

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Town Hall, Main Road, Romford  
29 November 2016 (7.00 - 8.00 pm)**

**Present:**

**COUNCILLORS:**

**Conservative Group**            Viddy Persaud (in the Chair) and Frederick Thompson

**East Havering  
Residents' Group**            Clarence Barrett

**UKIP Group**                    David Johnson

**Independent Residents  
Group**                         Graham Williamson

Apologies were received for the absence of Councillor Julie Wilkes.

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

**15     MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 27 September 2016 were agreed as a correct record and signed by the Chairman.

**16     ANNUAL AUDIT LETTER**

The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2015/16 audit. They had issued unqualified opinions on both the Council's and Pension Fund's financial statements. The Audit Results Report had been issued on 26 September 2016 and the certificate of completion had been issued on 28 October 2016 once they had completed the WGA and Pension Fund work.

The External Auditors were required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This was known as the value for money conclusion. Ernst & Young had issued an unqualified value for money conclusion on 30 September 2016.

The Committee **noted** the contents of the letter.

**17     LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

Ernst & Young had circulated for the Committee's information their latest sector briefing. This included a section entitled 'What questions should the Audit Committee be asking itself?'

The suggested questions were as follows:

- What actions are being taken to consider the impact of the UK's decision to leave the European Union?
- Do we have appropriate governance arrangements in place to facilitate the delivery of the Sustainability and Transformation Plans?
- Are we ready for the changes to exit package calculations?
- If you are an administering authority has the impact of the proposed changes to the new pension investment scheme been considered and how the local authority will go about determining the value of their own investment?
- Did your local authority have a Barclays LOBO and if so have the impact of the changes made by Barclays been considered by your organisation?
- Has the authority got a plan in place to appoint an external auditor before December 2017?
- How thoroughly has the committee discussed the impact of culture on risk, risk management and the internal control environment?
- Are there systems in place to be able to calculate the gender pay gap, ensuring our organisation is prepared if this does become a requirement?

The Committee **noted** the contents of the sector briefing.

## 18 CLOSURE OF ACCOUNTS TIMETABLE

Officers advised the Committee of some of the challenges facing the Council in preparing the closure of accounts timetable. These included:

- Onesource were still in the process of finalising the restructure of finance which included changes in management arrangements and responsibilities, although the structure would be in place by January 2017;
- The Government proposals for assessing the value of all infrastructure assets for the 2016/17 accounts had been deferred until 2017/18. This provided an opportunity for the council to fine tune the valuations;
- This change would now be brought in to coincide with the early closure of accounts in 2017/18.

The Committee requested information on the process of assessing the valuation of infrastructure assets. Officers explained that the Council's own engineers were working with Jacobs to reach an agreed figure. Whilst the value of similar classes of road would be similar bridges were individual and unique structures which would have to be assessed individually. A national toolkit had been developed for use by all authorities to ensure a consistency of approach with regional values being adjusted.

The Committee **noted** the report and requested an update at the next meeting once the new management structure was in place and for a high-level timetable so they could assess how well the Council was progressing in meeting its targets.

## 19 NATIONAL SCHEME FOR AUDITOR APPOINTMENTS

The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors were appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

In July 2016 Public Sector Audit Appointments' (PSAA) were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person was sometimes referred to as the sector led body and PSAA had wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA was an independent, not-for-profit company limited by guarantee and established by the LGA.

PSAA was inviting the Council to opt in, along with all other authorities, so that PSAA could enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The principal benefits from such an approach were as follows:

- PSAA would ensure the appointment of a suitably qualified and registered auditor and expected to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA would monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It was expected that the large scale contracts procured through PSAA would bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts would be minimised through a smaller number of large contracts across the sector;

- There would be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an ‘auditor panel’; and
- A sustainable market for audit provision in the sector would be easier to ensure for the future.

If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose were independent appointees, this excluded current and former elected members (or officers) and their close families and friends. This meant that elected members would not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council’s external audit.

Alternatively, the Act enabled the Council to join with other authorities to establish a joint auditor panel. Again this would need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Officers were unable to recommend either of these options. Both options would be more resource intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

Having discussed the options the Committee **RECOMMENDED** to Council:

1. That it accepts Public Sector Audit Appointments invitation to ‘opt in’ to the sector led option for the appointment of external auditors commencing 1 April 2018, for the financial years of the contracts let in accordance with their procurement strategy; (5 years was currently proposed);
2. If (1) was agreed delegate to the Section 151 Officer authority to give notice to the PSSA that the invitation was accepted.

## 20 **INTERNAL ASSURANCE REPORT QTR. 2**

The Head of Assurance submitted the Quarter 2 progress report for the Committee’s attention. At the previous meeting in September the Head of Assurance had given a reasonable assurance that the internal control environment was operating adequately. Based upon the work undertaken in quarter 2 no material issues had arisen that would impact on that opinion.

At the September meeting the Head of Assurance had advised the Committee that as a result of the time taken to complete the restructure and the fact that the restructure was not fully populated the service would be unable to deliver the entire work plan.

Officers had undertaken a review of the work plan and identified a number of changes to take account of the number of days previously added to the plan and identifying a number of audits which could be moved back to early 2017/18 or where the number of hours allocated to the work could be reduced. The outcome of this review was that Havering audits would be reduced by 74 days and oneSource audits by 45 days.

The Committee **noted** the revisions to the work plan.

To make the restructure work more effectively a 'One Policy, Strategy and Procedure' approach was being adopted to achieve a consistency of approach across the three boroughs. Some of this work had started before the formal creation of the new Assurance Structure. In particular, a consistent approach to the Audit Opinions given at the completion of each audit had been introduced earlier this year.

Previously the Havering reports had one of four opinions. Earlier this year the Internal Audit team at Havering had introduced the following revised levels of assurance:

- **Substantial Assurance** – There was a robust framework of controls and appropriate actions were being taken to manage risks within the areas reviewed. Controls were applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Moderate Assurance** – Whilst there was basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.
- **Limited Assurance** – There were fundamental weaknesses in the internal control environment within the areas reviewed, and further action was required to manage risks to an acceptable level.

The Committee **noted** the revised level of Assurance and asked officers to review these on a regular basis.

Having considered the audit reports the Committee noted that the audit of the Direct payments system had only received a limited assurance. The Head of Assurance advised the Committee that a follow up report would be coming back to the Committee 6 months from the date of the audit opinion.

Details of the proactive audit and counter fraud work were provided to the Committee. The bulk of the Investigations Team's time had been focussed on the Tenancy Fraud Project which to date had resulted in net savings of £3.1m.

The Head of Assurance informed the Committee that he was reviewing the work of the Proactive Audit and Counter Fraud service with the intention of focussing resources in high risk areas and passing some of the low risk work back to managers and HR. The areas which were being considered for passing back to management and HR included misuse of Internet. If this was acceptable to management the Policies, Protocols and Procedures would need to be revised.

Officers would be reviewing the Audit Charter and this would be submitted to the next meeting for approval. This would include details of the new levels of assurance.

The Committee **supported** the need to refocus resources towards tackling high risk areas.

Officers advised the Committee of issues that arose from claimants who had 'no recourse to public funds.' In certain circumstances the local authority had an obligation to provide support. The London Borough of Bexley had seen an increase in the number of claimants with a proportionately higher number of fraudulent claims. Conversely the London Borough of Newham had seen a decrease. The problem appeared to be a lack of understanding of the regulations by front-line staff and processes and training were being updated to tackle the issue.

The Committee **requested** an update for the next meeting on the number of claimants in the three boroughs and an estimate of the cost of the fraudulent claims.

## 21 **TREASURY MANAGEMENT UPDATE QTR 2**

The Chartered Institute of Public Finance and Accountancy's Treasury management Code required that Authorities report on the performance of the treasury management function to full Council at least twice a year (mid-year and year end.) Additionally this Committee receives a quarterly update.

Officers informed the Committee that the average level of funds available for investment purposes had increased marginally from £232m in quarter 1 to £235m in quarter 2,

During both quarter 1 and quarter 2 the investment performance had exceeded the budgeted rate of return despite the UK Bank Rate being reduced to 0.25%.

The Council had not borrowed any new money and had no intention to borrow in advance of need for the remainder of the year. Similarly there had been no debt rescheduling in the quarter. All the treasury and Prudential Limits had been adhered to

The Committee asked officers whether the Council had been exposed to any risk following Barclays Banks changes to their LOBOs. Officers gave members an assurance that the Council were not exposed to any risk having only a limited investment with Barclays Bank plc.

The Committee **noted** the report.

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**Chairman**