MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3A - Town Hall
28 November 2017 (7.00 - 7.41 pm)

Present:

COUNCILLORS:

Conservative Group	Frederick Thompson
Residents' Group	Julie Wilkes (Vice-Chair)
Labour Group	Clarence Barrett
Independent Residents Group	David Johnson

Apologies were received for the absence of Councillors Viddy Persaud. In her absence, Councillor Julie Wilkes took the Chair for the duration of the meeting.

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

1 DISCLOSURE OF INTERESTS

There were no declarations of interest.

2 **ANNUAL AUDIT LETTER**

The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2016/17 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 27 September 2017 and the certificate of completion had been issued on 30 October 2017 once they had completed the Whole of Government Accounts 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. During discussion, it was explained that this year, the use of the client portal would provide a direct link to Ernest and Young. Analytics had been used in different areas of the audit, with difficulties being experienced with the distraction of data for the auditors. A specific team was in liaison with council teams to ensure format compatibility.

The Council engaged a third party, Analyse Local, to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. The auditors had found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate, although their subsequent testing of this provision did not identify any further matters to bring to the attention of the Committee.

The Council would undertake to document its findings in future, in order to ensure that challenge is evidenced.

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

3 MID YEAR 2017/18 TMSS REPORT

The Chartered Institute of Public Finance and Accountancy's Treasure Management Code requires 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 key highlights of the mid-year report were noted as follows:

- The investment portfolio return was 0.69% outperforming its benchmark by 0.39%, the Budgeted rate of return by 0.09% despite 3 month LIBOR falling steadily over the quarter.
- The Arlingclose 13 London Borough average was 0.48% in quarter 2 on comparable internally managed investments.
- There was no breach of the Authority's prudential indicators and treasure indicators.

The total budgeted interest for the full 2017/18 year was £1.350 million. The actual interest to the end of the quarter was £0.739 million. The rate of return was increasing as investments mature. There were two consultations underway which could potentially impact on treasury management and which would place restrictions on the way in which Councils could borrow and spend. The outcomes from these consultations would be reported to the Committee.

The Committee **noted**:

i) The treasury management activities for the half year detailed in the report.
ii) The regulatory update on 'Ring Fencing' set out in section 1.2 of the report.
iii) The regulatory updates on published FCA rules in relation to the second Markets in Financial Instrument Directive (MIFID II) included in section 1.3 of the report and the recent consultation by CIPFA on the Prudential and Treasury Management codes.
iv) The changes brought about by IFRS 9 Financial Instruments, the new accounting standard for investments, borrowing, receivables and payables, which will apply to local authorities from the 2018/19 financial year onwards as detailed in Appendix D.
v) The upcoming launch of a consultation exercise by DCLG to update the statutory guidance on Minimum Revenue Provision and Local Authority Investment Activity as detailed at the end of section 1.2.

4 ANNUAL GOVERNANCE STATEMENT 16/17 AMENDMENT

The Annual Governance Statement was subject to audit alongside the Statement of Accounts. Following the 2016/17 audit, the external auditors requested that the statement be amended to ensure compliance with the code.

The Committee **noted** the following amendments to the 2016/17 Annual Governance statement.

- From the work undertaken during the 2016/17 year, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally applied consistently. The level of assurance, therefore, remains at a level consistent with the assurance provided in 2015/16 (page 4 of the statement).
- To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year. We did not find any matters that needed addressing during our review other than those that were previously identified and on which action has been taken to address (page 11 of the statement).

5 ASSURANCE PROGRESS 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.

The target outturn for completion of the audit plan was 90% at the end of the financial year. As at 18th October 2017, 61% of the tasks had been delivered to draft or final report stage, or were in progress. This confirmed that the audit plan was on track to be delivered by the end of the financial year.

There was one high risk recommendation associated with Disaster Recovery Follow Up, which was originally due to be implemented by the end of Quarter 2. Progress on this recommendation had been made but remained partially implemented. All medium risk recommendations that became due in Quarter 2 had been followed up and none remained outstanding.

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

6 CLOSURE OF ACCOUNTS TIMETABLE

Officers advised the Committee that a number of areas of focus had been identified, in order to prepare Havering to meet the challenge of shorter timescales and to reduce the lead time in the publication of the accounts and subsequent audit.

Stronger project management had been adopted, with a workshop held involving key officers, to redefine the closedown timetable in order to meet the new timescales. Critical paths had been identified and would be monitored regularly. Finance were finalising plans to run a mini closedown for all income and expenditure incurred up to 31st December 2017, with the aim of producing single entity primary statements by 31st January 2018. OneSource would be promoting balance sheet monitoring and ownership during the course of the year as part of monthly processes, and this would feed into the interim audit. The Corporate Business Systems Team were ensuring greater compliance of feeder system information being posted to the general ledger. There would be regular Council wide updates, in addition to monthly updates to the Senior Leadership Team, to ensure effective communication on the closure of accounts.

It was proposed that members receive training on the approved draft accounts in July. It was highlighted that new committee members needed be identified at the earliest opportunity and suggested that an annual schedule of training be drafted.

The Committee **noted** the approach taken for the early Closing of Accounts 2017/18.

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Chairman