

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
2 December 2014 (7.30 - 8.35 pm)**

Present:

COUNCILLORS:

Conservative Group Frederick Thompson (in the Chair), Viddy Persaud

Residents' Group Julie Wilkes (Vice-Chair)

**East Havering
Residents' Group** Clarence Barrett

UKIP Group Philip Hyde

**Independent Residents
Group** Graham Williamson

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

19 MINUTES OF THE MEETING

The minutes of the meeting held on 25 September 2014 were agreed as a correct record and signed by the Chairman.

20 ANNUAL AUDIT LETTER

PricewaterhouseCoopers (PWC) the council's External Auditors had delivered their annual audit letter to the committee summarising the result of their 2013/14 audit. The Committee was advised that there were no changes between the information provided at their last meeting when they had considered the report to those charged with Governance – International Standard of Auditing (ISA) 260.

The Committee's attention was brought to some variances in the proposed fees. These were:

- Overruns incurred during the final audit (£8,063);
- Additional targeted work undertaken in respect of oneSource to inform PWC's value for money conclusion (£6,666).
- Changes in the Audit Commission certification regime, which required PWC to obtain audit comfort over Council Tax Support awarded and Business Rates income in the statement of accounts from additional audit procedures over these items, rather than by relying on certification work undertaken over the respective grant claims (£1,300 for Business Rates, £0 for Council Tax Support; and
- Additional audit work in relation to the additional risk in relation to pooled investment vehicles and the Pension Fund Annual Report (£3,645).

PWC indicated that they were currently in the process of agreeing the fees described above, that were in addition to the scale element, with the Audit Commission, and would report the final position in due course.

PWC's fee for certification of claims and returns was yet to be finalised for 2013/14 and would be reported to those charged with governance at a later date within the 2013/14 Annual Certification Report.

The Committee **noted** the report.

21 **CLOSURE OF ACCOUNTS TIMETABLE 2014/15**

Officers informed the Committee that the Council had successfully closed its accounts and prepared its Financial Statements for 2013/14. There were a number of technical changes required under the Code of Practice and for local reasons in 2014/15. The priority for the closure programme was to ensure that all key activities had been captured in the timetable and roles and responsibilities identified and understood.

The following key issues would need to be addressed during the 2014/15 closedown.

- **Voluntary Aided and Foundation Schools**

In October 2012, the Chartered Institute of Finance and Accountancy (CIPFA) had published a Financial Reporting Advisory Board Paper on the Exposure Draft of the Updated Code of Practice on Local Authority Accounting 2011/12 and the 2012/13 Code. This had recommended that Foundation and voluntary aided schools should not normally be recognised on the balance sheets of local authorities as their assets were not usually deemed as being owned by the authority. Arising from this, and on the direction of the Council's auditors PricewaterhouseCoopers, the Council had removed these schools from its balance sheet.

However, following adoption of IFRS 10 Consolidation of Financial Statements, CIPFA was now of the view that "the single entity financial statements were also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority". Local authority maintained schools were defined as community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools; accordingly, voluntary aided and Foundation schools would need to be brought back on to the Council's balance sheet for 2014/15.

Officers are considering with the auditors the presentation of prior year figures, and liaising with the valuers over current values of the assets involved.

- **Infrastructure Assets**

Infrastructure assets included roads, highways, bridges and street furniture. These assets were currently recorded on the Balance Sheet on a Depreciated Historic Cost (DHC) basis. The Whole of Government Accounts guidance had included a requirement to record such assets on a Depreciated Replacement Cost (DRC) basis since 2012/13. It would be necessary to identify all such assets, with appropriate measurements, and then establish the cost of replacing these assets at current prices (in accordance with The Code of Practice on Transport Infrastructure Assets). Valuations would need to be updated regularly in order to ensure compliance with The Code.

Recognition of infrastructure within the Council's accounts had now been deferred to 2016/17. But it would represent a change in accounting policy from 1 April 2016 and would require full retrospective restatement in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 1 *Presentation of Financial Statements* as adopted by The Code.

Officers were therefore establishing information collection arrangements to apply full retrospective restatement resulting from the measurement of transport infrastructure to enable the Council to establish opening balances of the assets for 1 April 2015 and comparative information on transactions in the preceding year, i.e. 2015/16.

The Council would also need to disclose in the 2015/16 financial statements

- i) narrative explaining that transport infrastructure assets were to be recognised as a separate class of property, plant and equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements;
- ii) the carrying amount of assets expected to be reclassified as transport infrastructure assets, i.e. the original 1 April 2015 measurement at depreciated historical cost;
- iii) the expected amount of any revaluation gains and losses to be recognised on reclassification and re-measurement, and
- iv) the expected change in depreciation, impairment, revaluation gains and losses, gains and losses for disposals or decommissioned assets to be recognised (or derecognised) in 2015/16 comparatives in the 2016/17 financial statements.

- **One Oracle**

Haverling had implemented the One Oracle self-service package from August 2014 in conjunction with five other London authorities. The new coding structure had been incorporated into updated working papers for preparing the accounts, and work was on-going in resolving other balance sheet issues from mapping from the previous Haverling system.

There would also be implications on the audit in that the auditors would need to verify the balance sheet had been mapped correctly and would need to select their transactions for sample testing from two systems.

- **oneSource**

The Council had entered a joint arrangement with Newham from April 2014 for the provision of back office services. Development of this was on-going, but there would be additional disclosures required in the notes to the accounts and the recharging process between the two Councils needed to be included in the closedown timetable.

However, oneSource posed risks to closedown in that key staff were supporting Newham in implementing One Oracle. Additionally, the implementation of new structures in oneSource services meant that closedown duties of individual staff might be changing.

The implications of this were that;

1. critical parts of the accounts might not be completed in accordance with the timetable, with consequential impact on subsequent deadlines; and
2. there was a potential need for additional audit work, and an increased risk of adverse audit findings in the auditors' ISA260 report.

- **Progress to Date**

The finalised year end closure of accounts timetable would be issued shortly and monitored. Regular meetings had been scheduled until June 2015. The timetable would be aligned with Newham's timetable where possible, but scope for harmonisation of procedures was limited until Newham adopt One Oracle from 2015/16.

The guidance notes were being consulted upon and would be issued in early January 2015.

The closedown planning process began in earnest in November 2014. The process would be monitored routinely by Corporate Finance. Regular reports would be made to both Corporate Management Team and Audit Committee.

In closing the accounts for 2014/15 officers would ensure that all matters raised by PWC in the report to Management were addressed. These included:

- **Bank A/c**

All five bank accounts were reconciled by the due date, but the wrong documentation had initially been supplied to the auditors. These accounts were reconciled on a daily basis and had a monthly summary/reconciliation at the end of each month and at the end of year. Receipts were cleared on a daily basis, and any items not allocated at the end of each day were dealt with as information came to light to enable them to be identified.

There was a balance of £29k on the Number 1 account due to some un-presented cheques not being reconciled at the start of the audit due to a reporting issue/error. However, the account had been reconciled on a daily

and summarised on a monthly basis throughout the year. This had been resolved and cleared with the auditors.

During the last quarter of 2013/14 and the first quarter of 2014/15, staffing secondments and the parallel introduction on One Oracle had contributed to temporary under resourcing in the Team, although it continued to fully cover the bank reconciliation workload.

- **Payroll Rec**

The payroll reconciliation had been handed over to Payroll during 2013/14, but support had been required at the year end from the Systems Team. This function was now undertaken by Payroll, who were completing it on a monthly basis. With the introduction of OneOracle a payroll reconciliation report was now available.

- **Accruals and revenue Financing for Capital**

In the 2013/14 accounts, the auditors had identified errors in accruals that should or should not have been raised. Similarly, the auditors identified two instances of expenditure being charged to revenue that should have been capitalised. The latter had no impact on the revenue bottom line as this expenditure would have been funded as a revenue contribution to capital, but the accounting treatment was wrong.

The amounts from these issues were not material to the Statement of Accounts, but for 2014/15 Corporate Finance would be liaising with Operational Finance to ensure cost centre managers were aware of the accounting requirements relating to the raising of accruals and to capital expenditure.

The Committee **noted** the report.

22 **INTERNAL AUDIT PROGRESS REPORT - 30TH JUNE 2014 TO 28TH SEPTEMBER 2014**

The Committee received the report from officers on the work of the Internal Audit team during the period 30 June to 28 September 2014. The Internal Audit & Corporate Risk Manager reported that the team currently had one vacancy as an auditor had been seconded to undertake fraud work. Additionally a second member of the team commenced maternity leave in October 2014. The result of this was that as at the end of September there was a shortfall of 100 days in the time required to deliver the 2014/15 work plan. Due to the restructure there were no plans to address this by employing agency workers, but the shortfall would be closely monitored and other options to reduce the shortfall would be considered and implemented.

Officers advised that by the end of September 12 assignments had been completed with eight in progress. Work had also been undertaken to review Public Health expenditure in order to give the Chief Executive an assurance for the sign off of the Public Health Grant for 2013/14.

The table below details the final reports issued in quarter 2:

Report	Assurance	Recommendations			
		High	Med	Low	Total
Systems Audit					
Pre-Paid Cards	Substantial	0	3	0	3
Youth Services	Substantial	0	3	1	4
Accounts Payable (Pre One Oracle Implementation)	Substantial	0	1	0	1
Accounts Receivable (Pre One Oracle Implementation)	Substantial	0	1	0	1
Payroll (Pre One Oracle Implementation)	Substantial	0	0	0	0
BACS	Limited	1	2	0	3
Gas Safety Regulations – Building Services	Substantial	1	4	3	8
Gas Safety Regulations – Home Ownership	Limited	3	2	0	5
Information Governance Follow Up	Substantial	0	0	0	0
Tenancy Management Follow Up	Substantial	0	1	0	1
LAC Placements Follow Up	Substantial	0	1	0	1
Emergency Assistance Scheme Follow Up	Full	0	0	0	0

Seven risk based systems audit were nearing completion as was one school audit.

Officers also provided details of changes to the approved 2014/15 audit Plan and an update on outstanding recommendations.

The Committee sought clarification on a number of the audit reports.

Firstly the committee expressed concern that there were no agreements in place at MyPlace for the replacement of equipment being used within MyPlace. Officers agreed to take this away and look at ways of remedying this potential problem.

Secondly the Committee expressed concern that in some areas only two people were involved in the BACS process. Whilst management had made arrangements to ensure both staff were not on leave at the same time, there were no safeguards against unplanned absences. The audit report concluded that the lack of business continuity arrangements in place was sufficient to put system objectives at risk. The Committee supported this conclusion.

The final area identified by the Committee related to the audit of Gas Safety Regulations – Home Ownership. Back in 2012 an executive decision had been taken that leaseholders of council housing properties would be required to provide an annual gas safety certificate.

At the start of the review there were 2,315 leasehold properties. On initial testing audit had found that eight out of 40 gas safety certificates were not located on the computer file. A further had been located during the audit and four were to be

retrieved from Iron Mountain. The remaining two could not be located at the time of the audit.

The deadline for the receipt of all gas certificates had been July 2014. At the end of July 1,092 had still not been received,

The Committee expressed concern that Homeownership did not have sufficient resources to chase up the outstanding certificates.

The Committee **noted** the report.

23 GOVERNANCE UPDATE

Officer advised the Committee that Governance was about how councils ensure that they were doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprised the systems and processes, and cultures and values, by which councils were directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance enabled the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

High standards of conduct and leadership were at the heart of good governance, placing responsibility on members and officers to demonstrate leadership by behaving in ways that exemplify high standards of conduct, and so set the tone for the rest of the organisation.

Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 required all relevant bodies to prepare an Annual Governance Statement (AGS) which must accompany the Annual Statement of Accounts. The purpose of the AGS was to communicate to stakeholders the standards of Corporate Governance the organisation demonstrates and identify any significant issues that had arisen in year, and what was planned with regards to addressing these issues.

The process to develop the AGS was well established and had been running successfully for a number of years. The review of arrangements had also considered this process and two conclusions had been reached:

- 1) The issues on the AGS, over time, had become very high level and ultimately difficult to remove.
- 2) The paper based approach to obtaining assurances from Senior Management needed to be reviewed.

The new Group had sought to address both these issues. It was hoped that through: active participation of representatives throughout the year; seeking input from Senior Management on the resolution of live governance issues and the group reviewing key assurances around compliance with the Governance Framework the AGS could become a live document that was developed in year as

part of business as usual without the need for an additional process to be completed.

The Committee **noted** the report.

24 FRAUD PROGRESS REPORT - 1ST JULY TO 30TH SEPTEMBER 2014

The Committee received a report covering the work of the Internal Audit Corporate Fraud Team and the Investigations Team for the period 1 July to 30 September 2014.

Officers advised that at the end of September the Service Review had moved onto the 'To Be' phase of the process looking at requirements of the service going forward. It was still envisaged that the implementation of changes implemented following this review would lead to the delivery of savings which would contribute towards the achievement of the oneSource business case.

The timetable for transfer of resources to the Department of Work and Pensions to join the Single Fraud Investigation Service was now working towards the transfer date of 01 April 2015. This process would be run in conjunction with the formal change management process affecting the teams in both council's, which had been expected to begin November 2014.

The report showed the current workload of the fraud team:

Caseload Quarter 2 2014/15						
Team	Cases at start of period	Referrals received	Referrals rejected/overloaded	Fraud not Proven Cases	Successful Cases	Cases at end of period
Corporate	19	25	0	11	12	21

Details of successful cases were provided for the Committee's information.

The Benefits and Housing Tenancy Investigations Team had also been busy. Details of the caseload was set out below:

Caseload Quarter 2 2014/15						
Team	Cases At start of period	Referrals received	Referrals rejected/overloaded	Cases of Fraud not Proven	Successful Cases	Cases at end of period
HB & CTS	344	97	52	45	39	305
HT	60	23	-	10	6	67
TOTAL	404	120	52	55	45	372

Details of a number of successful prosecutions were provided for the Committees information.

The Committee **noted** the report.

25 **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.

26 **TREASURY MANAGEMENT UPDATE QUARTER 2**

The Committee have received an update on the position of Treasury Management for the second quarter of 2014/15. The Committee have noted that the Council still have ample cash flow available but that this position would change towards the end of the financial year.

The Committee have **noted** the report.

Chairman