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**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Committee Room 1-Town Hall - Town Hall  
14 March 2018 (7.00 - 8.07 pm)**

**Present:**

**COUNCILLORS:**

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

**East Havering Residents Group** David Johnson

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.

**7 MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 28 November 2017 were agreed as a correct record and signed by the Chairman.

**8 EXTERNAL AUDIT PLAN 2017/18: LONDON BOROUGH OF HAVERING AND HAVERING PENSION FUND**

**i) London Borough of Havering**

The Council's external auditor's Ernst & Young presented their audit plan for 2017/18. The purpose of the report was to provide the Committee with a basis to review its proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments Ltd, auditing standards and other professional requirements. It was also to ensure that the external auditor's audit was aligned with the Committee's service expectations.

The plan summarised the external auditor's initial assessment of the key risks driving the development of an effective audit for the Council, and outlined their planned audit strategy in response to those risks.

The Council would likely to have entered into joint venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close and 12 housing estates within the borough. Funding these schemes would commit the Council to significant levels of borrowing. It was highlighted that given the significance and importance of these decisions to the Council's strategic, operational and financial priorities, the effectiveness of the governance and risk management arrangements related to these key decisions were crucial.

The timetable of communication and deliverables would be tight, with the Year End Audit scheduled for June/July and the Audit Committee procedures scheduled for

July with the Audit Results Report and Audit Opinions and completion certificates being presented to the Committee on the 25 July 2018.

The duty to prescribe fees was a statutory function delegated to Public Sector Audit Appointments Ltd (PSSA) by the Secretary of State for Communities and Local Government. The proposed final fee for 2016/17 included a proposed variation of £20,858 to the PSAA scale fee of £151,844, which arose from additional procedures undertaken which related to the valuation of property, plant and equipment; the consolidation of balances which related to Mercury Land Holdings; obtaining transaction listing to support amounts disclosed in the Council's financial statements; and the Council's Whole of Government Accounts submission.

Overall, the external auditors considered that the safeguards that had been adopted appropriately mitigated the principal threats identified.

## **ii) Havering Pension Fund**

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

The plan summarised the external auditor's initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlined their planned audit strategy in response to those risks.

The Audit Plan covered the external auditor's opinion on whether the financial statements of the Havering Pension Fund gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018; 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.

### **RESOLVED:**

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

## **9 16/17 GRANTS CERTIFICATION REPORT**

Officers submitted an overall summary of the 2016/17 audited grants claims compared to 2015/16.

There had been just one claim which required auditing in 2015/16 similar to 2014/15. This was in respect of the Council's housing benefit subsidy scheme. This had since been certified by Ernst & Young with no amendments. The Housing and Council Tax Benefits claim for 2016/17 was unqualified. Members noted that the audit fee and complexity of the audit work was reflected in the fee which for 2016/17 was £16,178 and that this was the second year of the audit with no amendment or qualification.

The value of the grant for 2016/17 had been £95.8m and the fee was £16,178. In addition to the grants which required certification, the following grant funding

bodies had published a requirement for grantees to engage an external auditor to report audit compliance or assurance for their 2016/17 funding.

- Teachers Pensions – assurance required against £40.3m total contributory salary which included £10.6m teachers pensions contributions. Grant Thorndon concluded that the End of Year Certificate had been prepared in accordance with the regulations underpinning the Teachers' Pension Scheme.
- DCLG Pooling of Housing Capital receipts – Certification of £14m Housing Capital receipts. Grant Thorndon concluded that the Final Pooling Claim for 2016/17 was accurate.

The audit fee for the additional grants outside the PSAA remit for 2016/17 was £4,000.

**RESOLVED: That**

- i) The contents of the report be noted.**
- ii) The outcomes of the 2016/17 grant claims process be considered.**
- iii) Any issues of concern with officers on specific grant claims be raised.**
- iv) The year-on-year grant claims performance be noted.**

**10 ACCOUNTING POLICIES 2017/18**

The Committee received a report which summarised the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2017/18 were prepared in accordance with accounting regulations.

The revised accounting policies were shown in appendix A to the report and would be included in the Statement of Accounts. These 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 2017/18 would be presented to the July 2018 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.

**RESOLVED:**

**That the Committee noted and commented on the accounting policies applicable to financial year 2017/18.**

**11 CLOSURE OF ACCOUNTS TIMETABLE 2017/18**

The Committee received a report which advised Members of the progress to date in preparing for the closure of the 2017/18 Accounts.

The Council had successfully closed its accounts and prepared its Financial Statements for 2016/17 by the statutory deadline. The statutory deadline for making available the draft accounts had been brought forward and the time available to auditors to complete their assurance work was also being reduced by a third (see summary below).

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

As part of the quicker closedown preparation process, Havering had introduced a period 9 closedown in order to provide an opportunity for a trial run on an accelerated timetable. The reconciliation of the balance sheet debtors and creditors required significant work and further work was required to ensure that it met the requisite standard.

**RESOLVED:**

**That the Committee noted the report.**

**12 ASSURANCE PROGRESS REPORT QUARTER 3**

The Committee received a report which advised on the work undertaken by the Assurance Service during quarter three of 2017/18.

The target outturn for completion of the audit plan was 90% at the end of the financial year. As at 31<sup>st</sup> January 2018, 93% 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.

Members noted the details of the final reports issued in quarter three, as outlined in the report. It was noted that no limited assurance reports were issued during the quarter. Six reports had been issued in quarter three, all of which received medium assurance. There was one recommendation brought forward from previous quarters which received a recommendation of high risk. Progress on this recommendation had been made, but it remained partially implemented.

The total net savings for the Tenancy Fraud Project team, minus project costs, from October 2015 to December 2017 was £5.69m. Outcomes for the quarter included five properties recovered with a nominal value of £90,000; and six right to buy applications withdrawn with a notional value of £521,939.

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.

**RESOLVED:**

- i) That the Committee noted the report.
- ii) That the Committee raised any concerns and asked specific questions of officers where required.

**13 GOVERNANCE UPDATE**

The Committee received a report which advised on the progress against significant governance issues as reported in the 2016/17 Annual Governance Statement (AGS).

The Council had an officer Governance and Assurance Board which met at least quarterly to oversee the process to produce the AGS annually and as a standing meeting item monitored and updated the action plan to address significant governance issues raised. The 2016/17 AGS was reported to the Committee in June 2017 and accompanied the Annual Statement of Accounts presented for sign-off in September 2017. The Committee requested that training on the General Data Protection Regulations be extended to members.

**RESOLVED:**

- i) That the Committee noted the report.
- ii) That the Committee raised any concerns and asked specific questions of officers where required.

**14 INTERNAL AUDIT STRATEGY AND CHARTER AND 2018-19 PLAN**

Officers advised the Committee that the Accounts and Audit Regulations required the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) or guidance.

Internal audit was a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provided a simple framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the system's owner
- Third line – independent assurance (Internal audit forms the Council's third line of defence)

An independent internal audit function would, through its risk-based approach to work, provide assurance to each Council's Audit Committee and senior management on the riskier and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

The work of internal audit was critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and formed the basis of the annual opinion provided by the Head of Assurance which contributed to the Annual Governance Statement. It could also perform a

consultancy role to assist in identifying improvements to the organisation's practices.

Officers of the Assurance Service had been involved in work with the Section 151 Officer and with senior management to update the Corporate Risk Register. The Mazars horizon scanning document had also been reviewed to assist in identifying common risk and audit themes and used to inform these discussions. The draft plan presented was a longlist of the high and medium risk audit areas, covering the range of Council activities which, in conjunction with management had been assessed as requiring assurance at this point in time.

**RESOLVED:**

**That the Committee approved the Audit Plan, Charter and Strategy.**

**15 TREASURY MANAGEMENT QUARTER 3 UPDATE 2017/18**

The Committee received an update on the performance of the Treasury Management Strategy during quarter 3.

Officers advised that the increase in the Bank Rate in November by 0.25% to 0.50%, was a significant economic event, making it the first increase by the Bank of England's MFC since July 2017. Economists believed that the next rate rise could occur in May 2018.

Based on the actuals for Quarter 1 -3 and a projected position for Quarter 4, it was unlikely that the Authority would achieve the investment income budget set out for 2017-18.

During the year, the Authority had operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. The Committee received an update on indicators and limits as contained in the Appendix to the report.

**RESOLVED:**

**That the Committee noted the report.**

**16 TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT 2018/19**

The Committee received an update on the performance of the Treasury Management Strategy during quarter 3. Members received a report which fulfilled the Authority's legal obligation under the Local Government Act 2003 and covered:

- The Borrowing and Investment Strategies
- Treasury Management Indicators
- Prudential Indicators
- A minimum Revenue Provision policy

Cabinet approved the following at their meeting on the 7 February 2018:

- The Treasury Management Strategy Statement (TMSS) 2018/19
- The Treasury Management and Prudential Indicators
- The Annual Minimum Revenue Provision (MRP) Statement for 2018/19 and
- Recommended the TMSS and MRP statements 2018/19 to Council for approval.

**RESOLVED:**

**That the Committee noted the report.**

**17 AUDIT COMMITTEE - ANNUAL REPORT 2017/18**

Members received the annual report of the Audit Committee. Due to the meeting on the 28 February 2018 being postponed and in order to meet statutory deadlines, the final version of the report was agreed by the Chairman prior to the meeting, so it could be referred to Council.

**RESOLVED:**

**That the Committee noted the Annual Report 2017/18.**

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**Chairman**

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