

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Town Hall, Main Road, Romford  
27 November 2018 (7.00 - 7.35 pm)**

**Present:**

**COUNCILLORS:**

**Conservative Group**            Matt Sutton (Vice-Chair), Viddy Persaud and  
   Roger Ramsey

**Residents' Group**            Gerry O'Sullivan

**Upminster & Cranham  
Residents' Group**            Clarence Barrett

**North Havering  
Residents Group**            Martin Goode (in the Chair)

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

**8        DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

**9        MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on the 30 July 2018 were agreed as a correct record and signed by the Chairman.

**10      HEAD OF ASSURANCE - PROGRESS REPORT 2018/19**

The Head of Assurance submitted a progress report for the Committee's attention, which provided details of the work undertaken by the internal Audit and Counter Fraud teams during the first half of 2018/19.

At the previous meeting in July the Head of Assurance had concluded that reasonable assurance could be given that the internal control environment was operating adequately during the 2017/18 financial year. There could be some qualifications to the conclusion where audit work had resulted in limited assurance opinions. One limited assurance report was issued in the first half of 2018/19. However, it was considered that this did not have a material impact on the overall opinion of reasonable assurance for the first half of the 2018/19 financial year.

There were 11 high risk recommendations arising from reports issued in the first half of 2018/19, all of which were due to be implemented by the 30<sup>th</sup> September 2018, but were currently in the process of being reviewed as part of two follow up audits since the original reviews were given a limited assurance rating. The two audits were: No Recourse to Public Funds and Project and Programme Governance. The outcomes of these follow up reviews would be reported in the next progress report.

There were no outstanding school audit recommendations, however, concern was raised by Members that Brady Primary School had been given moderate assurance despite having three high risk recommendations. It was explained that schools had a wide compliance base and that the issues identified related to specific areas, which would not necessarily affect the overall rating but would be scrutinised. The Committee requested a breakdown of high risk findings at future meetings so that they could scrutinise the clarity of the assurance. A specific response to Cllr Barrett was to be provided by the audit team regarding the Brady Primary School question.

It was noted that an update on the Tenancy Audit would be provided at the next meeting.

**RESOLVED:**

**That the report be noted.**

**11 TREASURY MANAGEMENT MID YEAR UPDATE 2018/19**

It was explained that 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 per year (mid year and at year end). The Authority's treasury management strategy for 2018/19 was approved at a meeting of the Authority in February 2018.

The key highlights of the Mid-year report were as follows:

- Investment portfolio average quarterly return was 0.85% as at 30 September 2018 compared against the average quarterly 3 month LIBOR benchmark of 0.73%.
- The Treasury Advisor's benchmarking club of 15 London Boroughs had an average return of 0.84% in Quarter 2 on comparable internally managed investments.
- No breach of the Authority's prudential indicators and treasury indicators.

The Authority held a £7m LOBO loan, where the lender had the option to propose an increase in the interest rate at set dates and the Authority would consider repaying the loan at no break cost if the opportunity arose as it was not currently viable to restructure the loan at this time.

The Committee received the 2018/19 Budgeted Capital Financing Costs and were advised that the interest earned to date and the forecast capital financing costs took into account a forecast reduction in capital expenditure during the year from £185m to £118m due to slippage in the capital programme.

**RESOLVED: That**

- i) **The treasury management activities for the half year detailed in the report, be noted.**
- ii) **Section 7 on the separation of structures of larger UK Banks into retail (ring fenced) and investment (non ring-fenced) banks, be noted.**

**12 2017-18 ANNUAL AUDIT LETTER**

The Committee received the annual audit letter issued by the Council's external auditors, Ernst & Young, which summarised the results of their 2017/18 audit. The purpose of the letter was to communicate the key issues which arose from the auditors' work which they considered needed to be brought to the attention of the Council.

The letter included the following issues:

- Ernst & Young issued unqualified opinions on both the Council's Main accounts including the group position, and the Pension Fund financial statements. The Audit Results report was issued on the 31 July 2018 and their certificate was issued on the 29 August 2018 upon completion of their Whole of Government Accounts work.
- The 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. A significant risk had been identified in relation to 'the establishment of the Joint Venture'. In addition, the letter listed some of the key issues that needed to be addressed.
- In 2016/17, three control issues were identified and a plan of action to resolve these concerns was undertaken. As part of the 2017/18 audit, the auditors did not identify any significant deficiencies in the design of operation of Havering's internal controls that may result in a material misstatement in the Council's financial statements.

Members noted that the Auditor's work on the Council's Housing Benefit subsidy claim had been completed and no issues had been identified and there would be no additional fee for these works. A detailed report of the work would be provided at the next meeting.

Members continued their discussion, from the previous meeting, on the valuation of land and buildings with regards to the transfer of assets for nil value upon conversion to academy status and their subsequent relevance of inclusion in the financial statements as the land and buildings were not readily marketable. In response to a letter to the Chartered Institute of Public Finance & Accountancy (CIPFA) highlighting the committee's concerns, and to London borough wide discontent, CIPFA had advised that they may review the balance sheet accounting policy. The Council's accounts would continue to be presented in accordance with CIPFAs accounting policies. The Committee requested that a narrative been provided to the accounts providing an explanation of any anomalies.

**RESOLVED:**

**That the contents of the letter, be noted and any issues raised by the external auditor considered.**

**13 FORWARD PLAN 2018/19**

The Committee reviewed and agreed the work programme as below:

January 2019:

**Audit Committee, 27 November 2018**

- External Audit Plan 2018/19 for London Borough of Havering and Havering Pension Fund
- Governance Update
- 17/18 Grants Certification Report
- Assurance Progress Report
- Draft Treasury Management Strategy Report 19/20
- Accounting policies 2018/19
- Closure of Accounts Timetable 2018/19
- Review of Risk Management

**April 2019:**

- 2019/20 Internal Audit Plan, Strategy and Charter
- Audit Committee – Annual Report 2018/19
- Assurance Progress Report Q3
- Member training plan

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**Chairman**