

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Committee Room 3B - Town Hall  
2 March 2016 (7.00 - 8.40 pm)**

**Present:**

**COUNCILLORS:**

**Conservative Group**            Viddy Persaud (in the Chair)

**Residents' Group**            Julie Wilkes (Vice-Chair)

**East Havering  
Residents' Group**            Clarence Barrett

**UKIP Group**                    David Johnson

**Independent Residents  
Group**                          Graham Williamson

Apologies were received for the absence of Councillor Frederick Thompson.

Unless otherwise indicated all decisions were agreed with no vote against.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

**29     MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 1 December 2015 were agreed as a correct record and signed by the Chairman.

**30     EXTERNAL AUDITORS**

Debbie Hanson, Audit Director from Ernst & Young the Council's new External Auditors attended the meeting to introduce herself to the Committee and talk through the process which Ernst & Young would adopt in carrying out the audit.

She gave a brief introduction to Ernst & Young explaining that their Government and Public Sector unit had been growing with other 200 clients. She ran through the various stages the audit would pass through and advised that an Audit Plan would be submitted to the next meeting of the Committee in May. In future years the Audit Plan would be available in March.

The Committee thanked Debbie for her presentation.

**31     CLOSURE OF ACCOUNTS TIMETABLE 2015/16**

Officers provided an update on progress on the closure of accounts for 2015/16. Officers had explained that this year we had new auditors and whilst the audit coverage would be similar, the new auditors Ernst & Young would need to form

their own opinion over the council's procedures and there might be detail changes in the work undertaken.

The priority for the closure programme was to ensure that all key activities had been captured in the timetable, and the roles and responsibilities had been identified and understood.

The report had identified a number of key issues, which had included:

- The change of external auditors with Ernst & Young taking over from PricewaterhouseCoopers with effect from April 2015. Ernst & Young would need to form their own opinion on Havering's systems and processes, and would not be able to rely on work carried out in previous years.

Ernst & Young would also be auditing Newham's accounts: this could give scope for harmonising processes across the two authorities (particularly once Newham was on-board with One Oracle), but this potential was mitigated in the short term by Ernst & Young having a separate team at Newham.

- As previously advised by officers the statutory deadline for having the draft accounts available for audit was being brought forward from 30<sup>th</sup> June to 31<sup>st</sup> May with effect from 2017/18, and the deadline for the completion of the audit and publication of the accounts was being brought forward from 30<sup>th</sup> September to 31<sup>st</sup> July. This would create challenges for both the Council and the external auditors.

In order to speed up the year-end closedown process, it would be necessary to estimate the end position. This might apply to a number of activities but would certainly include requesting data earlier from external parties relating to:

- The valuation of Assets including Property, Plant and Equipment, on infrastructure assets, to determine for example impairment charges;
- The valuation of year end pension liabilities from the Pension Fund actuaries.

Use of these techniques would enable major year-end processes to be started prior to year end: and could bring a heightened risk of material misstatement needing to be addressed during the audit.

- Officers had confirmed that from 2016/17 local authorities would be required to include Highways Infrastructure on their balance sheets at net replacement cost, as opposed to the depreciated balance of previous years. This would have a major impact on the value of net assets for all authorities, but would have no impact on usable resources or the council tax requirement.

Infrastructure assets had now been valued on the required basis and the related data had been used to provide the Government with the information required in the Whole of Government Accounts. However, there was still a significant amount of work to be done to establish the correct accounting entries in restating the 2015/16 balance sheet to give the 2016/17 opening

balances.

- The implementation of Service Reviews would impact on responsibilities for specific parts of the accounts, with staff needing to become familiarised with new roles, procedures and systems. The sharing of functions would also impact on the audit coverage, with activity relating to Havering needing to be covered at Newham, and vice versa; the consequences of harmonising audit coverage were being followed up with the new auditors, Ernst & Young.

Significant areas affected for 2015/16 included the Collection Fund, with Council Tax being administered at Havering and Business Rates being administered at Newham. The Collection Fund impacted on all the prime statements in the accounts and any delay in this data being available would impact on finalisation of the accounts.

- Supporting the April 2016 on-boarding of Newham to One Oracle would potentially necessitate the support of staff pivotal to the successful closure of accounts. Reconciliations needed to be completed by 15 April, and diversion of resources could increase the risk of:
  - error or misstatement in Havering's accounts;
  - audit issues being identified, increasing workload in responding to the auditors; and
  - compromising achievement of the earlier closedown timetable, resulting in earlier closedown not being embedded for 2016/17.

Managers were aware of the accounts timetable and were managing the competing demands by, for example, ensuring reconciliations were completed in a timely manner.

The Committee had **noted** the report.

## 32 ACCOUNTING POLICIES 2015/16

The Committee had been advised that the CIPFA Better Governance Forum had produced a tool-kit for local authority Audit Committees which had recommended that members review accounting policies. Officers had undertaken a review of the existing accounting policies. The report had highlighted recent changes which had included:

- Accruals of Income and Expenditure – policy amended to disclose a de minimus for accruals raised manually of £50,000 for 2015/16 (£25,000 for 2014/15). The note showing the impact on the accounts resulting from the change (a reduction in net accruals raised estimated at around £2 million, which was not material to the overall published accounts) was not part of this accounting policy and would be included in the note on Critical Judgements in the Statement of Accounts.

- Various other minor wording changes to update Havering's accounting policies for changes in the 2015/16 Code of Practice Guidance; these had no practical implications on Havering's policies.

Any further significant changes would be brought to the Committee's attention and highlighted in the Statement of Accounts report in September 2016.

The Committee had **noted** the report.

### 33 **2014/15 AUDIT REPORT OF GRANT CLAIMS AND RETURNS**

The Committee had been advised that only the Housing Benefit Subsidy claim now required certification. In 2014/15 this had been certified by PricewaterhouseCoopers whom had issued a qualified claim. The cost of this certification had been £21,570.

Although the Government only required certification of one grant other funders required either certification or audit assurance in respect of the grant they had made. In 2014/15 five grants had required audit, only one of which had received a qualified opinion. This had been the DCLG Pooling of Housing Capital Receipts 2014/15 which had been subject to qualification because of discrepancies between data on the return and data held by the authority's housing management system, however, the return had not required amendment. The cost of these five additional audits had been £24,873.

Officers had advised that it was not possible to estimate how many grant funding bodies would require external audit certification from 2015/16 onwards and as such the Council might be exposed to the risk of increased audit fees.

The Committee had **noted** the report.

### 34 **INTERNAL AUDIT DRAFT PLAN AND STRATEGY**

Officers had prepared a draft Audit plan for 2016/17 for the Committee's approval. The oneSource audit team deliver an integrated service to both Havering and Newham and the plan included audit reviews within oneSource partners. The work of the team was underpinned by the Audit Charter and Strategy.

The service restructure has been delayed to accommodate a third partner. Officers had indicated that efficiencies would be achieved in the forthcoming year by delivering a total of 395 days of joint reviews across two partners.

The draft plan contained 1,900 days of which 602 had been allocated solely to Havering together with half of the 395 days for oneSource reviews. This was in line with last year's total planned days.

The Committee was informed that the plan was risk based and flexible and could be adjusted in-year to take account of any emerging risks.

Once the third partner joined, it might be necessary to revisit the Audit Plan.

The Committee had **approved** the Audit Plan for 2016/17 as presented.

35 **COMBINED INTERNAL AUDIT AND ASSURANCE UPDATE QUARTER 3**

The Committee had received a report on the work of the internal audit team during the period 5<sup>th</sup> October 2015 to 3<sup>rd</sup> January 2016. At the December meeting of the Committee the Head of Audit had given her opinion that based upon the work undertaken in quarter 2 of 2015.16 she could give a reasonable assurance that the internal control environment had been operating adequately. Based on the work undertaken in quarter 3, no material issues had arisen, which had impacted on this opinion.

An officer from the Manor Green Pupil Referral Unit had attended the meeting to address the Committee's concerns following the systems audit undertaken in 2015. At the time of the follow up audit, 21 of the original 27 recommendations had been implemented, with another having been superseded. The Officer had been able to give the Committee an assurance that all but two of the outstanding recommendations had now been implemented. An explanation had been provided regarding the final two recommendations and the Committee had recognised that more time had been required for these to be fully implemented and expressed their satisfaction with the steps taken so far.

Of the 6 system/computer audits completed in the third quarter three had received a Limited assurance. One of these was discussed in more detail. The Committee had agreed that management be allowed time to respond to the report and assess how the issue would be affected by the review of the Council's Document Retention Strategy. If it was felt that matters had not progressed in the next 6 months the Committee had asked that the appropriate officer should attend the next meeting thereafter to report on progress in addressing the issues raised in the audit.

The Committee considered how best to report fraud information as this often could present an unintended negative message and had asked officers to reconsider how they present the reports to ensure this was considered and a more balanced approach achieved in line with other councils.

Subject to the above comments the Committee had **noted** the report.

36 **UPDATE CORPORATE RISK REGISTER**

Officers had provided the Committee with a report updating the broad Corporate Risks the organisation faced, the ratings applied to them and the mitigations and planned actions identified and documented through the risk management activity of the council.

The review of the Risk Management Policy and Strategy had been delayed as part of the review and restructure of the Audit and Risk Service. The Policy and Strategy had now been revised and had been presented for approval.

Risk Management would also be considered as part of the current CIPFA and SOLACE consultation on 'Governance' expected late April 2016. This might impact on the future risk management approach.

The Committee had questioned the risk rating given for Business Continuity and Disaster Recovery Failures. Even after the mitigating actions/controls had been taken into account the Committee had still considered the rating to be high. Officers explained that they had taken a cautious approach. An exercise had been planned to test the efficiency and resilience of the plans. The Deputy Chief Executive and Group Director Communities and Resources assured the Committee that this would not be a major issue.

The External Auditor suggested that it might be helpful to include an additional column in the plan to indicate direction of travel.

The Committee had **noted** the report and the addition of the direction of travel.

### 37 **REVIEW OF RISK MANAGEMENT POLICY AND STRATEGY**

The oneSource audit team currently delivered an integrated service to both Havering and Newham and the Risk Management Policy and Strategy would be applicable to both councils and future partners joining oneSource.

The revised Policy and Strategy has adopted a roles and responsibilities model identifying roles for members, officers and forums sets out their responsibilities in robust risk management. The Audit Committee had a key role in overseeing the Council's Risk management Arrangements and setting the tone to be followed to help embed this across the organisation.

The Committee had **adopted** the Risk Management Policy and Strategy on behalf of Havering Council.

### 38 **EXCLUSION OF THE PUBLIC**

**The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.**

### 39 **TREASURY MANAGEMENT UPDATE QUARTER 3**

The Committee had received a report on performance of the Treasury Management Strategy in quarter 3. The level of funds available for investment in quarter 3 had been greater than that in quarter 2 but officers had indicated that this would decrease in quarter 4.

Good investments in quarter 3 had seen the level of Investment Interest earned outperform the budgeted Rate of Return and the Rate of return achieved in

Audit Committee, 2 March 2016

quarters 1 and 2. Officers had indicated that the timing of making the investments had been crucial to this good result.

The Committee had **noted** the report.

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**Chairman**