

**MINUTES OF THE MEETING OF THE AUDIT AND RISK MANAGEMENT
COMMITTEE
HELD ON THURSDAY, 4 JULY 2019**

COUNCILLORS

PRESENT Mahym Bedekova, Dinah Barry, Birsen Demirel, Charith Gunawardena and Peter Nwosu.

ABSENT Huseyin Akpinar and Lee David-Sanders

CO-OPTED

OFFICERS: Fay Hammond (Financial Management Services), Matt Bowmer (Interim Director of Finance), Tim Harlock (Interim Chief Accountant), Paul Reddaway (Head of Finance Treasury Management), Gareth Robinson (Head of Finance) and Metin Halil (Secretary)

Also Attending: David Eagles (BDO), Councillor Vince, Councillor Leaver and Simon Allin (Enfield Independent).

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WELCOME AND APOLOGIES FOR ABSENCE

Councillor Bedekova (Chair) welcomed everyone to the meeting.

Apologies for absence were received from Councillors David-Sanders and Akpinar

Apologies for lateness was received from Councillor Demirel

Councillors' Vince and Leaver attended the Committee meeting as observers.

Simon Allin (Enfield Independent) was also in attendance.

There was a Member training session held on Monday 1st July 2019 regarding the Statement of Accounts.

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DECLARATION OF INTERESTS

Councillor Gunawardena declared a non-pecuniary interest as he is a Director of Enfield Norse Limited.

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UNAUDITED STATEMENT OF ACCOUNTS 2018/19

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RECEIVED the draft 2018/19 Statement of Accounts in advance of the final statement being submitted for consideration and approval at the next Audit and Risk Management Committee meeting on 25 July 2019.

NOTED

1. Matt Bowmer (Interim Director of Finance) introduced the report.
2. The purpose of the meeting is for the committee to scrutinise and review the 2018/19 Statement of Accounts, so as to feel comfortable at the next meeting, to sign and agree those accounts.
3. The report was presented a couple of weeks ago and finance team had asked for questions in advance which they could respond to. Some questions had been received in advance and these would be appended at the end of these minutes. Councillor Gunawardena had sent a list of questions to officers and these were tabled along with the responses. This was an opportunity for members to ask questions of officers. Councillor Barry also e-mailed some questions through, but these were not received by finance officers. The Chair clarified that if members had any more questions, regarding the accounts, these should be sent to Metin Halil (Committee administrator) by the 12 July 2019 deadline.
4. Councillor Barry's questions regarding the draft accounts were addressed and responded to by officers, including Councillor Gunawardena's questions. These questions will be appended to the minutes of this meeting along with the tabled questions/responses from Councillor Gunawardena.
5. Tim Harlock (Interim Chief Accountant) began clarifying the narrative report (pages 5-15 of the report), which is an explanation of the main financial statements. There was also a member training session on Monday 1 July 2019 where finance officers also went through the financial statements.
6. Councillor Barry's questions were responded to as Tim Harlock went through the draft accounts.
Councillor Barry's questions:
 - Page 6 of the draft accounts - the Meridian Water development. Tim Harlock clarified that nothing had been set in stone at this stage and effectively, all that has happened is that the Council had chosen its development partner. Finance officers would re-word the paragraph beginning 'The first phase of the £6Billion Meridian Water development,.
 - Page 8 of the draft accounts – regarding Enfield's population. Matt Bowmer clarified that it was quite common that this information is within the narrative statement. Officers could add some wording to introduce this information regarding the population of the borough.
 - Page 11 of the draft accounts – regarding short term deposits. Tim Harlock clarified that as there is no certainty, it is appropriate to keep short term deposits. So, the Council makes decisions to keep cash on a short term basis in case something happens and it needs cash very quickly. It is a good position to be in if you are not sure what the bigger picture will be.

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- Page 11 of the draft accounts – regarding net borrowing. Paul Reddaway (Head of Finance Pensions Investments) clarified that this is quite well explained in the Capital outturn report. It means that borrowing is increasing after Finance consider the investments the Council holds. As a Council, borrowing has gone up. The Council now has an ambitious capital programme and in year, it uses the money it has got to help support cash flow and as that runs out the Council borrows more money. This is a planned thing and is in line with the Council's published capital programme. It had been a good time to borrow because interest rates over the last quarter had fallen.
- Page 14 of the draft accounts – regarding the reduction of the Council's carbon footprint. Matt Bowmer (Interim Director of Finance) clarified that this was in relation to the £8m vehicle replacement spend. So, if the Council are replacing older polluting vehicles to more modern ones, then there would be a reduction in the Council's carbon footprint. He was not sure whether this could necessarily be articulated.
- Page 20 of the draft accounts – Paragraph 1.27 is explained under paragraph 1.26 at the bottom of page 31 of the report.
- Page 26 of the draft accounts – regarding a revaluation loss. Tim Harlock clarified that 5 years ago, property prices were going up by 5% a year. That valuation upwards goes into the revaluation reserve. But, now some property values are starting to go down, therefore if property values go down the first place the Council would take cash from would be the revaluation reserve.
- Page 48 of the draft accounts – regarding credit risk exposure. Paul Reddaway clarified that it means that the Council holds more cash deposits at the end of the year. The increase of the credit risk exposure, from £15m to £37.7m is because the Council had borrowed £15m on the 28 March 2019 and has been put into the short-term cash account.
- Page 49 of the draft accounts – regarding Trade and Lease receivables. Officers clarified that this meant sundry debts. The point of the table was to show how old debts profiles are.
- Page 69 of the draft accounts – regarding the Council's companies and their expected savings for the Council. Tim Harlock clarified that at this stage these were the Council's accounts rather than the companies accounts. So potentially, officers could add some wording to the narrative report about savings. Councillor Leaver's comments that this could not be done unless the losses or gains are calculated as a result of those entities and then it would be auditable. Page 69 of the report details one of the subsidiaries as ' Energetik (LVHN) and should be Lee Valley Heat Network (Energetik).
- Page 72 of the draft accounts – regarding streetlighting, electric charging points and considered cost. Fay Hammond clarified that the council has a project to replace to LED lighting and would be approaching the Director of Environment & Operational

Services about this. Fay Hammond would get back to the committee regarding this question.

ACTION – Fay Hammond (Acting Executive Director Resources).

- Page 85 (point 8) of the draft accounts – regarding ‘Contribution from Pensions Reserve’ and what this was about. Tim Harlock clarified that the CIS (comprehensive income and expenditure statement) plus the MIRS (movement in reserves statement) equalled the general fund balance. This was an instance where IAS19 dictates that we have to put certain costs in to the CIS and then we switch them out in the MIRS adjustment. The CIS is the equivalent of profit and loss in the private sector. But in local government the CIS has to be presented in the same way as the private sector.
 - Pages 87 & 88 of the draft accounts – What is impairment of debt. Tim Harlock clarified that this was an allowance for debt that the Council doesn’t think will be collected i.e. Council tax. In response to members concern regarding council tax debt, officers clarified that they are taken to court. There is a lot of legislation around council tax recovery and a duty on the council to try and recover all of it as it impacts on the council’s other services i.e. funding.
7. Officers further clarified some of Councillor Gunawardena’s questions with the following actions generated:
- Question 15, bullet point 3 regarding Red Lion Homes. Fay Hammond would enlarge upon bullet point 3 and e-mail the response to the Committee.
 - Questions 17 & 18 – Councillor Gunawardena felt that without knowing the targets for eliminating homelessness and temporary housing, it was difficult to know what is being audited and how the council is performing against the most important issues it is facing. Fay Hammond’s response that officers can provide this feedback to Sarah Cary (Executive Director Place) as part of the process and that she has heard your thoughts and comments on this.
- ACTION – Fay Hammond (Acting Executive Director Resources).**
8. Fay Hammond thanks members for reading the report and for providing this level of scrutiny as it had been very thorough.

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BDO - UNAUDITED STATEMENT OF ACCOUNTS 2018/19 - VERBAL UPDATE

RECEIVED from BDO a verbal update on the unaudited statement of accounts 2018/19.

NOTED

1. The update was introduced by David Eagles (BDO).

2. Pension Fund – BDO were virtually complete with this work. There were still some residual issues, but which are nearly complete. However, BDO were still having to deal with issues relating to the McCloud judgement. The judgement related to the governments change to pension schemes with a landmark ruling that pension reforms discriminated against younger workers by protecting the retirement benefits of older staff. This was an issue being judged for judges and firefighters. However, it is expected to extend to the rest of the public sector aswell.

This equates to some extra costs for the council and that there will have to be an adjustment for a calculation for whether there needs to be an adjustment to the accounts based on that. Paul Reddaway clarified that there was an agreement with BDO that the council would change the accounts and reverse the actuary back and recalculate the pension liability so as not to hold up the accounts in any way.

3. The main Council Accounts – David Eagles provided a short analogy on how BDO were dealing the 2018/19 accounts audit. Finance officers were a team of skilled experienced builders and the BDO team were electricians. A lot of planning had been done to get the teams to work together to finish the project.

Both teams had planned to have a complete set of walls in place by the beginning of June, so that the electricians can come in and complete wiring up. The electricians have had a chance to do some testing on the walls to make certain that they are the right size and in the right place. In order that they can come in and do a clean job with the wiring up.

What had happened, partly because of delays of materials coming through to the builders, in terms of valuation reports not coming through on time is that when BDO came in at the beginning of June 2019, not all the walls were built. So, there was a lot of frantic work done to get those last things put together.

In specific terms, the first set of accounts BDO had at the beginning of June did not include the group accounts. That was produced by the 10 June 2019. Initial assessment work from BDO's side on the preliminary review identified a grossing up issue whereby some costs had been double counted. That has been adjusted down by £100m which has had a big impact on some of the figures that are used for their audit.

There have been delays in getting valuation reports through even after we had all planned to make certain these were available for BDO's interim work but they had not come through for the interim phase.

Some of the documents that had come through have not been what was expected. For example, Meridian Water valuations had been done based on industrial use but BDO were expecting it on residential basis as it had been last year and issues with decanted housing assets.

Some testing had been done on the information received from the valuers, however, some of the figures didn't seem right.

BDO have a real challenge to get things finished. They know what they need to focus on but are still waiting for some answers which they have not received.

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BDO were supposed to be finishing with a clearance meeting next week but that is now not happening. However, BDO have a meeting with the valuer to try and get some final answers on some of those issues.

The Committee will not be receiving a draft report (from BDO) by next week but nearer to the 25 July 2019 meeting, with enough time for Members to read. So, the sign-off of the 2018/19 Statement of Accounts was still do-able but there will be challenges to get there.

4. The following questions and queries raised in response to the update:
 - a. In response to members regarding which version of the draft accounts they had in front of them, David Eagles clarified that this version of the accounts was as at 10 June 2019. There had been an adjustment since then on the 24 June 2019 regarding the £100m double counting of re-charge costs.
Tim Harlock clarified that the adjustment had no impact on the council's useable resources and the bottom-line numbers had not changed at all. The mistakes that were made were in gross expenditure and gross income and was a mistake in mapping the spreadsheet.
 - b. Members enquired if perhaps part of the report could be sent out to members in advance. David Eagles clarified that until there is a set of accounts that BDO think is materially correct, they would not be able to send out the report. Until the audit work is finished, BDO could not finish the report to send to the committee.
 - c. Members enquired if the challenges BDO voiced regarding the audit were normal for all London borough's or was this a one off. David Eagles clarified that London boroughs' have so much activity running through them that it was always challenging to complete the accounts and was not unusual. The acceleration of deadlines from the end of September to the end of July, which came in last year, has put on a massive amount of pressure.
 - d. Councillor Leaver asked the following questions:
 - How come this committee was circulated along exactly the same set of accounts as last the last meeting, when everybody, except the committee, knew that they might have changed. So, the committee have ended up viewing a different set of accounts and no questions asked about the new set of accounts. The committee should have received, the most appropriate, up to date set of accounts.
 - From the initial audit visit, why were the reported issues not picked up. At the last committee meeting (19 June 2019) the committee were told by the Audit Manager that there weren't any issues which would presume that all the issues have come to light in the last 3 weeks. A direct question was asked at the last committee meeting, will BDO hit the timetable and are there any issues. The committee were told that both BDO and officers were working together and there were no reasons to delay.

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Now we have been told that there is a delay in the time line.

- With regards to the £100m double counting issue, BDO presumably overstated this, did that mean that BDO's materiality figure was higher and now it is lower.

David Eagles clarified that he did not understand how this message could have come across, because BDO knew from its initial review of the accounts that there were no group accounts and decanted housing assets issue. Some of those issues came to light earlier than the 3 weeks mentioned. The

Fay Hammond clarified that the group accounts issue would have been known but wasn't sure if the £100m double counting issue was known at this time. The thing that possibly wasn't known was the valuations issue. This caused the most difficulty because the valuations issue came to light more recently. At this point David Eagles had said that the valuations issue was tricky but hasn't said that he would not make the deadline. In response to bullet point 3 (above) David Eagles agreed and said that more work is to be done. The £100m double counting issue had come to light on the 10 June 2019 set of accounts.

Matt Bowmer further clarified, in terms of timings, that at the 19 June 2019 committee meeting, it was known at this stage that the council only had a single entity submission on the 31 May 2019 with the group accounts received on the 10 June 2019. On the 19 June 2019, Lucy Trevett (BDO) did say that there would be an impact on materiality and then subsequently, the main issues David Eagles has highlighted today. The Meridian Water and HRA valuations had been reported late in the process and the double-counting in the expenditure statement had been reported very recently.

- e. David Eagles clarified that not every issue had come to light in the past 3 weeks but most it was, during the audit work. In terms of timings, both teams are all working very hard to achieve the deadline. As the committee are aware, we have had very detailed planning and detailed timeline in place which has been agreed, discussed and updated on at various meetings. However, we are not on that because of the issues raised at this meeting.
- f. Members concern that presumably, BDO would now need more time to complete the audit and more resources to produce the accounts. David Eagles clarified that he did not know the specific answer yet. He would need to write to officers about internal control issues regarding the quality checking of the valuation reports which officers were not able to do. If they had, some of those issues may have been picked up before BDO came to audit them. So, issues had not been picked up by BDO from their interim work because they were not aware that there were issues until BDO picked them up in their final audit work. David Eagles confirmed that that is why there was a detailed process in place to look at the valuations during the interim

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process. It had been reported that this wasn't done because the valuation reports were not received on time. If something is not done about receiving valuation reports on time, then the council would be in the same position again next year.

- g. David Eagles clarified to the Chair why 12 post codes were used this year to value the council's housing stock.
- h. Paul Reddaway, in terms of the pension fund, clarified that he had now received 2 final valuations from managers and that he would be adjusting the accounts for these 2 valuations because it would increase the pension fund by £4m.
- i. Councillor Barry commented that she was aware that things were not quite exacting and not surprised that BDO and the Council had hit more difficulties with the sign-off of the accounts. It was not a complete shock to members.
- j. The Chair also reminded members to send any further questions about the draft accounts to the Committee administrator by 12 July 2019.

AGREED to note the External Audit verbal update of the draft accounts to date.

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DATES OF FUTURE MEETINGS

To note the dates agreed for future meetings of the Audit & Risk Management Committee:

Wednesday 28 August 2019

Thursday 17 October 2019

Thursday 16 January 2020

Thursday 5 March 2020

(All meetings to commence at 7.00pm unless otherwise agreed.)