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MINUTES OF A MEETING OF THE AUDIT COMMITTEE Town Hall, Main Road, Romford 1 March 2017 (7.00 - 8.15 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.

22 DISCLOSURE OF INTERESTS

11. INTERNAL ASSURANCE REPORT QTR.3.

Councillor Frederick Thompson declared a Personal interest as his wife, Councillor Wendy Brice-Thompson was a Governor of Royal Liberty School. He took no part in the discussion on the audit report relating to Royal Liberty School.

23 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 29 November 2016 were agreed as a correct record and signed by the Chairman.

24 MATTERS ARISING FROM THE MINUTES

Further to minute 20 of the meeting held on 29 November 2016 officers advised the Committee that the number of 'no recourse to public funds' cases varied greatly across the three oneSource boroughs. Newham were currently supporting 77 cases and Bexley 99 cases. The number supported by Havering was understood to be far fewer. The London Borough of Bexley had a budget of £1.2m to deal with these cases whilst Havering's budget was £260k.

Included in the Audit Plan and Fraud Plan for 2017/18 was provision for an audit of the processes and an investigation, if necessary, in to specific cases. At Bexley Counter Fraud work had seen the number of cases being supported reduced from around 130 to 99, representing a saving of £350k.

The Committee thanked officers for the feedback.

25 **EXTERNAL AUDIT PLANS 2016/17: LONDON BOROUGH OF HAVERING AND HAVERING PENSION FUND**

(a) London Borough of Havering.

The Council's external auditor's Ernst & Young presented their audit plan for the Council.

The Audit Plan covered the work they planned to perform to provide the Council with:

- Their audit opinion on whether the financial statements of London Borough of Havering gave a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- Their conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

The audit would also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

This year, for the first time, the Council would prepare Group Accounts consolidating the transactions and balances of its wholly owned subsidiary company Mercury landholdings. Ernst & Young were assessing the significance of the component entity to the group. Their planned involvement in the work of Mazars, as auditors to Mercury Land Holdings, would depend on that assessment.

The scale fee for this year's audit would be £151,844 for the audit opinion and VFM conclusion and £16,178 for the certification of claims and returns. The work with the auditors of Mercury Land Holdings was likely to attract a variation to the scale fee.

The Committee **noted** the report.

(b) Havering Pension Fund

The Council's external auditor's Ernst & Young presented their audit plan for the Havering Pension Fund.

The Audit Plan covered the work they planned to perform to provide the Committee with:

- Their audit opinion on whether the financial statements of the Havering Pension Fund (the Pension Fund) gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017; and

- Their opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering Council.

The indicative fee for the audit of the Pension Fund was £21,000.

The Committee **noted** the report.

26 **AUDIT COMMITTEE BRIEFING**

The Council's external auditors Ernst & Young delivered a briefing on issues which might have an impact on the Council, the Local Government sector, and the audits they undertake.

The briefing identified key issues such as Social Care Precept and New Homes Bonus, the Local Government Funding Settlement, Financial Stability of Schools, Highways Network Assets, Priorities for social care in 2017 and Sustainability and Transformation Plans, all of which could have an impact.

The briefing posed questions which the Committee should ask itself. These were:

- Had the authority made a decision on whether or not to opt into the PSAA sector-led arrangements for the local appointment of auditor's from 2018/19? Yes the Council had opted in to the PSAA sector-led arrangements.
- Has the authority decided whether they would use the revised flexibility on the social care precept for 2017/18 and 2018/19? Yes the Council had agreed to a 2% increase in 2017/18.
- How confident was the authority about its preparation for the introduction of Highways Network Assets? Had there been discussions with the external audit team on the key issues and plans for implementation? The Council had made significant progress in this matter.
- Had the authority engaged positively with health and other partners in the development of Sustainability and Transformation Plans? Yes
- Has the authority put plans in place to meet the faster close requirements for 2017/18? Yes.

With regard to the social care precept the Committee asked what extra steps Councils had to take if they had decided to agree the maximum increase of 3%. Officers advised that they had just received details from the Treasury and were assessing the paperwork. They would advise members of the differences.

27 **2015/16 AUDIT REPORT OF GRANTS CLAIMS AND RETURNS**

Officers submitted an overall summary of the 2015/16 audited grants claims for 2015/16 compared to 2014/15. There had been just one claim which required auditing in 2015/16 similar to 2014/15. This was in respect of Housing and Council Tax Benefits. This had been certified by Ernst & Young with no amendments. This represented a good performance on behalf of the Council.

The value of the grant for 2015/16 had been £96m and the fee was £15,080, compared to £21,570 in 2015/15.

In addition to the grants which required certification three grant funding bodies had published a requirement for grantees to engage an external auditor to report audit compliance or assurance for their 2015/16 funding.

These three grants were:

- Teachers Pensions – assurance required against £43m total contributory salary which included £10.6m teachers pensions contributions;
- DCLG Pooling of Housing Capital receipts – Certification of £8.5m Housing Capital receipts;
- GLA Housing Compliance audit – compliance re £0.5m spend re GLA grant funding.

Grant Thornton had been engaged to perform the certification of the Teachers Pensions at a cost of £3,350 plus vat. They had concluded that the End of Year Certificate had been prepared in accordance with the regulations.

Grant Thornton had also been engaged to undertake the certification of the Housing Capital receipts at a cost of £1,340 plus vat. This work had been unqualified with one amendment which had no monetary effect.

The final piece of work had been undertaken by Mazars at a cost of £1,800 plus vat.

In total the additional audit fees had cost £6,490 plus vat.

The Committee **noted** the report.

28 CLOSURE OF ACCOUNTS TIMETABLE 2016/17

Officers had submitted a report advising the Committee of the progress to date in preparing for the closure of the 2016/17 Accounts.

As previously advised the statutory deadline for having the accounts available for audit had been brought forward. Furthermore, the amount of time available to the auditors to complete their assurance work was being reduced by a third. The changes are summarised below.

	FY 2016/17	FY 2017/18
Draft Accounts prepared by	30 th June 2017	31 st May 2017
Accounts Audited by	30 th September 2017	31 st July 2017

The Committee were advised that in order to speed up the year-end closedown process, it would be necessary to introduce a greater level of estimation to finalise the year end position. This might apply to a number of activities but would certainly include requesting data earlier from external partners relating to:

- The valuation of Assets including Property Plant and Equipment, and Infrastructure assets to determine for example, impairment charges; and

- The valuation of year end pension liabilities from Pension Fund actuaries.

Preparations for earlier closure had commenced in 2015/16 by bringing forward timetable deadlines for Services. With exceptions, Services had achieved the earlier deadlines; in particular, schools data had been consolidated into the accounts ahead of the timetable, and the Pension Fund accounts had been available by the end of May.

As previously reported this gain had been lost due to:

- the launch of the finance transformation review in April 2016 which had led to resources being re-directed to that process at key points in the closedown programme, and
- a delay in the Capital closedown programme as a consequence of additional testing requirements associated with an upgrade in the Asset Register and staff vacancies in the capital accounting team. Capital remained the most complex year end procedure and had a major impact on the financial statements.

Officers advised that in addition to bringing forward the timetable, there were a number of further risks arising from the need to embed recent Service reviews.

Finance had undergone a major restructure involving staff from Bexley, Havering and Newham Councils. The new structure had been completed in December 2016 and went live on 9th January 2017. Interim arrangements were being implemented to cover posts currently not filled. Closure of the 2016/17 accounts was being managed by the interim oneSource Chief Accountant across the three authorities reporting to the Head of Finance (Financial Control and Corporate Business Systems) and handover arrangements were in place to support the preparation of the 2016/17 accounts.

The auditors, Ernst and Young, were aware of the changes in management structure, and would be meeting with both the outgoing Head of Corporate Finance, and Head of Finance as part of handover arrangements.

The Collection Fund impacted on all of the prime statements. In 2015/16 there had been a delay in receiving NNDR data and if other deadlines could be met for 2016/17, any delay in the availability of Collection Fund data could have a detrimental impact on the critical path.

The Committee were advised of other issues which could have an effect. The first was the fact that Ernst & Young were auditors for both Havering and Newham and would be asked to harmonise audit processes across both boroughs where possible, particularly since both boroughs now operate the same instance of 1 Oracle, and share support staff for common transactional services.

It had been intended that, from 1st April 2016, local authorities would be required to include Highways Infrastructure on their balance sheets at an estimate of the current cost, as opposed to the depreciated balance of past expenditure as at present. This had now been deferred pending confirmation by CIPFA LASAAC, but was anticipated to be in financial year 2017/18.

The change would have a very major impact on the value of net assets reported 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 information required in Whole of Government Accounts.

The 'Telling the Story' review introduced a new note to the Code, the expenditure and funding analysis, which aimed to provide a direct and accessible reconciliation between the way local authorities were funded and prepare their budget and the comprehensive income and expenditure statement. Local authorities were now required to report their comprehensive income and expenditure statement on the same basis as they were organised rather than in accordance with the Service Reporting Code of Practice (SeRCOP). This would include the restatement of prior year figures for the purposes of comparison.

With the setting up of Havering's wholly owned subsidiary - Mercury Land Holdings Ltd - it would be necessary to complete group accounts for 2016/17. This should not be a major issue for 2016/17 due to limited operations. However, as Mercury Land Holdings expanded its activities it would become a significant consolidation risk in the future. Additional allocation had been built into the timetable to allow necessary review process for the group consolidation activity.

Ernst and Young had presented their Annual Audit Letter to Audit Committee on 29 November 2016. The purpose of the Letter was to communicate to Members and external stakeholders, including members of the public, the key issues arising from their work which they considered should be brought to the attention of the Council.

The issues identified as requiring attention had included:

- The valuation of investment property and property, plant and equipment

The Council had not assessed whether there had been any significant movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date of 31 March 2016. Additional work had been undertaken by the valuer, which had identified that there had been an upward movement in values of around 10%. As a result, it had been estimated that the value for council dwellings in the accounts had been understated by £44 million. The accounts had been amended to reflect this updated valuation.

- The medium term financial plan and key assumptions

Work was ongoing to address the budget gaps in 2017/18 and 2018/19, whilst maintaining reserves at the Council's recommended minimum levels. The Council had established a process for the identification of savings and income generation proposals for 2017/18 and 2018/19, but would need to consider its approach towards the identification of savings in 2019/20 and beyond. This was being addressed as part of the budget strategy for 2017/18 and beyond.

- Written Instructions to Valuers

The Council had used an internal valuer to undertake the valuation of certain property assets in 2015/16, but had not issued formal instructions. This had been addressed in closing the 2016/17 accounts to ensure that valuation work was undertaken in accordance with relevant guidance and statutory requirements.

- Social Care System Reconciliations

When testing expenditure, the auditors had noted that the transactions recorded in adult social care system had not been reconciled to the general ledger. They had noted that the Council had now addressed this issue and

reconciliations of transaction data to the general ledger in relation to adult social care had commenced in 2016/17.

The Committee **noted** the report.

29 **ACCOUNTING POLICIES 2016/17**

The Committee had been advised that the CIPFA Better Governance Forum had produced a tool-kit for local authority Audit Committees that had recommended that members review accounting policies on an annual basis.

The report before the Committee set out the revised accounting policies that would be applied during the financial year 2016/17 in preparation of the Council's financial statements. The full policies were shown in appendix A to the report and would be included in the Statement of Accounts. The policies had been prepared under the International Financial Reporting Standards (IFRS). The Committee were invited to note these policies and make comment. Reviewing of accounting policies by Members ensured that the Council and Audit Committee followed the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

Unless there were major changes to accounting rules and regulation, accounting policies did not change significantly between years because the accounts would not be comparable from one year to the next.

The draft audited Statement of Accounts for 2016/17 would be presented to the September 2017 Audit Committee for approval. The accounting policies statement would be included within the accounts and any changes made during the course of the closedown programme and/or audit would be highlighted and explained by officers.

Details of the proposed amendments were listed in the report and included in the Statement attached as Appendix 'A' to the report.

The Committee **noted** the report.

30 **ANNUAL FRAUD PLAN UPDATE**

Officers withdrew this report and would resubmit to the next meeting as it would work well with the reports on Risk and the Audit Plan.

31 **INTERNAL ASSURANCE REPORT QTR.3**

The Head of Assurance had submitted a report detailing the work undertaken by the assurance team during the period 3rd October to 31st December 2016.

At the previous meeting the Head of Assurance had given his opinion that based on the work undertaken in quarter 2 he could give a reasonable assurance that the internal control environment was operating adequately. Based upon the work undertaken since the last update no material issues had arisen which would impact on that opinion. There had been four limited assurance reports, details of which were provided for member's information.

16 reports had been issued in quarter three. One of these had a Substantial Assurance, 11 received a Moderate Assurance and 4 a Limited Assurance. All four Limited Assurance reports related to schools' triennial reviews. Officers advised that they would be arranging follow up audits for all four schools which received a Limited Assurance. In all cases the recommendations had been accepted by the Head teacher and an Action Plan drawn up.

The Investigation Team had recovered two properties with a notional value of £36,000 and had seen seven Right to Buy applications withdrawn, with a notional value of £608,926.

Officers advised the Committee that the oneSource Assurance Service had been shortlisted for the Innovation In Internal Audit Public Finance award. This related to the team's work on the schools' audit programme.

The Committee **noted** the report.

32 **MIKE BROAD**

The Committee placed on record their appreciation for the work Mike Board had undertaken over the years in supporting the Committee and wished him well in his retirement.

Chairman