Annual Letter a good review report in terms of the individual attention given to each case. The information offered transformational insight and valuable opportunities to improve the Council’s approach to complaints.

**RESOLVED**

That the Committee noted the content of the LGSCO Annual Letter.

**8. DATES OF FUTURE MEETINGS**

The following dates of future meetings were noted:

- 27 November 2023
- 11 March 2024

Meeting started: 7.02 pm  
Meeting ended: 8.16 pm

**Chair** .....

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