

Minutes of the Meeting of the Audit Committee

24 September 2015

Cllr Roger Ramsey was in the Chair

Members Present:

Cllr Roger Ramsey (LB Havering)
Cllr Stephen Alambritis (LB Merton)
Cllr Jas Athwal (LB Redbridge)
Cllr Simon Wales (LB Sutton)

In Attendance:

Ciaran McLaughlin, Engagement Leader, PricewaterhouseCoopers LLP
Anna Simmonds, Internal Auditor, City of London

London Councils' officers were in attendance.

The Chair apologised for attending the meeting slightly late. This was because he attended another London Councils' meeting earlier.

1. Declarations of Interest

Councillor Simon Wales informed Audit Committee that he was also a member of the London Councils' Grants Committee.

2. Apologies for Absence

An apology for absence was received from Roger Chadwick (City of London)

3. Minutes of the Audit Committee meeting held on 18 June 2015

The minutes of the Audit Committee meeting held on 18 June 2015 were agreed as being an accurate record.

4. Draft Annual Audit Letter 2014/15

The Audit Committee received a report that detailed the final draft of the annual audit report to those charged with governance (ISA260) from PricewaterhouseCoopers (PwC), London Councils' external auditors, in respect of the 2014/15 financial year. The final draft was included at Appendix A of the report.

David Sanni, Head of Financial Accounting, London Councils, introduced the draft Annual Audit report. The number of outstanding matters could be found on page 17 of the committee papers. PwC had provided details of internal control deficiencies and a description of the deficiency (re: advance payment, page 23). The management's response could also be found on page 23 of the committee papers.

Ciaran McLaughlin, Engagement Manager, PwC, said that the Executive Summary could be found at page 10 of the committee papers. He informed members that the key outstanding matters had

all been cleared, aside from the “pension fund disclosures and assets” (PwC was awaiting information from asset managers). The Audit approach was on page 12 of the committee papers – the creation of the Pensions Collective Investment Vehicle (CIV) was considered a significant risk, but had since been revised to a normal risk, because the establishment of the CIV did not result in any significant income or expenditure recognised in London Councils accounts. The identified internal control deficiency on page 14 of the report related to two license fee expenses, for both the 2014/15 and 2015/16 accounting periods. In both instances, the whole expense was recognised in 2014/15. After reviews by Management and new population testing, no further issues were noted. There was also an issue identified with regard to the accounting treatment of the European Social Fund claim payments which are recognised when the claim is received rather than when the grant recipient incurs the expenditure having considered this issue, PwC was satisfied that the relevant revenue and expenditure balances had not been misstated and the accounting treatment was consistent with previous years.

Ciaran McLaughlin reported that there were no matters of concern regarding the VfM (value for money) conclusion (page 17) or for the judgements and accounting estimates. PwC considered the valuation of the pension liability and concluded that the assumptions used in the calculations fell within a reasonable range (page 18). Ciaran McLaughlin informed members that the objection that had been raised in relation to the 2012/13 accounts (non-audit work) had now been closed. There is a possible objection to the 2013/14 and 2014/15 accounts which has not been formally received yet, but would not affect the signing of the accounts during the week commencing 28 September, based on current information. The Audit Committee confirmed that it had no knowledge of any fraud, either actual, suspected or alleged, including those involving management.

Ciaran McLaughlin confirmed that the “fee update” (page 26) included the cost in respect of the 2012/13 objection, but did not include the possible objection to the 2013/14 and 2014/15 accounts. On behalf of PwC, Ciaran McLaughlin thanked Frank Smith, David Sanni and the rest of the finance team for all their help in getting through the audit this year.

Councillor Wales queried why the actuary was taking so long to respond to a request for additional information on asset valuations made by PwC. Ciaran McLaughlin said that he expected to receive the outstanding information in sufficient time to allow him to sign off the accounts before the statutory deadline.

The Chair thanked Ciaran McLaughlin for all the work PwC had carried out on behalf of London Councils’

The Audit Committee:

- Noted the key issues detailed in the draft audit report to those charged with governance and agreed the proposed management response to the recommendations with regards to internal control deficiencies on the cut-off of expenditure, as detailed in page 14 of the draft audit report;
- Noted the draft letter of representation included at Appendix 2 of the draft audit report, and
- Confirmed that it had no knowledge of any fraud, either actual, suspected or alleged, including those involving management.

5. Statutory Final Accounts 2014/15

The Audit Committee considered a report that presented the audited statutory statement of accounts for 2014/15 for approval in accordance with the requirements of the Accounts and Audit Regulations 2011. The accounts to be approved comprised of London Councils’ Consolidated Statement of Accounts for 2014/15, London Councils’ Transport and Environment Committee Statement of Accounts for 2014/15 and London Councils’ Grants Committee Statement of Accounts for 2014/15.

David Sanni introduced the Statutory Final Accounts 2014/15 report. He informed members that there were three sets of accounts for Committee approval, namely: (i) Consolidated Statement of Accounts, (ii) Transport and Environment Statement of Accounts, and (iii) Grants Committee Statement of Accounts. David Sanni said that Table 1 (page 39) showed an audited surplus of £4.1million for 2014/15. Table 3 (page 40) summarised the audited final position as reflected in the Statement of Accounts. Table 5 (page 41) outlined the audited position on reserves as at 31 March 2015, amounting to £11.482 million of consolidated audited reserves (this does not include the Unusable Reserves).

David Sanni handed out a paper that informed Committee of changes to the Statutory Final Accounts for 2014/15 since the committee papers were issued. The final version of the accounts now included the audit opinion and there have been some minor changes to the notes to the accounts. The Chair said that the pensions deficit, which had increased from £16.197 million as at 1 April 2014 to £24.449 million as at 31 March 2015, was a major change. He asked whether this was reviewed on a triennial basis. Frank Smith confirmed that it was and that the last triennial valuation was carried out in March 2013 and resulted in the reduction of the employers' contribution to a rate of 12% for the three-year period covering 2014/15 to 2016/17. A fixed contribution in respect of past service costs of approximately £200,000 also has to be paid. These amounts are included in the annual budget setting process.

The Audit Committee approved the three Statement of Accounts (Consolidated, TEC and Grants Committee), as detailed at Appendices A to C of the report.

6. London Councils' Corporate Risk Register

The Audit Committee received a report that provided members with the Corporate Risk Register that the London Councils' Risk Management Framework agreed to provide to the Audit Committee on an annual basis.

Christiane Jenkins, Director of Corporate Governance, London Councils, introduced the Corporate Risk Register report that was presented to Committee every September. She confirmed that there were four changes to the Corporate Risk Register – three related to “controls in place” and one to the risk description.

The Chair said that the risk relating to the POPLA service (5B) would soon be coming to an end. Christiane Jenkins said that the POPLA contract that London Councils had been running on behalf of the British Parking Association finished at the end of this month and POPLA staff would be transferring from 1st October 2015.

The Audit Committee noted the London Councils' Corporate Risk Register for 2015/16, as found at Appendix Two of the report

7. Internal Audit Reviews

The Audit Committee received a report that provided members with an update on the outstanding internal audit recommendations as detailed in the report and presented to the Audit Committee on 18 June 2015

David Sanni introduced the report, which gave Committee an update on the outstanding internal audit recommendations, which could be found in the log at Appendix A. Only 5 out of the 18 ICT recommendations were still outstanding, and a number of these were close to being resolved.

The Chair asked whether members had any points they wished to raise. Councillor Athwal queried the risk of unrestricted staff access to unsuitable websites and social media sites (recommendation 9, page 68 of the report). Roy Stanley, ICT and Facilities Manager, said that London Councils

already had a responsible email and internet policy in place. Frank Smith informed the Committee that London Councils was at the final stages of testing the "Webroot Security Anywhere" software. He said that the software would not be rolled-out until it worked efficiently, otherwise the public could be denied the important service of accessing information from the London Councils' website.

Councillor Wales asked why recommendation 15 had not been accepted ("security is not enforced for voicemail on telephones", page 72). Anna Simmonds, Internal Auditor, City of London, informed members that the risk rating on this was "green" and that it was within management's right to consider the recommendation and determine whether or not to accept the risk of not implementing it. Cllr Alambritis said that a balance had to be struck between the risk identified and the requirement to provide an effective service to customers. Frank Smith said that this point was very relevant to the Services team at London Councils where a continuous service had to be provided to customers and messages left by members of the public can be efficiently dealt with at times when there are less staff available than usual. The Committee accepted officer's response to the internal audit recommendation.

The Audit Committee noted the contents of the updated position on the outstanding internal audit recommendations as detailed in the log attached at Appendix A of the report.

8. Date of the Audit Committee Meetings for 2015/16

The Audit Committee received a report that notified members of the proposed Audit Committee meetings dates for 2015/16

The Audit Committee agreed the proposed dates for 2015/16

The meeting finished at 11.12am