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MINUTES OF A MEETING OF THE AUDIT COMMITTEE Town Hall, Main Road, Romford 28 July 2020 (7.00 - 8.45 pm)

Present:

COUNCILLORS:

Conservative Group	Viddy Persaud (Vice-Chair), Roger Ramsey and Carol Smith (In place of Judith Holt)
Residents' Group	Gerry O'Sullivan
Upminster & Cranham Residents' Group	Gillian Ford
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.

45 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 28 January 2020 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

46 AUDIT COMMITTEE ANNUAL REPORT

The report presented to the Committee had been postponed from the cancelled April 2020 meeting.

The report outlined the work of the Committee and key issues dealt with by the Committee. Members were advised that as the April 2020 meeting was cancelled the report should have been updated to reflect the cancelled meeting.

The Committee agreed that officers and members will look at the training need of committee member and will tailor group sessions to provide specific training.

47 ANNUAL GOVERNANCE STATEMENT 19/20

The report presented to the Committee provided background on the Annual Governance Statement and a review of the internal control environment.

Members noted 5 governance issues to be addressed in 2020/2021 including; delivery of a balanced budget, embedding the governance culture and framework within the organisation, EU Exit – Preparations and Impact, COVID-19 and Cyber Security, which was added due to potential risks developing from COVID-19. Members noted the report had been submitted to the Overview & Scrutiny Board and the Committee would be updated. Committee members were advised that the Bronze and Silver training had been delivered.

The Committee **agreed** the 2019/2020 Annual Governance Statement

48 CORPORATE RISK REGISTER

The report that was put before the Committee summarised the ongoing risks the council had faced.

The Committee were advised that the Council used an external trainer for risk training across the directorates. It was noted that the Council's risk level was good in February 2020 although the risk profile had changed. The members noted appendix 1 which gave a summary of the Corporate/Directorate's risk register with the initial, current and projected assessment of each risk.

The Committee **noted** the contents of the report and the risk register and **asked** for individual directorate risk registers and a document to show the change to previous assessment of risks to be presented to the committee and future meetings. The members also **asked** for officers to make the colour grading easier to read in their packs.

49 HEAD OF AUDIT ANNUAL REPORT 19/20

The report presented to the Committee summarised the audit, assurance and counter fraud work that had been undertaken in the 2019/2020 financial year.

The report highlighted 3 areas where reasonable assurance couldn't be made but would be monitored throughout the year. These areas were:

- Financial control areas such as payroll and purchase cards;
- Controls over private sector leasing arrangements: and
- Procurement, specifically a lack of contracts in place for a number of suppliers

Officers commented that no assurance opinion had been given for Emergency Planning and Business Continuity as the audit had been halted halfway through completion due to COVID-19. Members noted the counter fraud work the Council had undertaken with 14 corporate fraud cases having been investigated with 1 being found to contain criminal fraud. 32 cases were investigated regarding housing fraud but none were found to be criminal.

Members **asked** for the audit report on direct payments to be circulated to members given the opinion was substantial.

50 INTERNAL AUDIT PLAN 2021 AND STRATEGY AND CHARTER

The report presented to the Members of the Committee, which was postponed from the cancelled April meeting, gave detail on the Internal Audit Plan that is produced in line with the Public Sector Audit Standards.

Members noted that the internal audit had looked into the new systems and processes due to COVID-19 and provided the role of the critical friend. Other internal audits suggested that more children could come into care post COVID-19 and that this could cause a risk due to limited spaces. Officers explained that there are quarterly meetings with risk directorates to monitor the individual risk registers.

The Committee **agreed** the draft 2019/2020 Internal Audit Plan and the Shared Service Internal Audit Charter and Strategy and **asked** for meetings to be arranged for them to discuss their concerns.

51 DRAFT ANNUAL STATEMENT OF ACCOUNTS 2019/20

The report put to the Committee presented the draft statement of accounts which was planned to be approved in October due to the timetable for the 2019/2020 accounts having been extended until 30 November 2020 due to COVID-19.

Members noted that the balance for Property, plant and equipment increased to £1.245billion, inclusive of housing and schools, other long term liabilities decreased to £423million and usable reserves decreased to £201million. Members noted that the balance sheet is financially stable and the external audit is due to start on the week commencing 3rd August 2020. Members questioned that the surplus on the provision of service was £9.6million but was mostly housing revenue accounts surplus and cannot be used for the general fund.

The Committee **noted** the draft Statement of Accounts for 2019/2020 will be presented at a later Committee meeting alongside the Audit option for formal approval and **noted** the Pensions Draft Accounts are to be tabled at the Pensions Committee in July 2020.

52 EY AUDIT PLAN 2019/20

The report presented to the Committee by Ernst and Young (EY) was the External Audit Plan for 2019/2020.

Members noted that the report had been updated to consider the impact from COVID-19 on financial statements and audit risks. The risk that had impacted the most significantly by COVID-19 was investment property valuations which was separated from the Council's other building risks as it was viewed by EY as a higher risk as there was reference to material uncertainty when EY made their 31st March 2020 valuations and this would be sent to EY's Real Estate team to conclude whether or not the sample of investment properties had been affected by COVID-19.

The next risk presented to Members was on accounting for the Council's regeneration assets and the Committee noted that there were significant administration errors and processes had been put in place to reduce these.

The Committee were then updated on the risk to group financial statements and any future plans to expand the grouped accounts. Members noted the Council need to assess where the grouped accounts need to be prepared in relation to the 3 joint ventures.

The next area presented to the Committee was regarding pension's valuations and disclosures. Members noted that there was additional areas that were focused on the accuracy of the membership data.

Members noted the fourth risk presented that could have future impact from COVID-19 being level 3 investments, i.e. private equity and property investments. The officer from EY explained that the 31st March 2020 valuations were harder to estimate due to the uncertainty of COVID-19.

The officer from EY highlighted 2 new risks to planning caused by COVID-19. Members were pleased to hear that Havering Council was not close to a Section 114 notice due to financial pressures but noted that tests of the Council's future financial projections were in place.

Committee members noted that the materiality had been kept at 1.8% gross expenditure and will be brought in line with the draft accounts. The performance materiality level had been set at 75% or £7.7million. It was reported that the value for money conclusion was still in progress however 2 areas were highlighted to have significant risk which was financial planning and achievement of savings.

The EY officer explained to the Committee that EY add an addition fee to the 2018/2019 fee due to extra work undertaken in the year but this had subsequently been reduced to a total of £25,688. Members were advised that this figure had been submitted to the PSAA for approval. Members noted that EY were submitting an increase to the base fee but retaining the scale fee of £116,920 for Havering.

The Committee **noted** EY's audit plan.

53 ANNUAL TREASURY MANAGEMENT REPORT 2019-20

The Annual Treasury Management report was presented to members to outline the performance of the treasury management function.

Members noted that there had been no breach in prudential and treasury indicators in 2019/20. The 2019/20 investment income outturn figure was £2m outperforming the budget figure of £1.4m. Investment balances at year-end was £171m, long term borrowing was £235million compared to an underlying borrowing requirement of £353million; the difference of £118m was funded from the Council's internal reserves. The cost of external General Fund borrowing was 2.78% against an investment interest rate of 1.14% so it has been cheaper to fund the capital borrowing requirement from internal reserves and keep interest costs low. The committee noted that COVID-19 has meant more deposits being placed in high quality investments.

The Committee **noted** the report.

Chairman