

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 1-Town Hall - Town Hall
30 July 2018 (7.00 - 9.00 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.

1 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on the 14 March 2018 were agreed as a correct record and signed by the Chairman with an amendment to reflect that Councillor Clarence Barrett had been in attendance at the meeting.

2 ANNUAL GOVERNANCE STATEMENT 2017/18

Officers advised that the 2016/17 Annual Governance Statement had identified five significant governance issues; these were Scheme of Delegation (L B Havering); Commissioning and Contracts (including compliance with procurement rules); Mercury Land Holdings (MLH); Projects and Programme Governance; and Information Technology and Information Governance. These significant issues had been closed, since the Governance and Assurance Board concluded that sufficient action to address the issues had been taken during the year.

Four new issues had been raised during 2017/18 and would be addressed during 2018/19:

- Corporate Project Management Office (PMO) and Economic Development Programme;
- Financial Regulations;
- Delivery of balanced budget; and
- Information Governance – GDPR.

Resolved:

That the contents of the 2017-18 Annual Governance Statement, be noted.

3 ANNUAL STATEMENT OF ACCOUNTS 2017/18 & ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE

The Accounts and Audit Regulations 2015 required that from the 2017/18 financial year, that each local authority prepare and publish its approved draft and audited accounts by the 31 May and 31 July respectively. This change had a significant impact on both Havering and its auditors to ensure the accounts were completed within the required timescales. It was explained that the Council had prepared well for these changes, preparing a good set of draft accounts and supporting working papers in advance of the deadline of 31 May. Council staff had promptly responded to the queries raised by the Auditors during the course of the audit.

The auditor had prepared two ISA 260 reports, one relating to the audit of the Council, and the other the Pension Fund. The two reports detailed the auditor's findings from their review of the 2017/18 financial accounts. External audit confirmed that they intended, subject to completion of the outstanding work listed in their report, to give an unqualified opinion on the financial statement for the Council and Pension Fund, and an unqualified Value for Money conclusion for the Council.

Within their ISA 260 report for the Council, the auditors highlighted two adjusted audit difference, and one unadjusted audit difference.

The unadjusted audit amendment was in relation to difference in valuation of one of the council's Leisure centres between Wilks Head and Eve and the auditors own valuers. This difference was identified as part of the auditor's work on the Council's 2016/17 financial statements, but in the absence of any change to the value of this asset, the auditor felt the difference identified in the prior year remained. Members confirmed that as the difference was not material, they were satisfied that the accounts were not amended to correct this.

The adjusted audit differences related to a change in the value of the pension fund liability arising from a change in the value of net assets between 31 December 2017 and 31 March 2018, and a reduction in the payables balance. An amendment was also to be made to reflect Councillor Gillian Ford and Councillor Damian White's membership of the Havering Theatre Trust for the period 2017-18.

The auditor's also noted that during 2017/18 the Council's external valuer had revised their approach to the valuation of land. This had led to a significant increase in the value of the land associated with all assets valued on a DRC (Depreciated Replacement Cost) basis, particularly Schools. The auditors noted that they had engaged valuation experts from within their firm to support their work in the valuation of these assets, and had considered whether the change arose from a change in the basis of the estimate, or as a result of an error in the prior year valuation. The auditor's noted that they were satisfied this was a change in accounting estimate, and as such no restatement of the prior year financial statements was required.

Members discussed the valuation of land and buildings, in particular specialist assets such as schools who are able to convert to academy status and transfer the

asset for nil value. Members sought clarification on the relevance of their inclusion in the financial statements as the land and buildings were not readily marketable. It was explained that the inclusion was in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. Members requested that their concerns be raised with the Chartered Institute of Public Finance & Accountancy (CIPFA).

Members sought clarification in regards to the wording of the letter or representation as it was thought too much reliance was placed on the audit chair to give assurance. It was discussed that the letter stated was to “the best of their knowledge” One member expressed concern over the wording and advised the Chair not to sign the letter.

Members requested that trend data for Revenue Outturn be provided in the Statement of Accounts for 2018/19, to ensure transparency.

Clarification was sought on the reason for the deficit from Romford Market, this was due to a 40% short fall in Romford Market rent against budget, which was usually off set by other commercial income.

Resolved: That

- a) **The contents of the report and the Statement of Accounts, alongside the Report to those charged with governance and the verbal updates by the External Auditor, following their examination of the Council’s accounts, were considered.**
- b) **The deadline for publication of the audited accounts by the 31 July 2018, be noted.**
- c) **The amendments to the accounting policies arising from the audit of the accounts set out at paragraph set out at paragraph 2 of the Report.**
- d) **The Statement of Accounts for the financial year ended 31 March 2018, be approved.**
- e) **Any subsequent amendments to the Statement of Accounts that may be necessary as a result of audit completion procedures, be delegated to the Chair of the Committee, in consultation with the Chief Operating Officer and Statutory Chief Finance Officer.**
- f) **The Letter of Representation be signed, subject to an acknowledgement in the minutes that the letter is correct to the best of the committees knowledge given the information that has been provided.**

4 ANNUAL TREASURY MANAGEMENT REPORT 2017/18

Officers provided details of the final 2017/18 Treasury Position. Investment income for the year was £1.51m compared to a budget of £1.35m. The Authority’s average interest return was 0.74% outperforming the budgeted rate of return by 0.14%, and was also better than the average of 0.64% across the London Peer Group and 0.63% across the Local Authority Group with Arlingclose’s benchmarking club. The Authority complied with all set treasury and prudential Indicator limits. The Authority successfully opted up to MiFD II professional status with the relevant counter parties in January 2018, enabling the Authority to deliver the Treasury Management strategy.

Members raised concern regarding the Danske Bank Lenders Option Borrowers Option (LOBO) Loan to the Authority following media reports that 14 Local Authorities have started legal action against Barclays bank. It was explained that this legal action was in response to an earlier Barclays LiBOR settlement and that the basis of their claim was based on the fact that these 14 Authorities held Barclays LOBO loans where the interest paid is linked to the LIBOR rate. In contrast this Authority's Danske Bank LOBO was a standard fixed rate or 'Vanilla' type LOBO which is not linked to the LIBOR rate and therefore falls outside the scope of this legal action.

Resolved:

That the treasury management activities for the financial year 2017-18, as detailed in the report, be noted.

5 HEAD OF ASSURANCE ANNUAL REPORT 2017/18

The Committee received a report detailing the work undertaken to review the system of internal control and provided Members with assurance that an adequate system of internal control was in place within the London Borough of Havering.

During 2017/18, the Project and Programme Governance Review and No Recourse to Public Funds (NRPF) were given an audit opinion of Limited Assurance. It was requested that, in future, action plans be presented to committee for those areas with limited assurance. Furthermore, it was requested that feedback on the progress of the No Recourse to Public Funds audit be provided at the next meeting.

The Internal Audit Team tracked the completion of all audit recommendations and the Audit Committee received a full list of all outstanding high risk recommendations.

Resolved:

That the contents of the report be noted.

6 HEAD OF ASSURANCE - QUARTER FOUR PROGRESS REPORT 2017/18

The Committee were provided with details of the work undertaken by the Internal Audit and Counter Fraud teams during quarter 4.

All recommendations that became due in quarter four had been followed up and had been implemented.

The Committee requested that future reports indicate clearly what audits had been added and deleted to the Audit Plan and the number of audit days used and carried forward.

Resolved:

That the report be noted.

7 PROPOSED WORK PROGRAMME FOR THE AUDIT COMMITTEE FOR THE 2018/19 MUNICIPAL YEAR

At the request of officers, the Committee agreed that the meeting scheduled to be held on the 27 September 2018, be cancelled. The next meeting would be held on the 27 November 2018.

It was requested that an action log and evidence of completion be provided at future meetings.

Resolved:

That the proposed work programme be agreed, subject to the October 2018 meeting being replaced with November 2018.

Chairman