Public Document Pack

AUDIT COMMITTEE AGENDA

7.00 pm	**Wednesday 14 March 2018**	**Committee Room 1- Town Hall - Town Hall**

Members 6: Quorum 3

COUNCILLORS:

Conservative (3)	**Residents' (1)**	**East Havering Residents' (1)**
Viddy Persaud (Chairman) Frederick Thompson John Mylod	Julie Wilkes (Vice-Chair)	Clarence Barrett

UKIP (1)	**Independent Residents' (0)**
David Johnson	

For information about the meeting please contact:
Victoria Freeman 01708 433862
victoria.freeman@OneSource.co.uk

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
• any employment, office, trade, profession or vocation that they carry on for profit or gain;
• any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
• any land licence or tenancy they have in Havering
• any current contracts leases or tenancies between the Council and them;
• any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
• any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
• Your well-being or financial position; or
• The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

YES ↓ You must disclose the existence and nature of your personal interests

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

PECUNIARY INTEREST

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 28 November 2017 and authorise the Chairman to sign them.

5 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

6 EXTERNAL AUDIT PLAN 2017/18: LONDON BOROUGH OF HAVERING AND HAVERING PENSION FUND (Pages 5 - 80)

7 16/17 GRANTS CERTIFICATION REPORT (Pages 81 - 90)

8 ACCOUNTING POLICIES 2017/18 (Pages 91 - 112)

9 CLOSURE OF ACCOUNTS TIMETABLE 2017/18 (Pages 113 - 118)

10 ASSURANCE PROGRESS REPORT QUARTER 3 (Pages 119 - 134)

11 GOVERNANCE UPDATE (Pages 135 - 144)

12 INTERNAL AUDIT STRATEGY AND CHARTER AND 2018-19 PLAN (Pages 145 - 164)

13 TREASURY MANAGEMENT QUARTER 3 UPDATE 2017/18 (Pages 165 - 182)

14 TREASURY MANAGEMENT STRATEGY STATEMENT, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION STATEMENT 2018/19 (Pages 183 - 220)

15 AUDIT COMMITTEE - ANNUAL REPORT 2017/18 (Pages 221 - 228)

Andrew Beesley
Committee Administration Manager

This page is intentionally left blank

MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Committee Room 3A - Town Hall
28 November 2017 (7.00 - 7.41 pm)

Present:

COUNCILLORS:

Conservative Group	Frederick Thompson
Residents' Group	Julie Wilkes (Vice-Chair)
Labour Group	Clarence Barrett
Independent Residents Group	David Johnson

Apologies were received for the absence of Councillors Viddy Persaud. In her absence, Councillor Julie Wilkes took the Chair for the duration of the meeting.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

1 DISCLOSURE OF INTERESTS

There were no declarations of interest.

2 **ANNUAL AUDIT LETTER**

The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2016/17 audit. They had issued unqualified opinions on both the Council's and Pension Fund's financial statements. The Audit Results Report had been issued on 27 September 2017 and the certificate of completion had been issued on 30 October 2017 once they had completed the Whole of Government Accounts work.

The External Auditors were required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. During discussion, it was explained that this year, the use of the client portal would provide a direct link to Ernest and Young. Analytics had been used in different areas of the audit, with difficulties being experienced with the distraction of data for the auditors. A specific team was in liaison with council teams to ensure format compatibility.

The Council engaged a third party, Analyse Local, to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. The auditors had found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate, although their subsequent testing of this provision did not identify any further matters to bring to the attention of the Committee.

The Council would undertake to document its findings in future, in order to ensure that challenge is evidenced.

The Committee **noted** the contents of the letter.

3 **MID YEAR 2017/18 TMSS REPORT**

The Chartered Institute of Public Finance and Accountancy's Treasure Management Code requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year end). The key highlights of the mid-year report were noted as follows:

- The investment portfolio return was 0.69% outperforming its benchmark by 0.39%, the Budgeted rate of return by 0.09% despite 3 month LIBOR falling steadily over the quarter.
- The Arlingclose 13 London Borough average was 0.48% in quarter 2 on comparable internally managed investments.
- There was no breach of the Authority's prudential indicators and treasure indicators.

The total budgeted interest for the full 2017/18 year was £1.350 million. The actual interest to the end of the quarter was £0.739 million. The rate of return was increasing as investments mature. There were two consultations underway which could potentially impact on treasury management and which would place restrictions on the way in which Councils could borrow and spend. The outcomes from these consultations would be reported to the Committee.

The Committee **noted**:

i) The treasury management activities for the half year detailed in the report.
ii) The regulatory update on 'Ring Fencing' set out in section 1.2 of the report.
iii) The regulatory updates on published FCA rules in relation to the second Markets in Financial Instrument Directive (MIFID II) included in section 1.3 of the report and the recent consultation by CIPFA on the Prudential and Treasury Management codes.
iv) The changes brought about by IFRS 9 Financial Instruments, the new accounting standard for investments, borrowing, receivables and payables, which will apply to local authorities from the 2018/19 financial year onwards as detailed in Appendix D.
v) The upcoming launch of a consultation exercise by DCLG to update the statutory guidance on Minimum Revenue Provision and Local Authority Investment Activity as detailed at the end of section 1.2.

4 **ANNUAL GOVERNANCE STATEMENT 16/17 AMENDMENT**

The Annual Governance Statement was subject to audit alongside the Statement of Accounts. Following the 2016/17 audit, the external auditors requested that the statement be amended to ensure compliance with the code.

The Committee **noted** the following amendments to the 2016/17 Annual Governance statement.

- From the work undertaken during the 2016/17 year, reasonable assurance can be provided that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally applied consistently. The level of assurance, therefore, remains at a level consistent with the assurance provided in 2015/16 (page 4 of the statement).
- To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year. We did not find any matters that needed addressing during our review other than those that were previously identified and on which action has been taken to address (page 11 of the statement).

5 ASSURANCE PROGRESS REPORT QTR 2

The Head of Assurance submitted the Quarter 2 progress report for the Committee's attention. At the previous meeting in September the Head of Assurance had given a reasonable assurance that the internal control environment was operating adequately. Based upon the work undertaken in Quarter 2, no material issues had arisen that would impact on that opinion.

The target outturn for completion of the audit plan was 90% at the end of the financial year. As at 18th October 2017, 61% 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.

There was one high risk recommendation associated with Disaster Recovery Follow Up, which was originally due to be implemented by the end of Quarter 2. Progress on this recommendation had been made but remained partially implemented. All medium risk recommendations that became due in Quarter 2 had been followed up and none remained outstanding.

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

6 CLOSURE OF ACCOUNTS TIMETABLE

Officers advised the Committee that a number of areas of focus had been identified, in order to prepare Havering to meet the challenge of shorter timescales and to reduce the lead time in the publication of the accounts and subsequent audit.

Stronger project management had been adopted, with a workshop held involving key officers, to redefine the closedown timetable in order to meet the new timescales. Critical paths had been identified and would be monitored regularly. Finance were finalising plans to run a mini closedown for all income and expenditure incurred up to 31st December 2017, with the aim of producing single entity primary statements by 31st January 2018. OneSource would be promoting balance sheet monitoring and ownership during the course of the year as part of monthly processes, and this would feed into the interim audit. The Corporate Business Systems Team were ensuring greater compliance of feeder system information being posted to the general ledger. There would be regular Council wide updates, in addition to monthly updates to the Senior Leadership Team, to ensure effective communication on the closure of accounts.

It was proposed that members receive training on the approved draft accounts in July. It was highlighted that new committee members needed be identified at the earliest opportunity and suggested that an annual schedule of training be drafted.

The Committee **noted** the approach taken for the early Closing of Accounts 2017/18.

Chairman

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	**External Audit Plan 2017/18: London Borough of Havering and Havering Pension Fund**
SLT Lead:	Debbie Middleton
Report Author and contact details:	Debbie Hanson dhanson@uk.ey.com Ernst and Young Contact: Gareth Robinson Designation: Chief Accountant Telephone: 020 3373 8349 E-mail address: gareth.robinson@oneSource.co.uk
Policy context:	To consider the External Audit Plans for the London Borough of Havering and for the Pension Fund
Financial summary:	There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The attached reports advise the Audit Committee of the proposed External Audit Plan for 2017/18.

The Council's External Auditors, Ernst and Young (EY) will be at the meeting to present the report.

RECOMMENDATIONS

1. To note the contents of the plan.

2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

REPORT DETAIL

1. Background

Ernst and Young are the current External Auditors for the London Borough of Havering and for the Pension Fund. This report includes the external audit plan for the Council and for the Pension Fund which are attached at appendix 1 and appendix 2.

The auditors also issue briefings to Audit Committees on a regular basis throughout the year.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications in noting the content of this Report. The audit fees set out in the audit plans will be met within General Fund Budgets and the Pension Fund as appropriate.

Legal implications and risks:

There are no apparent legal implications in noting the content of this Report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

This page is intentionally left blank

London Borough of Havering
Audit planning report
Year ended 31 March 2018

19 February 2018

Page 9

Building a better working world

Private and Confidential

19 February 2018

Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our 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 (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 February 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

For and on behalf of Ernst & Young LLP

Enc

Contents

Page 11

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (all entities)	Fraud risk / significant risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. For a local authority, we consider that the potential for the incorrect classification of revenue spend as capital is a particular area of risk.
IAS 19 Valuation (London Borough of Havering)	Higher inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the pension fund administered by the Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £488 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Valuation of land and buildings (all entities)	Higher inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's accounts, totalling £998 million and £39 million respectively at 31 March 2017. These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balances sheet, management are required to make material judgements and apply estimation techniques. We consider that where assets are valued at either depreciated replacement cost or existing use value, or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis.
Group Financial Statements (London Borough of Havering)	Other risk	Change in focus of risk from Mercury Land Holdings to joint venture arrangements	Before 31 March 2018, the Council is likely to have entered into a 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. The Council will need to consider whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the specific nature or circumstances of the joint venture (qualitative criteria) and the relative size of the joint venture to the group (quantitative criteria).

Overview of our 2017/18 audit strategy

Materiality

Planning materiality
£11.6m

Materiality has been set at £11.6m, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality
£8.7m

Performance materiality has been set at £8.7m, which represents 75% of materiality.

Audit differences
£0.58m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund) greater than £0.58m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of London Borough of Havering give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

02 Audit risks

Our response to significant and fraud risks

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For the Council, we have identified the potential for the incorrect classification of revenue spend as capital as a particular area at risk of fraud or error.

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

For the London Borough of Havering, and Mercury Land Holdings, we have been able to rebut this risk for both income and expenditure.

.

What will we do?

We will:

- Identify the risk of fraud during the planning stage of our audit, and keep that assessment under review throughout the duration of our audit;
- Inquire of management about the risks of fraud, and the controls established to mitigate those risks;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Consider the effectiveness of management's controls to address the risk of fraud;
- Determine an appropriate strategy to address the identified risks of fraud;
- Perform mandatory procedures regardless of specifically identified fraud risks, including the testing of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assess accounting estimates for evidence of management bias;
- Evaluating the business rationale for significant unusual transactions; and
- Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised, should the final sum be material.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Property, Plant & Equipment The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's accounts, totalling £998 million and £39 million respectively at 31 March 2017. These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balances sheet, management are required to make material judgements and apply estimation techniques. We consider that where assets are valued at either depreciated replacement cost or existing use value, or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis.	We will: ▸ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment, and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets that are not subject to valuation in 2017/18 to confirm the remaining asset base is not materially misstated; ▸ Consider changes to the useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries, ensuring these have been correctly processed in the financial statements,

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Havering Pension Fund. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £488 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Havering Pension Fund to obtain assurances over the information supplied to the actuary in relation to London Borough of Havering; ▸ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Group Financial Statements
 	
Before 31 March 2018, the Council is likely to have entered into a 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.
 	
The Council will need to consider whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the relative size of the joint venture to the group (quantitative criteria), and the specific nature or circumstances of the joint venture (qualitative criteria).
	We will:
	
	▸ Review the Council's assessment of whether these arrangements should be reflected within its group financial statements and
	    ▸ Where these arrangements are reflected in the Council's group financial statements, we will determine an approach for obtaining sufficient assurance over the amounts consolidated by the Council.
	    ▸ Where these arrangements are not reflected in the Council's group financial statements, we will review the adequacy of the narrative disclosures provided by the Council in relation to these arrangements, including disclosure of any events past the balance sheet date.

Other areas of audit focus

What is the risk/area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, and the provision of late working papers.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

In relation to this issue we:

- Are working with the Council to facilitate early substantive testing where appropriate.
- Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Are working with the Council to implement the EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on -demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree with you the timing of each element of our work with you.
- Will agree with you the supporting working papers that we require to complete our audit.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

Page 22

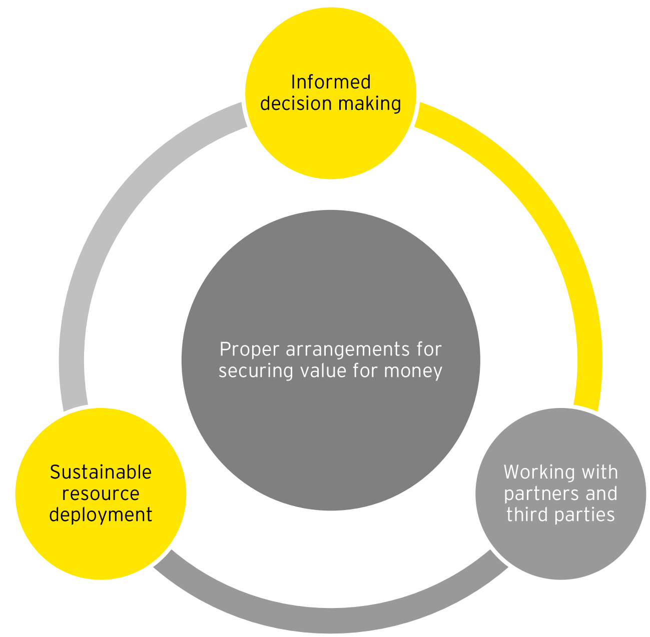
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
By 31 March 2018, the Council is likely to have entered into a 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 will commit the Council to significant levels of borrowing. 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 are crucial. Key issues that should be addressed as part of these arrangements include: • Clear and robust decision making, including consideration of legal powers. • Exploration of options, costs and benefits. • Treasury management and prudential borrowing considerations. • Identification and mitigation of risks. • How the Council identified and secured appropriate expertise and resource to support its decision making.	• Taking informed decisions; • Deploying resources in a sustainable manner; and • Work with partners and other third parties.	Our approach will focus on the effectiveness of the Council's arrangements to exercise oversight of these significant decisions and resulting significant expenditure commitments. This will include: • The quality of the information provided to Members and Officers when taking decisions in relation to the projects; • The nature consideration of advice taken by the Council, including legal and financial advice; • The extent to which the Council has identified, considered, and mitigated the risks around the project; • The extent to which the financial implications of the project are reflected within the Council's Medium Term Financial Plan; • The extent to which the Council has considered alternative funding options; and • The adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs. We anticipate that our work in this area will involve additional audit work that is not contained with the assumptions used by Public Sector Audit Appointments Limited (PSAA Ltd) in setting the Council's 2017/18 audit fee. We have included an estimate of the likely additional fee in relation to this risk. This is reflected in Appendix A of this report. Any variation to our fee needs to be approved by PSAA Ltd.

04 Audit materiality

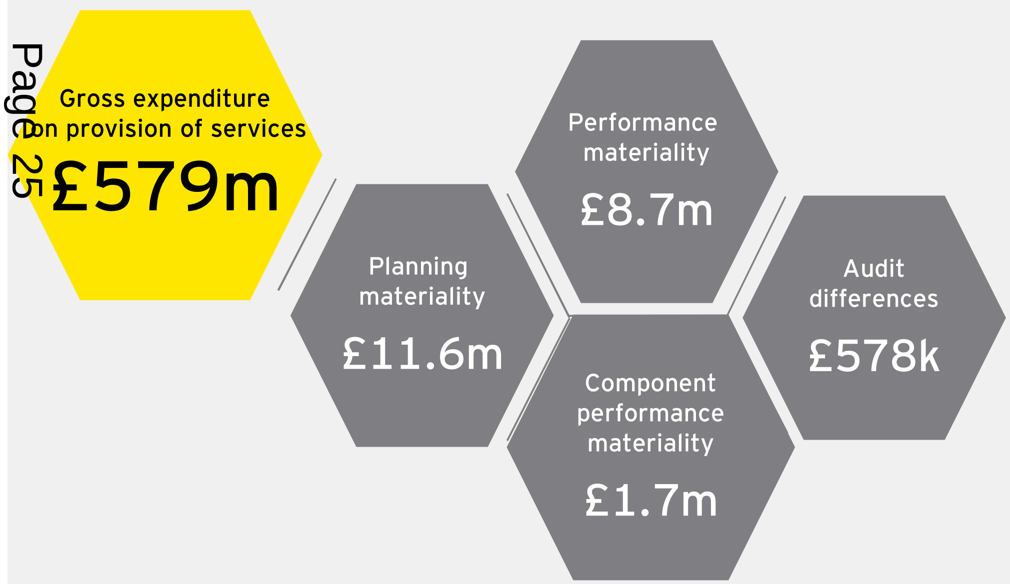
Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £11.6m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

Page 25



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.7m which represents 75% of planning materiality. This is in line with the prior year's performance materiality percentage.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund financial statements that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality – We will set a lower level of materiality for the following: Remuneration disclosures (including severance payments, exit packages and termination benefits), related party transactions, and members' allowances. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2017/18 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2017/18, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit planning, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix E.

2	A	Full scope audits
0	B	Specific scope audits
0	C	Other Procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scope of our audit

Scoping the group audit

The below table sets out the scope of our audit. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping

In scope locations	Scope	Statutory audit performed by EY	Coverage	Current year rationale for scoping	
			Gross Expenditure	Size	Risk
London Borough of Havering	Full	Yes	100%	Yes	Yes
Mercury Land Holdings	Full	No	<1%	No	Yes
TOTAL FULL & SPECIFIC SCOPE			100%		

We will reassess the scope of our group audit once the Council has concluded its consideration of whether the joint venture arrangements referred to above will be consolidated within the Council's group financial statements.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

Location name	Planned involvement by the Group team
Mercury Land Holdings	We will: • Issue Group Auditor Instructions to Mazars. • Participate in Mazars' planning event in person or by conference call. • Review audit working papers prepared by Mazars in relation to significant areas, in particular working papers covering the risk of management override, and the valuation of Investment Property. • Attend Mazars' audit closing meetings, in person or by conference call.

06 Audit team

Audit team

Audit team structure:

Debbie Hanson
Associate Partner

Stephen Bladen
Senior Manager

Alex Rafalowicz-Campbell
Senior

EY Pensions
(Pensions Specialist)

EY Real Estate
(Valuations Specialist)

Page 32

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Real Estate
Pensions disclosures	EY Pensions Advisory Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	**December / January**	Audit Committee: 28 February 2018	Audit Planning Report
Interim audit testing	**February**	Audit Committee: 25 April 2018	Progress report
Year end audit	**June / July**		
Audit Completion procedures	**July**	Audit Committee: 25 July 2018	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	**August**	Audit Committee: 24 October 2018	Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

Page 37

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Group. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and where we do so, we will comply with the policies that you have approved, and the Financial Reporting Council's Ethical Standards, and the National Audit Office's Auditor Guidance Note 01. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not undertake any non-audit work on behalf of the Council. Therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Group. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Independence

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Proposed Final Fee 2016/17
	£	£	£
Total Audit – Code work	160,344	151,844	172,702
Certification of claims and returns (housing benefit subsidy claim)	15,080	15,080	16,178
Total fees	175,424	166,924	188,880

All fees exclude VAT

Page 41

The proposed final fee for 2016/17 includes a proposed variation of £20,858 to the PSAA scale fee of £151,844. This arises from the additional procedures we undertook in relation to:

- The valuation of property, plant and equipment;
- The consolidation of balances relating to Mercury Land Holdings;
- Obtaining transaction listings to support amounts disclosed in the Council's financial statements; and
- The Council's Whole of Government Accounts submission.

Further information on the additional procedures we undertook are included in our 2016/17 Audit Results Report. This report was presented to the September 2017 meeting of the Audit Committee.

We are in the process of agreeing the proposed variation with the Council; the variation will then need to be agreed by PSAA Ltd.

The planned fee for 2017/18 includes a proposed variation of £8,500 to the PSAA scale of £151,844. This variation relates to:

- The work we will undertake to review the work undertaken by Mazars LLP, as auditors to Mercury Land Holdings, and in testing the consolidation of Mercury Land Holdings into the Council's group financial statements (£4,800).
- The work we will undertake to address the significant risk identified in relation to our value for money conclusion (£3,700).

We have estimated the proposed variation on the basis of work undertaken in the prior year, and on the basis of the information available to us at the date of our Audit Plan. We will update our estimate at the collusion stage of the audit, and report a final proposed variation in our 2017/18 our Audit Results Report.

The fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report – February 2018
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report – July 2018

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you: When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report – July 2018
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report – July 2018
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report – July 2018
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report – July 2018

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report – February 2018 Audit Results Report – July 2018
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – July 2018
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report – July 2018
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report – July 2018
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – July 2018
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – July 2018

Page 44

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – July 2018
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report – February 2018 Audit Results Report – July 2018
Certification work	Summary of certification work undertaken	Certification report – December 2018
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Planning Report – February 2018 Audit Results Report – July 2018

Page 45

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Havering Pension Fund

Audit planning report

Year ended 31 March 2018

February 2018

Page 49

EY

Building a better working world

Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BD

28 February 2018

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our 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 (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 February 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson
For and on behalf of Ernst & Young LLP
Enc

Contents

Page 51

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud Risk	**No change** in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Materiality

Planning materiality
£11.6m

Materiality has been set at £11.6m, which represents 2% of the prior year's net assets of the scheme available to fund benefits.

Performance materiality
£8.7m

Performance materiality has been set at £8.7m, which represents 75% of materiality.

Audit differences
£579k

We will report all uncorrected misstatements relating to the primary statements (Pension Fund Account and Net Asset Statement) greater than £579k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give 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

- Our audit 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.

We will form an opinion on the financial statements under International Standards on Auditing (UK & Ireland).

Our audit includes:

- Identifying and understanding the key processes and internal controls;

- Where relevant, reviewing the work of your internal auditors;

- Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and

- Substantive tests of detail of transactions and amounts.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Audit Committee.

02 Audit risks

Our response to significant and fraud risks

Misstatements due to fraud or error

What is the risk?	What will we do?
The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. For the Pension Fund we have identified the valuation of investments as the area of the accounts most susceptible to the risk of misstatement.	**Our approach will focus on:** ➢ Identifying the risk of fraud during the planning stage of our audit, and keep that assessment under review throughout the duration of our audit; ▸ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▸ Understanding the oversight given by those charged with governance of management's processes over fraud. ▸ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▸ Determining an appropriate strategy to address those identified risks of fraud. ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. ▸ Reviewing accounting estimates for evidence of management bias; ▸ Evaluating the business rationale for significant unusual transactions; and ▸ Detailed testing of higher risk investments such as private equity and directly held property to source documentation.

Other areas of audit focus

What is the risk/area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers for the Pension Fund. Risks to the Council include slippage in delivering data for analytics work in format and to time required, and the provision of late working papers.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

In relation to this issue we:

- Are working with the Council to facilitate early substantive testing where appropriate.
- Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Are working with the Council to implement the EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on -demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree with you the timing of each element of our work with you.
- Will agree with you the supporting working papers that we require to complete our audit.

03 Audit materiality

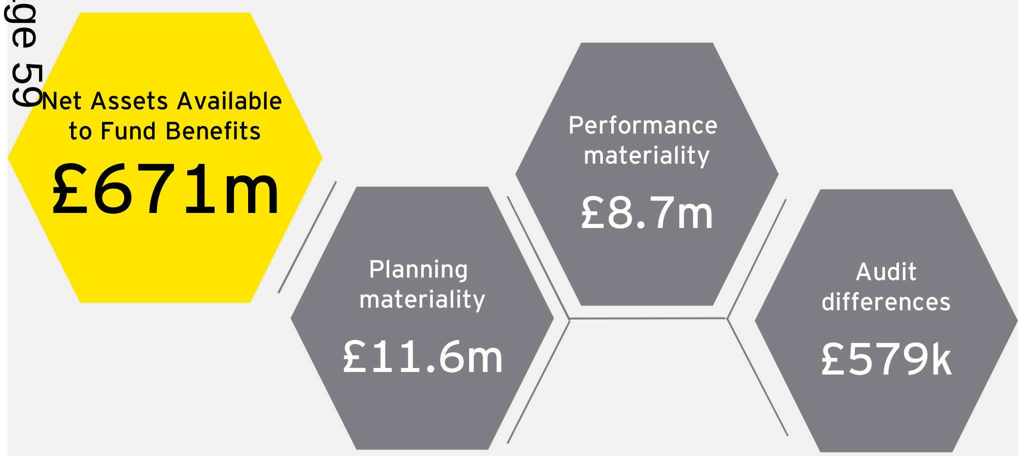
Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £11.6m. This represents 2% of the Fund's prior year net assets of the scheme available to fund benefits. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.

The Pension Fund is a not public interest entity and a major local authority based on its size, and we have considered the overall risk profile and public interest in comparison to other Pension Fund's, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality. As such we have maintained planning materiality to 2% of net assets.

Page 59



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £90m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications, misstatements in disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers the financial statement audit.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland) and form an 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.

As well as the financial statement risks outlined in Section 2, we perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Our audit involves:

- Identifying and understanding the key processes and internal controls;
- Where relevant reviewing the work of your internal auditors;
- Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and
- Substantive tests of detail of transactions and amounts.

Our Audit Process and Strategy (continued)

Audit Process Overview

Processes

Our initial assessment of the key processes across the Pension Fund has identified that we will be taking a fully substantive audit approach at year end.

As investments are managed by contracted fund managers and overseen by the appointed custodian, we will also review the findings of independent ISAE 3402 assurance reports, for the custodian and fund managers, and assess if there are any issues reported that might impact on our testing strategy.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques

Internal Audit

As in the prior year we will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

05 Audit team

Audit team

Audit team structure:

Debbie Hanson
Associate Partner

Stephen Bladen
Senior Manager

Alex Rafalowicz-Campbell
Senior

EY Pensions
(Pensions Specialist)

Key Audit Team Change

Debbie Hanson has replaced Melissa Hargreaves as the Key Audit Partner. Debbie has a number of years experience working with Pension Funds. Debbie also has a number of years experience working as the key partner on other local government audits including the Fund's administering body, the London Borough of Havering.

Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Investment Valuation	The Pension Fund's custodian and fund managers
Actuarial present value of promised retirement benefits.	EY Pensions Advisory PwC (Consulting Actuary to the NAO) Hymans Robertson (Actuary to Havering Pension Fund)

Page 65

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

06 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December / January	Audit Committee: 28 February 2018	Audit Planning Report
Interim audit testing	February	Audit Committee: 25 April 2018	Progress report
Year end audit	June / July		
Audit Completion procedures	July	Audit Committee: 25 July 2018	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	August	Audit Committee: 24 October 2018	Annual Audit Letter

07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and where we do so, we will comply with the policies that you have approved, and the Financial Reporting Council's Ethical Standards, and the National Audit Office's Auditor Guidance Note 01. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we do not undertake any non-audit work on behalf of either the London Borough of Havering or Havering Pension Fund. Therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Independence

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

08 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee – Code work	21,000	21,000	21,000
Total fees	21,000	21,000	21,000

All fees exclude VAT

Page 73

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report - February 2018
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report - July 2018

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report – July 2018
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report – July 2018
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report – July 2018
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit results report – July 2018

Page 75

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report - February 2018 Audit Results Report - July 2018
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report - July 2018
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report - July 2018
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit results report - July 2018
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - July 2018
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - July 2018

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report – July 2018
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report – February 2018 Audit Results Report – July 2018

Page 77

Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	**16/17 Grants Certification Report**
SLT Lead:	**Debbie Middleton**
Report Author and contact details:	***Gareth Robinson*** ***Chief Accountant*** ***01708432063*** Gareth.Robinson@oneSource.co.uk
Policy context:	**The Audit Committee are required to review the outcomes of the Authority's grant claims process for audited grant claims relating to the financial year 2016/17**
Financial summary:	**Core audit fees: £16,178** **The complexity of the work is reflected in the fee. It should be noted that this is the second year of the Housing & Council Tax Benefits claim being audited with no amendment or qualification which is an excellent achievement.**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The 2016/17 audit process was completed by the Public Sector Audit Appointments (PSAA) representative, Ernst and Young. (see Appendix 1 for the Ernst and Young audit report)

RECOMMENDATIONS

The Committee is recommended to:

1. note the report
2. consider the outcomes of the 2016/17grant claims process
3. raise any issues of concern with officers on specific grant claims
4. note the year-on-year grant claims performance

REPORT DETAIL

Overall summary of the 2016/17 audited grant claims compared to 2015/16.

Background

The way that grant claims are audited has changed in recent years. Grant funding bodies are moving away from certified audits to audit assurance. This report outlines the outcomes of these processes.

1. Performance - Certified Grants Process

The duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work is delegated to the Public Sector Audit Appointments Ltd. (PSAA) by the Secretary of State for Communities and Local Government.

1.1. For 2016/17, the PSAA arrangements required only the certification of the Council's housing benefit subsidy claim.

1.2. The Housing and Council Tax Benefits Subsidy for 2016/17 has now been certified by Ernst and Young.

1.3. There are no amendments to the claim for 2016/17, and there were none in 2015/16.

1.4. The Housing and Council Tax Benefits claim for 2016/17 was unqualified, (see Appendix 1 for Ernst and Young audit report) as was in 2015/16.

1.5. It should be noted that the audit fee and complexity of the audit work is reflected in the fee which for 2016/17 is £16,178 and the fact that this is the second year of this audit with no amendment or qualification which is an excellent achievement.

1.6. Of the one claim audited for 2016/17 it met its Audit Commission/Grant Funding Body certification deadlines as did the claim for 2015/16, see Table 1 below.

Table 1

	2016/2017		2015/2016	
	No.	**%**	**No.**	**%**
Total Claims	**1**	**100**	**1**	**100**
Submitted by due date	1	100	1	100
Amended claims	0	0	0	0
Qualified claims	0	0	0	0
Certified by deadline	1	100	1	100

1.7. Audit Recommendations

There are no audit recommendations reported by Ernst and Young as a result of the 2016/17 BEN01 – Housing and Council Tax Benefit audit process.

1.8. Audit Fees

The following table records audit fees paid each year:

Table 2

Paid in 2013/14 re 2012/13 audits	Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits	Paid in 2016/17 re 2015/16 audit	Paid in 2017/18 re 2016/17 audit
£43,025	£22,565	£21,570	£15,080	£16,178
No of Claims Audited 4	No of Claims Audited 2	No of Claims Audited 1	No of Claims Audited 1	No of Claims Audited 1

The value of the Housing and Council Tax Benefit grant claim for 2016/17 is £95.8m. The audit fee is set by PSAA Ltd (see section 1) and the complexity of the audit work is reflected in the fee which for 2016/17 is £16,178. The audit fee for the Housing Benefit Grant for 2015/16 with a value £96.4m, was £15,080.

1.8. Ernst and Young has been the Council's appointed auditor for grant claims since April 2016, and they carried out the audit to provide certification for the Housing and Council Tax Benefit Grant 2016/17.

2. External Compliance/Assurance Audit requirements for 2016/17

2.1. The Teachers Pensions Authority and the Department of Communities and Local Government require external and independent certification of the Council's final statutory returns for 2016/17. These are the End of Year Certificate (Teacher's Pensions), and the Final Pooling Return.

2.2. As these items are no longer covered by the scope of the PSAA appointment of statutory auditors, the audit fees for these grants were negotiated separately, with Grant Thornton LLP appointed to complete the work. This is summarised as follows.

	2016/2017		**2015/2016**	
	No.	**%**	**No.**	**%**
Total Claims	**2**	**100**	**3**	**100**
Submitted by due date	2	100	3	100
Amended claims	0	0	0	0
Qualified claims	0	0	0	0
Certified by deadline	2	2	3	100

2.3 The grants that required audit compliance or assurance in 2016/17 are:

- Teachers Pensions - Assurance required against £40.3m total contributory salary which includes £10.6m of teachers pensions contributions
- DCLG Pooling of Housing Capital Receipts – Certification of £14m Housing Capital receipts

Audit requirements and outcome are shown below:

2.3.1 Teachers Pensions 2016/17 - Teachers Pensions have required end of year certification assurance instead of a full audit and thus local authorities are required to engage an external auditor to provide that assurance. Grant Thornton was engaged to perform this service for 2016/17 at a cost to the Council of £3000 plus vat.

Outcome
Grant Thornton concluded that the End of Year Certificate (a) has been prepared in accordance with the regulations underpinning the Teachers' Pension Scheme.

2.3.2. DCLG Pooling of Housing Capital Receipts 2016/17 - For the 2016/17 return the DCLG required an external audit to be carried out so we engaged Grant Thornton to perform this service at a cost to the Council of £1000 plus vat.

Outcome
Grant Thornton concluded that the Final Pooling Claim for 2016/17 was accurate.

2.4. Additional Audit Fees over and above the LPAA remit.

Paid in 2014/15 re 2013/14 audits	Paid in 2015/16 re 2014/15 audits	Paid in 2016/17 re 2015/16 audits	Paid in 2017/18 re 2016/17 audits
£18,500	£24,436	£6,490	£4,000
No of Claims Audited 2	No of Claims Audited 5	No of Claims Audited 3	No of Claims Audited 2

The audit fee for the additional grants outside the PSAA remit for 2016/17 is £4,000. The audit fee for the three grants audited for 2015/16 was £6,490.

When engaging an auditor for the additional requirements in 2016/17 we looked to achieve value for money. We liaised with partner boroughs and bearing the complexity and value of the grant in mind, together procured audit services at competitive costs whilst aiming to retain auditor expertise.

3. In Year Achievements

- Both service and finance staff are being supported by one to one grants training upon request.

IMPLICATIONS AND RISKS

Financial implications and risks:

The number of grants which require external audit has been steadily reducing in recent years. Poor performance in submitting claims puts income at risk and can affect the Council's reputation with funding bodies. Additional audit fees may also be incurred where working papers or procedures fail to meet the required standards.

Qualified claims may lead to the Council having to repay grant income and delays leading to late certification of claims can result in the suspension of grant income.

These outcomes are mitigated by having in place, a robust system of training, support and review. This ensures that all grant claims are robustly examined before submission and that any queries are taken back through a consistent route. The good standard of working papers provided continues to contribute to the grants audit process.

For 2017/18 the PSAA has set the cost of the statutory audit at £15,080 based on final 2016/17 certification fees.

The number of grant funding bodies requiring external audit certification is more difficult to predict under the current arrangements and the Council may therefore be exposed to the risk of incurring additional audit fees.

The statutory audit fee is met by a corporate budget and for 2016/17 is reported as part of the revenue monitor process. Any surplus is transferred into the Business Risk Reserve. Audit costs incurred from additional assurance/compliance requirements are met by the individual service budgets.

Legal implications and risks:

There are no apparent Legal implications or risks arising directly from this report.

Human Resources implications and risks:

There are no HR implications or risks arising directly from this report.

Equalities implications and risks:

There are no Equalities and Social Inclusion implications arising directly from this report.

Building a better working world

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Tel: + 44 1582 643 476
Fax: + 44 1582 643 001
ey.com

Members of the Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BD

24th January 2018

Ref: DH / LBH / 2016-17 Certification Report

Email: dhanson@uk.ey.com

Direct Line: 07974 006715

Dear Members

Certification of claims and returns annual report 2016/17 London Borough of Havering

We are pleased to report on our 2016/17 certification work. This letter summarises the results of our work on London Borough of Havering housing benefit subsidy claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd. (PSAA) by the Secretary of State for Communities and Local Government.

For 2016/17, the PSAA arrangements required only the certification of the Council's housing benefit subsidy claim. In certifying this claim we followed the methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

We checked and certified the housing benefits subsidy claim which had a total value of £95.8 million. No amendments were required to the claim, nor did we identify any issues that required reporting to the Department for Work and Pensions (DWP). We submitted the certified claim to DWP on 30th November 2017.

Fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016/17, these scale fees were published by the PSAA in March 2016 and are available on the PSAA's website (www.psaa.co.uk). Details of the fees for 2015/16 and 2016/17 are set out on the following page.

	2016/17	2016/17	2015/16
	Actual fee	Indicative fee	Actual fee
Housing benefits subsidy claim	£16,178	£16,178	£15,080

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £15,080. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available on PSAA's website, by using the following web address: https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

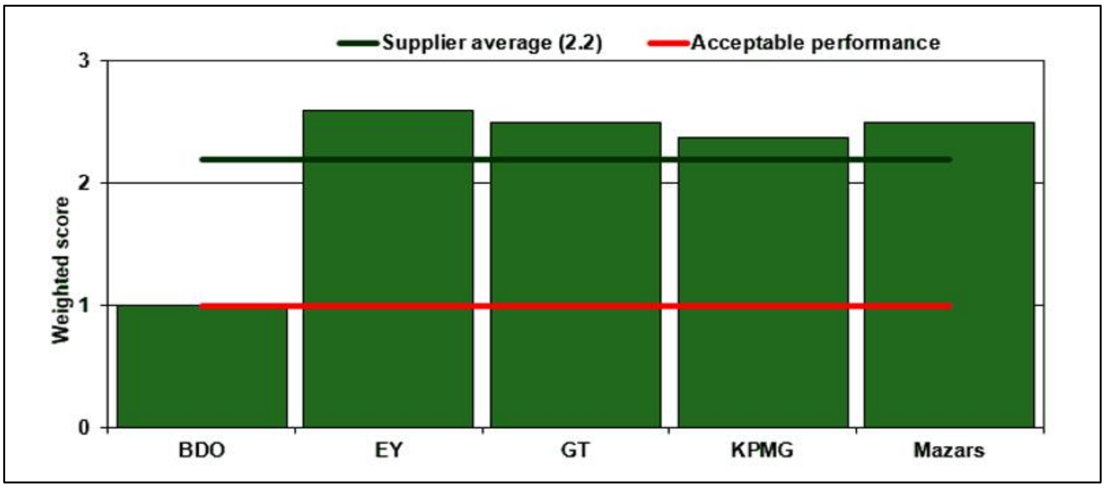
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Council's Chief Financial Officer before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published in early 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



We were appointed as your statutory auditor by PSAA in December 2017, and can therefore provide a comprehensive assurance service, delivering efficiencies for you and building on the knowledge and relationship we have established with your housing benefits service.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting due to be held on 28th February.

Yours faithfully

Debbie Hanson
Associate Partner
Ernst & Young LLP

This page is intentionally left blank

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Accounting Policies 2017/18
SLT Lead:	Debbie Middleton
Report Author and contact details:	Contact: Gareth Robinson Designation: Chief Accountant Telephone: 020 3373 8349 E-mail address: gareth.robinson@oneSource.co.uk
Policy context:	This report advises the Audit Committee of amendments required to the accounting policies adopted for preparation of the accounts for the financial year 2017/18
Financial summary:	There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

This report summarises the main contents of the accounting policies adopted by the Council and the required changes to ensure the accounts for 2017/18 are prepared in accordance with accounting regulations. Any further changes to accounting regulations may require the policies to be changed further, however none are anticipated at this stage. Any significant changes will be highlighted to the committee in the Statement of Accounts report in July 2018.

- The report presents the accounting policies applicable to the financial year 2017/18 and will be reflected in the published statement of accounts.
- The CIPFA Better Governance Forum has produced a tool-kit for local authority Audit Committees that recommends Members review accounting policies on an annual basis

Appendix A includes the revised accounting policies for 2017/18.

RECOMMENDATIONS

The Committee is asked to note and comment on the accounting policies applicable to financial year 2017/18.

REPORT DETAIL

1. Introduction

1.1 This report sets out the accounting policies that will be applied during the financial year 2017/18 in preparation of the Council's financial statements. The full policies are shown in appendix A to this report and will be included in the Statement of Accounts. The policies are prepared under the International Financial Reporting Standards (IFRS). Members of the Audit Committee are invited to note these policies and make comment. Reviewing of accounting policies by Members ensures that the Council and Audit Committee follow the CIPFA Better Governance Forum toolkit for local authority Audit Committees.

1.2 Unless there are major changes to accounting rules and regulation, accounting policies do not change significantly between years because the accounts would not be comparable from one year to the next.

1.3 The draft audited Statement of Accounts for 2017/18 will be presented to the July 2018 Audit Committee. The accounting policies statement will be included within the accounts and any changes made during the course of the closedown programme and/or audit will be highlighted and explained by officers.

2. Purpose of Accounting Policies

2.1 The Code of Practice for Local Authority Accounting defines accounting policies as "the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves".

2.2 The application of accounting policies supports the implementation of the main accounting concepts of best practice. These ensure financial reports:

- Are **relevant** – providing appropriate information on the stewardship of Authority monies.
- Are **reliable** – financial information can be relied upon and is without bias and free from error, within the bounds of materiality and has been prudently prepared.
- Allow **comparability** – the interpretation of financial reports is enhanced by being able to compare information across other accounting periods and other organisations.
- Are **understandable** – though financial reports have to contain certain information, they have to be understandable.
- Reflect **material** informatio**n** – significant transactions must be incorporated in the financial reports.
- Prepared on a **going concern** basis – the assumption that the authority will continue in operational existence for the foreseeable future.
- Prepared on an **accruals** basis – accounts are prepared to reflect the benefit of goods and services received and provided rather than when cash transactions occur when invoices are paid in a later accounting period.

2.3 The accounting policies currently adopted by the Council are in line with the concepts set out in 2.2.

3. Contents of Accounting Policies

3.1 The appendix contains all of the Council's accounting policies. The more significant policies cover the treatment of the following:

- **Property Plant and Equipment** – the basis for valuing major long-term assets, such as council dwellings and offices.
- **Impairment** – The carrying value of assets is reviewed annually to determine whether there is a material change in value and the basis on which impairment losses are written off.

- **Depreciation** – Depreciation is charged to spread the value of an asset over its useful life.
- **Provisions and reserves** – A **provision** is created because the Council will have to make a future payment to settle a financial obligation and a reasonable estimate can be made of the amount payable. Provisions are charged to the relevant service area. A **reserve** is created for a planned future purpose or maintained as a general contingency. These are recorded separately on the Movement in Reserves Statement.
- **Accruals of Income and Expenditure** – The Council raises accruals to comply with the concept of accounting to measure when payments or receipts are due rather than where cash is transferred to settle the liability
- **Pensions** – This note describes the three pension schemes Council employees contribute to (teachers, health workers and Local Government Pension Scheme). The policy includes detail on the investment valuation basis used and the calculations made of future liability.
- **Value Added Tax** - As the vast majority of VAT paid by the Council is recoverable from H.M. Revenue & Customs, recoverable VAT is excluded from the cost of services within the accounts.

4. Changes in Accounting Policies for 2017/18

4.1 The application of most accounting policies is consistently applied from year to year. Changes are required when new accounting regulations are introduced or updated or if there is a significant change within the financial activities of the Council.

4.2 There is one minor change proposed to Havering's accounting policies for the 2017/18 accounts. The proposed amendments are listed below:

XX Property, Plant and Equipment

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position.

Legal implications and risks:

There are no Legal implications arising from this report.

Human Resources implications and risks:

There are no Human Resources implications arising from this report.

Equalities implications and risks:

There are no Equalities implications arising from this report.

This page is intentionally left blank

Notes to the Core Financial Statements

1. Accounting Policies

Going Concern

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by 31 May 2017, which the Accounts and Audit (England) Regulations 2015 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Outstanding

creditors are written out of the accounts if they have not been billed for by the supplier after a period of one year, however a sample of outstanding balances will be sampled and adjusted for if required;

- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected; and
- most accruals are automatically generated by the feeder system concerned, but a de minimis is applied in respect of accruals raised manually unless material to grant funding streams or to individual budgets. The de minimis for 2017/18 remains at £50,000.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition or notice accounts of no more than 3 months and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority’s cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority’s financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Within the accounts the Comprehensive Income and Expenditure Statement has been restated to comply with the CIPFA code; ‘Telling the story’. This is to improve the presentation and transparency of the council’s financial statements.

v. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible non-current assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance (the Minimum Revenue Provision). Depreciation, revaluation and impairment losses, and amortisations are therefore replaced by an adjusting transfer to the General Fund Balance from the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Central Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexitime) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund and Housing Revenue Account balances to be charged with the amount payable by the Authority to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

Employees of the Authority are members of three separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service Pension Scheme, administered by the National Health Service; and
- the Local Government Pension Scheme, administered by the Authority.

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. However, the arrangements for the Teachers' and National Health Service schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. Those schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education and Public Health Services lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the Teachers' and National Health Service Pensions Scheme in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

- The liabilities of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% based on the indicative rate of return on high quality corporate bonds.
- The assets of the London Borough of Havering Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price; and
    - property – market value.

The change in the net pension liability is analysed into the following components:

- Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other comprehensive income and expenditure;
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;
    - contributions paid to the London Borough of Havering pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

All Town and Country Planning Act 1990 (as amended) Section 106 contributions, because of their complex nature and numerous legal conditions, are only recognised through the Comprehensive Income and Expenditure Statement once they have been spent. Only then are we certain all conditions have been met and there is no return obligation.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund and Housing Revenue Account balances in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Non Ring-fenced Grants

These are allocated by Central Government directly to local authorities as additional revenue funding. They are not ring-fenced and are credited to the Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Business Improvement Districts

The Authority is the billing authority for the London Riverside Business Improvement District (BID) managed by Ferry Lane Action Group, which provides a cleaner, safer, more secure business environment and promotes the interests of the business community within the BID. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) on the balance sheet.

xii. Heritage Assets

The Authority's Heritage Assets are split into two categories

- Civic Regalia; and
- Heritage Buildings.

Civic Regalia

The collection of civic regalia includes the Mayor's and the Deputy Mayor's chains, which are worn on ceremonial duties and various items with civic insignia. They are valued based on manufacturing costs and do not include any element for rarity or collectable value, retail mark-up or VAT.

Heritage Buildings

The Authority owns one building that meets the definition of a heritage asset and this is Upminster Windmill. The building has been valued by professional valuers who have stated that the most appropriate means of valuing this building is by its historic cost.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment.

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiv. Inventories

The Authority has a small number of inventories. These are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned predominantly using the first in first out (FIFO) costing formula.

xv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvi. Interests in Companies and Other Entities

The investment is held at cost subject to impairment. Subsidiaries are entities controlled by London Borough of Havering. London Borough of Havering controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

xvii. Interest in Joint Committee

oneSource is a participative arrangement created by the Authority, the London Borough of Newham and the London Borough of Bexley to share back office operations. It is governed by a joint committee and is not deemed to meet the definition of joint control; hence the assets, liabilities, income, expenditure and cash flows of the joint committee are not consolidated into the Authority's group accounts. Instead, the Authority accounts for its own transactions arising within the agreement, including the assets, liabilities, income, expenditure and cash flows, in its single entity financial statements. Cost and savings are shared between the three authorities on the basis of an agreed formula and are allocated on an annual basis.

xviii. Leases

All current leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease, but convey a right to use an asset in return for payment, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received

xx. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Finance costs are excluded in valuations for all assets.

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

- works to buildings £5,000

- infrastructure £5,000
- office and information technology £5,000
- other furniture and equipment £5,000

There are no de minimis limits for the following categories: land acquisition, vehicles and plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUVSH);
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued as a minimum every five years, with high value assets being re-valued annually, to ensure their carrying amount is not materially different from their fair value at the year end. In addition, an independent review is carried out annually. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Development Costs

General Feasibility studies are automatically treated as revenue, unless in very rare circumstances when they lead to the creation of an asset. This is because they are typically an options review of what schemes may or may not be considered for the capital programme. They do not in and of themselves produce an asset. There would need to be an accompanying business case justification as to why this expenditure could be capitalised and as such, this would normally only occur in relation to large-scale regeneration schemes.

The watershed moment between the feasibility and the development stage, when concrete designs are reviewed is normally the point at which expenditure may be considered for capitalisation. The Council's policy at this stage is to treat the expenditure as capital and then if the scheme did not go ahead or was stopped at an early stage without producing any assets, would treat the expenditure as an abortive revenue cost. This policy could be broadly described as *capitalising at risk* and all schemes that were cancelled without producing an asset would need to be reviewed for the potential for these abortive costs.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged in the year of acquisition but is charged in full during the year of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over a five year period unless a suitably qualified officer determines a more appropriate period; and
- infrastructure – straight-line allocation over 20 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the Code requires that these components are depreciated separately.

Major components which have materially different asset lives will be identified in respect of:

- new capital expenditure as it arises; and
- existing assets as they become subject to revaluation.

Assets will not be valued on a componentised basis in the following circumstances on the basis that the impact upon asset valuation and depreciation is not material to the accounting disclosures:

- capital expenditure of less than £300,000 per scheme; and
- assets valued at less than £3,000,000.

As a consequence of the application of this policy the Authority has not identified any major components with materially different asset lives. However, the application of this policy will be reviewed on an on-going basis to ensure that the carrying value of assets is not materially affected.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to noncurrent assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Where an Asset is fully depreciated and therefore has a zero net book value, it is deemed as being abandoned or scrapped and treated as such (This will not have an effect on the Comprehensive Income and Expenditure Statement as the gross book value and the accumulated depreciation are equal). Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Annual Minimum Revenue Provision Statement

Where the Council finances capital expenditure by borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum provision since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's (DCLG) Guidance on Minimum Revenue Provision issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.

xxi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the Accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the Accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

xxiii Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxiv. Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Schools' transactions, cash flows and balances are therefore recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

xxv. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxvi Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [*other financial instruments as applicable*] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

Agenda Item 9

Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	Closure of Accounts Timetable 2017/18
SLT Lead:	Debbie Middleton
Report Author and contact details:	Contact: Gareth Robinson Designation: Chief Accountant Telephone: 020 3373 8349 E-mail address: gareth.robinson@oneSource.co.uk
Policy context:	This report advises the Audit Committee of the progress to date in preparing for the Closure of Accounts 2017/18.
Financial summary:	There are no direct financial implications to the report.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2017/18 Accounts.

RECOMMENDATIONS

The Committee is asked to note the report and the key dates

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2016/17 by the statutory deadline of 30th June 2017.

The priority for the closure programme is to ensure that all key activities have been captured in the timetable, and that roles and responsibilities have been identified and understood.

2. Preparing for Earlier Closedown

2.1 The statutory deadline for having the draft accounts available for audit is being brought forward. Furthermore, the amount of time available to auditors to complete their assurance work is also being reduced by a third. These changes are summarised in the table below.

	FY 2016/17	**FY 2017/18**
Draft Accounts prepared by	30th June 2017	31st May 2018
Accounts Audited by	30th September 2017	31st July 2018

To be able to meet the statutory deadlines, it's imperative that the key dates within the closedown timetable are met. Any delay from one activity has a cascading impact which could jeopardise Havering closing its accounts within the required timeframe. This will mean Committee papers wil be out earlier as well in line with this timescales. There will be a training session for members of the Audit Committee between the end of the May and the July Committee, to familiarise members with the Statement of Accounts.

At the last Audit Committee, members were presented with a paper outlining a series of activities to be undertaken in order to meet the new deadline. This paper provides an update on the key areas.

2.2 Closedown Timetable

Following a workshop of key officers, the 2017/18 closedown timetable was issued which incorporates the feedback from that session, and in line with project management methodology clearly sets out the critical path and named owners for each activity. This is being monitored regularly by Financial Control and no major slippages have been flagged to date.

2.3 **Period 9 Closedown**

As part of the quicker closedown preparation process, Havering introduced a period 9 close. This provided an opportunity for a trial run on an accelerated timetable. It further required that the financial activity for the first 9 months were reviewed and adjusted as necessary, rather than a review of the full year during the critical months of March and April.

Whilst there was some slippage in the time taken to make final adjustments, the core statements including the balance sheet, Comprehensive Income and Expenditure Accounts and Movement in reserve Statement were produced within one week of the last journal being processed. An analytical review subsequently has identified a number of areas that need early additional attention to meet the compressed timescales. Year-End. This review process has helped us refine our existing preparation for Year-End.

One issue that is requiring significant amount of work is in regards to the reconciliation of the balance sheet debtors and creditors. This work is still being undertaken to ensure it meets the requisite standard. Further guidance and templates are being developed to support services and finance staff in order to be able to provide the required information and working papers for the auditors in June.

3. Other Issues

3.1 Collection Fund / Housing Benefits

The Collection Fund and Housing Benefits are significant elements of the statement of accounts and impacts on all of the prime statements. In 2016/17 there were delays in receiving the data that due to the lateness caused an error in the accounts picked up as part of the Auditor’s report. For 2017/18 financial control are working with the service in order to meet the earlier deadlines and to assess revised process in order to obtain the required information.

3.2 Auditors

Officers are working with Ernst and Young to explore harmonisation of audit processes across Havering and Newham where possible, given both Councils now operate the same instance of 1Oracle, and share support staff for common transactional services.

3.3 Group Accounts

Currently Havering produces Group Accounts to include Mercury Land holdings within its accounts. For 2017/18, the Beam Park/Rainham development, Bridge Close and the 12 estates JV in the HRA are scheduled to be approved before Year-End. However, it is unlikely that we will need Group Accounts in 2017/18 as all material transactions are currently anticipated to take place post-Year-End.

4. Progress to Date

4.1 The closedown planning process began in earnest in November 2017. The process is being monitored routinely by Financial Control & Corporate Business Systems staff, and regular reports will be made to both the Strategic Leadership Team and Audit Committee.

4.2 The finalised timetable for the year end closure of accounts has been made available to all staff and its implementation is being monitored, with current tasks on schedule. Regular meetings have been scheduled until May 2018.

The key deadlines include the following:

Deadline		**Task**
Fri	06/04/2018	Final deadline for service capital journals
Wed	11/04/2018	oneSource Outturn sign off – Jane West
Thu	**12/04/2018**	**Final deadline for Services journals**
Mon	16/04/2018	Open CP for Outturn
Fri	20/04/2018	Provisional outturn to Director of Finance for review
Tue	08/05/2018	SLT Business Meeting - Capital Outturn Report, Final confirmatory Outturn Report
Mon	28/05/2018	Draft Statement of Accounts signed by Section 151 Officer

4.3 Ernst and Young are scheduled to carry out walk through tests on various processes during their interim audit in February 2018, and will undertake transaction testing for periods 1-9. A verbal update will be provided to the Committee on any issues arising from the interim audit.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Councils financial position.

Legal implications and risks:

There are no apparent legal implications in noting the content of the Report

Human Resources implications and risks:

There are no HR implications or risks arising directly from this report.

Equalities implications and risks:

There are no Equalities implications arising from this report.

This page is intentionally left blank

Havering
LONDON BOROUGH

AUDIT COMMITTEE
28 02 2018

Subject Heading:	Assurance Progress Report Quarter 3
SLT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Jeremy Welburn Head of Assurance. Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of progress on the assurance work undertaken in quarter three of 2017/18.
Financial summary:	There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report advises the Committee on the work undertaken by the Assurance Service (internal audit & counter fraud) during quarter three of 2017/18.

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity. The report is presented in three sections.

Section 1 Introduction, Issues and Assurance Opinion

Section 2 Executive Summary**:** A summary of the key messages from quarter three.

Section 3 **Appendices:** Provide supporting detail for Members' information

Appendix A: Detail of Quarter Three Internal Audit work

Appendix B: Detail of Quarter Three Counter Fraud work

Appendix C: Current Status of 2017/18 Audit Plan

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate internal audit service, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obliged to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

N/A

Section 1: Introduction, Issues and Assurance Opinion

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require 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) and other guidance.

1.1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a 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 policy or system owner / sponsor
- Third line – independent assurance.

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

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

1.1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

1.1.5 Officers within the Assurance Service have continued to be involved in work with the Section 151 Officer, Monitoring Officer and Director of Finance for oneSource to review the Governance and Assurance Board arrangements and the approach to collating evidence for the Annual Governance Statement. They have also worked with senior management to update risk registers, and to integrate Audit and Counter Fraud Plans with those. Previously, horizon scanning work had taken place with other Heads of Audit and through the Croydon Framework to identify common risk and audit themes. Updated Risk Registers and Audit Plans for 2017/18 were approved by the Audit Committee in May, which reflected this revised approach.

1.1.6 This report brings together all aspects of internal audit and counter fraud work undertaken in quarter three, 2017/18, in support of the Audit Committee's role.

1.1.7 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide specific detail of outputs for the Committee's information.

1.2 Level of Assurance

1.2.1 At the November 2017 Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in quarter two, 2017/18, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.

1.2.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. No limited assurance reports were issued in quarter three.

Section 2. Executive Summary of work undertaken in quarter three, 2017/18

2.1 Internal Audit

2.1.1 There have been four final reports issued in quarter three. All of which were given an audit opinion of substantial assurance. A further two reports providing assurance on grants was also issued during this quarter. A number of audits are in progress, with fieldwork underway, but have not reached the final report stage. Appendix C shows the current status of the 2017/18 audit plan.

2.1.2 All six of the recommendations raised in the reports issued in quarter three were medium risk. Further detail is provided in Sections 3.2 and 3.3 below.

2.2 Pro-Active and Counter Fraud

2.2.1 During quarter three one case was closed - no case to answer and one referral was received which is currently being investigated.

2.2.2 During the quarter the Housing Investigations Team:

- Recovered five properties with a nominal value of £90,000;
- Had six Right to Buy applications withdrawn with a notional value of £521,939;
- Recovered £30,523 Housing Benefit overpayments;
- Recovered £5,030.56 Council Tax overpayment;
- Recovered £2,284.04 Single Person Discount Overpayment; and
- ADPEN Charge of £1,000.

2.2.3 The total net savings (minus project costs) for the Tenancy Fraud Project from October 2015 to December 2017 is £5.69m. The breakdown for each year is below.

- April 2017 to December 2017 - £1.68m
- April 2016 to March 2017 - £2.54m
- October 2015 to March 2016 - £1.47m

Appendix A

3. Quarter Three - Internal Audit Work

3.1 Audit Progress

3.1.1 The Annual Audit Plan, approved by the Audit Committee in May 2017, comprised 48 audit reviews. A further nine tasks have been carried forward from 2016/17 and another six tasks added, three of which were at the request of clients. Eleven tasks have been deferred to 2018/19 or cancelled (See Appendix C). The total number of audit reviews, including 2016/17 audits carried forward, is currently 52.

3.1.2 Current progress toward delivery of the 2017/18 audit plan (including audits carried forward from 2016/17, but excluding School Health Checks) is summarised in the table below, with further detail provided in Appendix C.

	Number of Audits / Tasks
Final reports issued	16
Draft reports issued	3
In progress	24
To be started	9
Total	52

3.1.3 The target outturn for completion of the audit plan is 90% at the end of the financial year. As at 31st January 2018, 83% of the tasks have been delivered to draft or final report stage, or are in progress. This confirms that the audit plan is on track to be delivered by the end of the financial year.

3.2 Risk Based Systems and School Audits

3.2.1 The table below details the results of the final reports issued in quarter three. It should be noted that no limited assurance reports were issued in this quarter.

Report	Assurance	Recommendations			
		High	**Med**	**Low**	**Total**
System Audits					
Children's Commissioning	Substantial	0	0	0	0
Client Finance and Deputyships	Substantial	0	2	0	2
Homelessness – Housing Tenancy Arrangements	Substantial	0	4	0	4
Troubled Families* (17/18 Claim 2)	Substantial	0	0	0	0
Land of the Fanns – Initial Grant Arrangements Review **	N/A	N/A	N/A	N/A	N/A
Mayor's Appeal Fund – Annual Grant Review **	N/A	N/A	N/A	N/A	N/A
Total		0	6	0	6

*A report is issued for each claim window but is classed as one task within the audit plan

**Grants reviews may vary from year to year and are classed under the External Grant or Monitoring Arrangements – Council awarded grants allocation in the agreed audit plan.

Key to Assurance Levels	
Substantial Assurance	There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Moderate Assurance	Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

3.2.2 During quarter three, one school health check was completed: Broadford Primary and Mead Primary, which was completed as one health check under The Learning Federation.

3.3 Outstanding Audit Recommendations Update

3.3.1 Internal Audit follows up all non-school audit recommendations with management when the deadlines for implementation are due. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review.

3.3.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.

3.3.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

High:	Fundamental control requirement needing implementation as soon as possible.
Medium:	Important control that should be implemented
Low:	Pertaining to best practice.

3.3.4 The table below summarises the number of high and medium risk recommendations arising from finalised reports in quarter three. This table does not include schools, as these are set out below in section 3.4.

	High	Medium	Low	Total
No. of Recs raised in Q3	0	6	0	6
Outstanding Recs brought forward from previous quarters	1	3	1	5
Total	1	9	1	11
Recommendations due to be implemented by 31/12/17	1	3	1	5
Fully Implemented	0	2	1	3
Partially Implemented	1	1	0	2
Not Implemented	0	0	0	0

3.3.5 The one high risk recommendation showing as partially implemented in the table above was originally due to be implemented by the end of quarter two. Progress on this recommendation has been made but it remains partially implemented (see 3.3.6 below). All medium risk recommendations that became due in quarter three have been followed up; two have been fully implemented and one is partially implemented with a revised implementation date of 31st January 2018.

3.3.6 The high risk recommendation that remains outstanding is detailed in the table below:

Audit Year, Title & Opinion	**Recommendation & Risk Rating**	**Original management response & quarterly update**	**Current implementation status**
Disaster Recovery Follow Up Opinion: Substantial	The DR plan should be tested periodically, if not annually at least every two years and results of the tests should be formally communicated to ICT's SMT and CLT and any remedial action required should be performed as necessary. **Risk Rating: High**	The ICT infrastructure is going to change within the next 12 months. DR is being built into the new setup and the proposal is to test every six months. **May 2017:** A two yearly DR test will be scheduled, there are currently dependences on the new infrastructure going live and generator & UPS upgrade in Dockside. 30% complete. **October 2017:** A two yearly DR test will be scheduled, there are currently dependences on the new infrastructure going live and generator & UPS upgrade in Dockside. Detailed plan of new infrastructure solution for site replication underway, infrastructure replaced in Newham Data Centre. We need to complete the plan for the final deliverable solution which we are some way through. Significant progress has been made – the main achievement is that the file server data is replicated in the cloud. Implementation expected by Dec' 2017. **December 2017:** New infrastructure solution now delayed. **February 2017:** New infrastructure solution now delayed whilst a full Architectural review is	Partially implemented

		undertaken on the correct Network topology to implement. This review will be completed by 1/4/2018. In order to implement full DR capabilities new network infrastructure will need to be procured and installed following the recommendation of the review - expected completion Q4 this financial year. Additional elements of DR will be implemented concurrently to this such as a new Wide Area Network (WAN), office 365 and local DR improvements to systems and any single points of failure. We are currently reviewing the current DR capabilities to assess the complete risk to the organisation and will present this once completed. We will also be carrying out quarterly DR tests on priority systems to ensure the existing DR is fit for purpose; these will start from May 2018. **Revised implementation date:** 31/03/2018	

3.4 Outstanding School Audit Recommendations Update

3.4.1 A programme is now in place to follow up school audit recommendations which began with the new academic year in September 2017.

	High	Medium	Low	Total
No. of Recs raised in Q3	0	0	0	0
Outstanding Recs brought forward from previous quarters	1	22	16	39
TOTAL	1	22	16	39
Recommendations due to be implemented by 31/12/17	1	17	11	29
Fully Implemented	0	8	4	12
Partially Implemented	1	3	5	9
Not Implemented	0	0	0	0
Recommendation Not Agreed by School*	0	6	2	8

*The schools these recommendations relate to have been reported to senior management within the LMS team.

3.4.2 The high risk recommendation that remains outstanding is detailed in the table below:

Audit Year, Title & Opinion	**Recommendation & Risk Rating**	**Original management response & quarterly update**	**Current implementation status**
Sanders School Opinion: Limited	Where the school engages individuals in a self-employed capacity e.g. vocal tuition, swimming lessons etc., the following should be completed; • Self-Employment Checklists, • HMRC ESI Online Tool Checks and • Decisions sheets completed before individuals are engaged for the provision of goods / services; and approved by an appropriately authorised signatory. **Risk Rating: High**	A process has been established for the new school year (September 2017), however it is yet to be confirmed whether retrospective checks have been completed for any existing individuals (if applicable). Once this is done, the recommendation will be fully implemented.	Partially implemented

Appendix B

4. Quarter One - Counter Fraud Audit Work

4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter three is shown below:

Description	Risks	Quarter 3 Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Twenty one requests for advice were received during the quarter.	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. (See below)	Ongoing

4.2 Reactive Investigation Cases

4.2.1 During quarter three one case was closed - no case to answer and one referral was received which is currently being investigated.

4.3 Investigation Recommendations

4.3.1 Any recommendations raised as part of proactive or reactive investigation reports are recorded and their implementation monitored as part of a follow up programme.

4.3.2 Two recommendations were brought forward from quarter two; both have been implemented. No new recommendations have been made during quarter three.

4.4 Tenancy Fraud Project

4.4.1 The tables below show the work undertaken on the Tenancy Fraud Project during quarter three.

Housing Investigations						
Month	**Tenancy Audit Visits**	**Tenancy Audits (Checks completed)**	**PSL Tenancy Audit Visits**	**PSL Tenancy Audit (Checks completed)**	**Referrals from Audit to Fraud**	**NFA'D**
Oct	572	180	216	44	8	172
Nov	279	81	282	85	11	70
Dec	194	54	137	41	8	48
YTD	4,785	1,483	2,690	477	64	1,421

Internal Audit					
Month	**Cases Under Investigation (open cases)**	**Closed**	**Total Properties Recovered**	**Cases referred for HB Fraud**	**RTB cancelled through audits**
Oct	82	12	2	0	2
Nov	88	5	3	4	2
Dec	81	15	0	0	2
YTD		75	21	11	18

4.4.2 The total net savings (minus project costs) for the project from October 2015 to December 2017 is £5.69m. The breakdown for each year is below.

- April 2017 to December 2017 - £1.68m
- April 2016 to March 2017 - £2.54m
- October 2015 to March 2016 - £1.47m

4.4.3 Outcomes for the quarter include the following:

- Five properties were recovered with a nominal value of £90,000; and
- Six Right to Buy applications were withdrawn with a notional value of £521,939;
- Legacy fraud investigation case:
    - Recovery of £22,252 Housing Benefit overpayment;
    - Recovery of £5,030.56 Council Tax overpayment; and
    - ADPEN Charge of £1,000.
- Fraud Investigation Case:
    - Recovery of £8,271.59 Housing Benefit overpayment; and
    - Recovery of £2,284.04 Single Person Discount Overpayment.

Audit Committee, 28 February 2018

Appendix C: Current Status of 2017/18 Audit Plan

Audits completed and in progress as at 31st January 2018

	AUDIT TITLE	STATUS	OPINION
PRIOR YEAR AUDITS	One Oracle	COMPLETE	MODERATE
	Contract Monitoring – Environment	COMPLETE	SUBSTANTIAL
	Declarations of Interest	COMPLETE	MODERATE
	Disaster Recovery Follow Up	COMPLETE	SUBSTANTIAL
	Grants to Voluntary Organisations	COMPLETE	SUBSTANTIAL
	Change Management	COMPLETE	SUBSTANTIAL
	BACS Transmission	COMPLETE	SUBSTANTIAL
	Children's Commissioning	COMPLETE	SUBSTANTIAL
	One Oracle Interfaces	DRAFT REPORT	
LBH SYSTEM AUDITS	Fairkytes	COMPLETE	SUBSTANTIAL
	Troubled Families Programme	COMPLETE (Sept' and Oct' Claim)	SUBSTANTIAL
	Client Finance deputyship and appointeeship	COMPLETE	SUBSTANTIAL
	Homelessness - Housing Tenancy Arrangements	COMPLETE	SUBSTANTIAL
	Land of the Fanns – Initial Grant Arrangements Review	COMPLETE	N/A
	Mayor's Appeal Fund – Annual Grant Review	COMPLETE	N/A
	Housing Benefit - new claims or change in circumstances (was a oneSource audit)	DRAFT REPORT	
	Accounts payable service payments teams in directorates	UNDERWAY	
	Gifts and Hospitality (Corporate Culture)	UNDERWAY	
	Offsite Storage Follow up (Additional Task)	UNDERWAY	
	No Recourse to Public Funds (NRPF)	UNDERWAY	
	Private Sector Leasing - Liberty Housing	UNDERWAY	
	Contract Management: Client checking of contractor works	UNDERWAY	
	Children's disability service	UNDERWAY	
	Care Act 2014 – Safeguarding	UNDERWAY	
	Economic Development Programme Review (previously called Alternative Delivery Models)	UNDERWAY	
	Procurement including compliance with public contract regulations 2015	SCOPING – fieldwork scheduled February	
	Information Governance/ Data Protection - GDPR	SCOPING – fieldwork scheduled February	
	Off-Payroll Engagement (IR35)	SCOPING – fieldwork scheduled February	
	Adoption (Additional Task)	SCOPING – Possible move to 18/19 to tie in with proposed work in new plan – TBC	

SCHOOLS	St Alban's RC Primary	COMPLETE	SUBSTANTIAL
	St Mary's RC Primary	COMPLETE	MODERATE
	Crownfield Infants	COMPLETE	MODERATE
	Squirrels Heath Infants	COMPLETE	MODERATE
	Parklands Junior (Additional Task)	DRAFT REPORT	
	St Edwards Primary (Additional Task)	UNDERWAY	
	Gidea Park	UNDERWAY	
	Towers Junior	Booked for 7th March	
	Squirrels Heath Junior	Booked for 26th February	
	Harold Court Primary	Booked for 5th March	
	Branfil Primary	Booked for 1st February	
	Crownfield Juniors	Booked for 19th February	
	Engayne Primary	Booked for 1st March	
	Elm Park Primary (Additional Task)	Booked for 15th March	
	Health Checks (21)	X4 FINAL REPORTS ISSUED, X1 DRAFT REPORT	
ONESOURCE	Paris Applications (Additional Task)	UNDERWAY	
	Cyber Security	UNDERWAY (External)	
	Security over data warehouse	UNDERWAY	
	Establishment controls	UNDERWAY	
	Enforcement Agents	UNDERWAY	
	Staff vetting	UNDERWAY	
	Debt recovery	UNDERWAY	
	Budget Monitoring/ Savings Programme	SCOPING – fieldwork scheduled for February (External)	

Current Status of 2017/18 Audit Plan – Audits to be scheduled

	AUDIT TITLE	STATUS
LBH SYSTEM AUDITS	Reablement Services	MOVE TO 18/19 – service request due to retender
	Care Packages	MOVE TO 18/19 – service request
	Health and Social Care Integration - Hospital Discharges	MOVE TO 18/19 – service request
	Compliance with new Report Approval Processes	MOVE TO 18/19 – New process not yet implemented.
	Housing and Planning Act 2016	DEFERRED - To be considered for 2018/19 plan
SCHOOLS	Health Checks (24)	All remaining 16 Health Checks scheduled for Q4
	Scargill Infant (replaced by Parklands Junior)	CANCELLED – converted to Academy September 2017
	Whybridge Junior (replaced by St Edwards Primary)	CANCELLED – converted to Academy September 2017
ONESOURCE	1Oracle follow up	Q4
	Serious and Organised Crime	Q4
	Northgate (Revs and Bens) Application Review	CANCELLED – LB Newham only
	Pension fund governance	MOVE TO 2018/19 – service request
	NNDR - debt recovery and write offs	MOVE TO 2018/19 – service request
	Treasury Management	MOVE TO 2018/19 – service request

Havering
LONDON BOROUGH

AUDIT COMMITTEE
28 02 2018

Subject Heading:	Governance Update
SLT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Jeremy Welburn Head of Assurance. Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of progress against significant governance issues as reported in the 2016/17 Annual Governance Statement
Financial summary:	N/A

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report advises the Committee on the progress against significant governance issues as reported in the 2016/17 Annual Governance Statement (AGS).

RECOMMENDATIONS

1. To note the contents of the report.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

1.1 Regulation 6(1b) of the Accounts and Audit Regulations 2015 requires all relevant bodies to prepare an Annual Governance Statement (AGS). The purpose of the AGS is to communicate to stakeholders the standards of corporate governance the organisation demonstrates and identify any significant issues that have arisen in year, and what is planned to address these issues.

1.2 The Council has an officer Governance and Assurance Board which meets at least quarterly and is made up of the following standing members:

- S151Officer (Chair)
- Director of Finance
- Director of Human Resources and Organisational Development
- Director of ICT
- Deputy Director Legal and Governance
- Head of Assurance

1.3 This group oversees the process to produce the AGS annually and as a standing meeting item monitors and updates the action plan to address significant governance issues raised. The group maintains a record of new issues raised during the year and a detailed action plan to capture outcomes and achievements. Actions are allocated to responsible officers for progression between meetings.

1.4 The Governance Group is non-decision making and escalates issues to Senior Leadership Team. The output informs the Annual Governance Statement, Corporate Risk Register and other policies and procedures etc. as appropriate.

2 2016/17 AGS – action taken in relation to significant governance issues

2.1.1 The 2016/17 AGS was reported to the June 2017 Audit Committee and accompanied the Annual Statement of Accounts presented for sign-off at the September 2017 meeting.

2.2 The significant issues raised in the 2016/17 Annual Governance Statement are set out in detail in Appendix A and progress against each of these is reported there. For members' ease of reference the five areas identified are:

- **Scheme of Delegation -** A review (Issues with) of the Scheme of Delegation was identified following the amendments to include oneSource;
- **Commissioning and Contracts (including compliance with procurement rules):** There have been instances identified of failings by officers to comply with the Procurement rules;
- **Mercury Land Holdings (MLH):** It has been identified that a review of the governance arrangements in relation to MLH is required as the business moves forward. Mercury Land Holdings is a newly established company and as that company develops it is advisable to review and update the governance arrangements to ensure they are efficient and robust;

- **Projects and Programme Management:** The Council has a significant number of large scale and complex projects and programmes to deliver over the medium term and needs to ensure it can deliver these with appropriate governance arrangements. It is important that the Council reviews it's arrangements and capacity to manage the high number of projects and programmes to meet the agreed and desired outcomes; and
- **Information Technology & Information Governance:** The Council replaced a large element of its core information and technology infrastructure in 2016 and therefore an underlying review of the infrastructure needs to take place. There are also increased risks generally in both public and private sector around cyber security. In addition the new GDPR changes will come into effect in May 2018 and the organisation will need to respond, requiring a detailed focus on the information security.

Appendices: Provide supporting detail for Members' information

Appendix A: Governance and Assurance Board AGS 2016/17 Significant Issues Action Plan updated February 2018.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised. The risks of our arrangements not complying with best practice may lead to the Council not being viewed as open and transparent by stakeholders.

Legal implications and risks:

The Council is responsible for ensuring that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk (Regulation 3 of the Accounts and Audit Regulations 2015).

The Council must carry out an annual review of the effectiveness of its system of internal control which must be considered by the relevant committee. In the light of that review, the Council must produce an annual governance statement which must be approved by the relevant committee in advance of the Authority approving the statement of accounts (Regulations 6 (1), (2) and (4) of the Accounts and Audit Regulations 2015.

There are no apparent risks in noting the content of this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report. Equality and social inclusion are key factors to consider in the Council's governance arrangements and any changes to the Code of Governance or other related policies and procedures are assessed in order to ensure the impact is appropriately identified. The Governance Group is attended by someone with equalities expertise.

BACKGROUND PAPERS

Annual Governance Statement 2016/17

CIPFA/Solace –'Delivering Good Governance in Local Government' framework 2016.

Significant Issue	**1 Scheme of Delegation:** A review of the Scheme of Delegation was identified following the amendments to include oneSource.
Action Already Taken	**Planned Actions and Progress as at 23rd February 2018 Governance and Assurance Board meeting**
• A provisional review of the Constitution and the delegation arrangements was undertaken in the autumn 2016. While the current Scheme enables lawful decision making, a further review will be undertaken and decisions made on how the Scheme of Delegation arrangements could be improved. • Amendments made to job titles to reflect structure is now completed and published on website 24/08/17. • Functions are now all in correct departments and with the correct Job Description's. • A table shows levels of decision-making, powers and limits. • Deputy Director Legal and Governance has issued relevant officers with their direct delegations in Environment.	• Deputy Director Legal and Governance to circulate direct delegations to all departments where this is not already made clear in terms of statutory obligations. • Constitution to be revisited through governance committee March 2018 and then to Council and updated accordingly. • Planning decision making is being reviewed and is planned to be considered by governance committee in March 2018. • Financial delegations to be reviewed and clarified where relevant. This will include looking at the division of oneSource and LBH and where there are links between oneSource delegations and relationship with S151. • Division of oneSource and LBH – links between oneSource and relationship with S151 • S151 and CE crossover responsibilities to be considered / reviewed.
Lead Officer	**Target Date for Completion**
Monitoring Officer	September 2017 Revised - December 2017 (at November 2017 Governance and Assurance Board meeting.) Revised – March 2018 (at February 2018 Governance and Assurance Board)

Significant Issue	**2 Commissioning and Contracts (including compliance with procurement rules):** There have been instances identified of failings by officers to comply with the Procurement rules.
Action Already Taken	**Planned Action and Progress as at 23rd February 2018**
• New thresholds (all orders over £25k and collectively over £164k that do not have a contract in place) introduced to One Oracle • An ongoing programme of audit work to provide assurance. • Links established with Cabinet report approval process to ensure procurement oversight • The formation of a Joint Commissioning Unit to service Adult Social Services, Children's Services, Housing, Public Health and Learning & Achievement. • Introduction and embedding of the Procurement Board • Quarterly reports to SLT (in place since Q2). • Strengthening checkpoint process compliance – Head of Procurement checking and flagging. • Procurement and Legal review of Contract Procedure Rules refresh in Q3. • Procurement updates to SLT are a standing item • Executive Decision sign off for procurement agreed at SLT. • Monthly service procurement update now in place. • Procurement contracts are now subject to a RAG status to highlight those running out. • Head of Procurement now reporting to SLT on quarterly basis	Agreement that sufficient actions have been taken to close this significant issue.
Lead Officer	**Target Date for Completion**
Managing Director, oneSource	July 2017 CLOSED (at February 2018 Governance and Assurance Board)

Significant Issue	**3 Mercury Land Holdings (MLH):** It has been identified that a review of the governance arrangements in relation to MLH is required as the business moves forward. Mercury Land Holdings is a newly established company and as that company develops it is advisable to review and update the governance arrangements to ensure they are efficient and robust.
Action Already Taken	**Planned Action and Progress as at 23rd February 2018**
• Review of the governance, decision-making and Shareholder arrangements: ▪ Reports to Cabinet in November 2017 and January 2018 to decide shareholder arrangements and review how LB Havering manages external business arrangements. ▪ In addition to governance arrangements for MLH issues have been addressed for other joint ventures.	Following January Cabinet report, the CEO is currently considering nomination of officers to the roles set out in the report and implementation of the proposed restructure. Once this action is complete, it will be possible to close this significant issue prior to 31 March 2018.
Lead Officer	**Target Date for Completion**
Monitoring Officer and S151	September 2017 Revised - December 2017 (at November 2017 Governance and Assurance Board meeting.) Further review of implementation of the January report will be taken prior to the 31 March 2018.

Significant Issue	4 **Projects and Programme Management:** The Council has a significant number of large scale and complex projects and programmes to deliver over the medium term and needs to ensure it can deliver these with appropriate governance arrangements. It is important that the Council reviews it's arrangements and capacity to manage the high number of projects and programmes to meet the agreed and desired outcomes.
Action Already Taken	**Planned Action and Progress as at 23rd February 2018**
• Corporate Project Management Office (PMO) has been in place since June 2017. • Implementation of Council's programme management software (Execview) which provides visibility of key projects and programmes that are reviewed at LBH Directorate level and then at Senior Management level at the Transformation Management Board (TMB). • Issues around red ragged projects and programmes are discussed at the TMB. • SLT has determined and regularly reviews the projects and programmes they have uplifted into the programme dashboard to that leadership focus is directed at high impact programmes. • Resource and governance responsibility rests with the relevant SROs. SLT received SRO training in 2017 and understands their responsibilities. • Capacity to deliver the wide range of activity determined by the MTFP and strategic priorities is under constant review by ST and new business cases for launch of projects and programmes has to include costed resource plans.	Due to the number of large regeneration projects currently running at the Council it has been agreed at the January 2018 Governance and Assurance Board meeting that Projects and Programme Management of these major projects will appear as part of a new significant issue on the 2017/18 Annual Governance Statement.
Lead Officer	**Target Date for Completion**
Chief Operating Officer	July 2017 Revised Feb' 2018 (at the November 2017 Governance and Assurance Board meeting) New target date to be agreed once the 17/18 AGS significant issues have been determined.

Significant Issue	**5 Information Technology & Information Governance:** The Council urgently replaced a large element of its core information and technology infrastructure in 2016 and therefore an underlying review of the infrastructure needs to take place. There are also increased risks generally in both public and private sector around cyber security. In addition the new GDPR changes will come into effect in May 2018 and the organisation will need to respond, requiring a detailed focus on the information security.
Action Already Taken	**Planned Action and Progress as at 23rd February 2018**
• Appointed a project manager. • Training in place at operational level. • Project timetable set out. • Head of ICT Governance (oneSource) has met with Legal Manager, Democratic Services to progress GDPR changes • Policy and project plan sent to Director of Adults Social Care and Health. • Review of security arrangements ongoing. • Workshops have been arranged for officers at both sites for GDPR. • Deadline of 1st April for GDPR – on target. • Gap analysis of policies has taken place which has identified a number of gaps which are being addressed. • Quarterly update at SLT for GDPR progress. • How we pass GDPR responsibility to contractors is being considered and addressed. • A review of IT budgets was carried out a report was presented at the Cabinet in October for additional funding approval. This was approved by the Cabinet.	• To continue with a review of the Councils IT security arrangements to mitigate the risk to the Council. • To continue with GDPR staff briefings to ensure all officers are aware of changes to the Data Protection legislation • The IT service now has a infrastructure roadmap, delivery of which is being managed through infrastructure programme. • To continue with implementation of GDPR changes across the council through detailed and planned process. • Head of Assurance to liaise with Director of Technology and Innovation over timing of planned IG/DP Audit (currently planned for Feb 2018). • Cabinet and Council to approve 2018/19 budget.
Lead Officer	**Target Date for Completion**
Managing Director, oneSource	March 2018

This page is intentionally left blank

Havering
LONDON BOROUGH

AUDIT COMMITTEE
28 02 2018

Subject Heading:	Internal Audit Strategy and Charter and 2018/19 Plan
SLT Lead:	Jane West Managing Director oneSource
Report Author and contact details:	Jeremy Welburn Head of Assurance. Tel: 01708 432610 / 07976539248 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of the proposed audit plan for 2018/19
Financial summary:	There are no financial implications arising from approving the audit plan/strategy. It is expected that the costs of implementing both will be contained within the oneSource revenue budget for internal audit.

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Public Sector Internal Audit standards refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual internal audit opinion and report that can be used by each Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work.

The report sets out the approach to producing the draft Internal Audit plan and invites comment from Members.

RECOMMENDATIONS

1. To approve the indicative draft 2018/19 audit plan and Internal Audit Charter and Strategy.

2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

1.1 The Accounts and Audit Regulations require 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) and other guidance.

1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides 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 policy or system owner / sponsor
- Third line – independent assurance

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

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

1.4 The work of Internal Audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

2. Internal Audit Plan

2.1 To develop the 2018/19 audit plan, officers within the Assurance Service have been involved in discussions with the Section 151 Officer and with members of the Senior Leadership Team (SLT) to review risks in their areas. The Mazars horizon scanning document, which discusses national and pan-London local government risks, has also been reviewed to assist in identifying common risk and audit themes and used to inform these discussions. This, along with management requests and audit cumulative knowledge and experience, has formed the basis of the plan.

2.2 A combined plan has been compiled for the three oneSource member councils. This has identified some common audit themes, allowing for improved efficiencies in terms of delivery across boroughs where there are common risks. However, each borough has its own unique objectives and therefore, audits will be conducted individually, where appropriate.

2.3 It is proposed that the 2018/19 plan is flexible to allow for changes in the risk and operational environment in which the Council operates. As such, the draft plan as presented here is a longlist of the high and medium risk audit areas, covering the range of Council activities which, in conjunction with management, have been assessed as requiring assurance at this point in time. The number of audits on the longlist totals 895 audit days, which exceeds the budget available by around 100 days. This overstatement is deliberate as the list of audits will be refined in discussion with senior management as the financial year progresses. The Audit Committee will be informed of all changes to the plan at the regular progress updates during the year.

2.4 The draft plan has been discussed with individual Directors and formally agreed by SLT on 6th February 2018.

2.5 Work is also underway to refresh the Council's corporate risk register. Any significant changes in the strategic risk environment will also be reflected in the plan.

2.6 Attached as Appendix 1 is the Internal Audit Plan for Havering. The Plan is exclusive of Counter Fraud investigations but there is a provision for Internal Audit staff to support Counter Fraud work across the three authorities on system related work.

3. Internal Audit Charter and Strategy

3.1 The work of the oneSource Internal Audit Team is underpinned by the Internal Audit Charter and Strategy. This is attached as Appendix 2 and has been revised and updated (and will continue to be revised as the oneSource shared service develops). This defines Internal Audit's purpose, authority and responsibility, in accordance with the UK Public Sector Internal Audit Standards. It establishes Internal Audit's position within the three Member Councils and clarifies reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities.

3.2 The Charter and Strategy also covers the role of the Head of Assurance and Internal Audit staff, and identifies the nature of professionalism, skills and experience required.

Appendix 1 Internal Audit Plan 2018/19 for LB Havering
Appendix 2 Internal Audit Charter and Strategy 2018

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising from approving the plan. The financial implications arising from implementation of the plan are predominantly staffing costs and associated resources. It is expected that costs will be contained within the oneSource shared budget for internal audit and any variance will be reported and addressed through budget monitoring processes.

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated.

Legal implications and risks:

There are no apparent risks in noting the content of the report. Failure to effectively manage risks is likely to have legal consequences.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

BACKGROUND PAPERS

Accounts and Audit (England) Regulations 2015
Public Sector Internal Audit Standards
Local Government Application Note
Horizon Scanning – Challenges and Opportunities 2016 and 2017 (Mazars)

Appendix 1: Draft Internal Audit Annual Plan 2018/19

Council / Original Source	Directorate / Service	Audit Name	Objective / Rationale / Reason for Inclusion and Scope	Days	Priority
LBH	Adults	Care Packages	To confirm that Care Packages meet the clients needs and are VFM.	20	High
LBH	Adults	Reablement Services & Hospital Discharges	To confirm that the service is effective and efficient and to ensure that arrangements between the Council and NHS Trust are effective and efficient.	20	High
LBH	Adults & JCU Cross Cutting	Direct Payments	Management request and from audit findings in 2017/18 - to consider how controls in process might be improved to best mitigate risks associated with Direct Payments.	15	High
LBH	Children's	Children with Disabilities	Management request - New protocol introduced for preparation/transition to adulthood.	10	High
LBH	Children's	Financial monitoring of CAD placements.	Management request - To consider if the child is assessed properly and given the correct outcome. Residential placements can cost £240,000 annually per child so there is a financial impact risk to be considered also.	10	High
LBH	Children's	SEN Transport	Management request - Cost and process - application of criteria stringent enough/effective management of resources - key pressure so financial risk.	20	High

Appendix 1: Draft Internal Audit Annual Plan 2018/19

Council / Original Source	Directorate / Service	Audit Name	Objective / Rationale / Reason for Inclusion and Scope	Days	Priority
LBH	Children's	Adoption and Permanency Prescription	Management request - Adoption is currently in 2017/18 plan but might be a better plan to carry this forward into early 2018/19 and combine with work around permanency as there are close links - There are fewer stat controls over permanency (placement with family members/guardianship order - connected care. Review payments, ongoing costs associated with permanency.	20	High
LBH	Neighbourhoods	Homelessness - Homeless Reduction Act.	New duties on local authorities to prevent homelessness commencing April 18.	15	High
LBH	Neighbourhoods	Housing - Fixed term tenancy agreements.	Internal Audit inclusion with agreement of Director - Are checks carried out when tenancies are renewed to ensure tenants circumstances haven't changed. Succession rights. Are tenants approached when their housing is considered too big for their need? (Under occupation).	15	High
LBH	Neighbourhoods	Right to Buy	Concerns raised during an 2017/18 audit - Checks on eligibility. Checks on applicants who are purchasing without a mortgage. (Where is the money coming from).	10	High
LBH	Cross-cutting	Economic Development Programme Review	Ongoing while major regen schemes underway.	30	High
LBH	Cross-cutting	GDPR	Review of compliance post implementation.	10	High

Appendix 1: Draft Internal Audit Annual Plan 2018/19

Council / Original Source	Directorate / Service	Audit Name	Objective / Rationale / Reason for Inclusion and Scope	Days	Priority
LBH	Cross-cutting	IR35	Review of controls to ensure compliance with regulations.	10	High
LBH	Cross-cutting	Joint Commissioning Unit	Has it achieved its objectives? Adults / Children's and Public Health.	20	High
LBH	Cross-cutting	PMO / Project Management Arrangements	Review of PM arrangements in place, including governance.	15	High
LBH	LBH – oneSource	NNDR - Debt Recovery and Write Offs	To confirm that there are robust arrangements to ensure that NNDR income is maximised.	10	High
LBH	LBH - oneSource	Treasury Management	Key financial system requires review of controls.	10	High
LBH	LBH - oneSource	Pension Fund Governance	Ensure Governance standards are made and include preparation for investment vehicles.	10	High
LBH – Charge	LBH - oneSource (Transactional)	Transactional Services	Time allocation, with risk assessment to be undertaken to prioritise work.	40	High
LBH - Charge	LBH - oneSource (Finance)	Key Financial Systems (LBH Specific)	Time allocation, with risk assessment to be undertaken to prioritise work.	40	High
LBH - Charge	LBH - oneSource (ICT)	ICT	ICT risk assessment scheduled - work to be allocated following this.	40	High
Total Allocation of Days for High Priority Audits				**390**	
LBH - Charge	Governance	Follow up of recommendations.		30	High
Total Allocation of Days for Follow Up Work				**30**	

Appendix 1: Draft Internal Audit Annual Plan 2018/19

Council / Original Source	Directorate / Service	Audit Name	Objective / Rationale / Reason for Inclusion and Scope	Days	Priority
LBH	Adults & Children's - Cross Cutting	Social Care Transitions	To review the processes in place for the transition of adequate social care arrangements from children's to adults.	15	Medium
LBH	Adults & Children's - Cross Cutting	Replacement for SWIFT	Management request – Advisory Work. New system due to be implemented in year. Work to be undertaken either during implementation or after to ensure controls adequate and system bedded in. Scope to be confirmed with service Q1.	10	Medium
LBH	Children's	School Expansion Programme	Management request - Governance work undertaken so far with Asset Management - review to determine if these governance changes have helped.	15	Medium
LBH	Neighbourhoods	Private Sector Leasing - New payments system	Management request and findings from 2017/18 audit - New system due to go live April 18.	10	Medium
LBH	Neighbourhoods	Homelessness/Housing - New system	Swordfish/Open Housing to replace OHMS/Civica June 18.	10	Medium
LBH	Neighbourhoods	Housing and Planning Act 2016	To ensure that the Council is operating in accordance with the Act.	15	Medium
LBH	Cross-cutting	General Project Assurance Work	Audit deep dives to include prep of business cases, risk assessment, feasibility, delivery and benefits realisation.	40	Medium

Appendix 1: Draft Internal Audit Annual Plan 2018/19

Council / Original Source	Directorate / Service	Audit Name	Objective / Rationale / Reason for Inclusion and Scope	Days	Priority
LBH - Charge	Cross-cutting	Corporate Health and Safety	Management Information reporting of Health and Safety compliance. Assurances received by SLT and Members re: compliance.	10	Medium
LBH - Charge	Cross-cutting	Contract Management	Service area to be decided in year on risk basis.	15	Medium
LBH - Charge	Cross-cutting	Emergency Planning and Business Continuity	Arrangements in place. To include supplier resilience arrangements.	15	Medium
LBH - Charge		Proactive and Counter Fraud support by Internal Audit		25	Medium
LBH	LBH - oneSource	Procurement	Compliance testing of procurements undertaken.	15	Medium
LBH	LBH - oneSource	Pension Fund Administration	Provision of assurance to local pension board over administration of LBH Pension Fund.	10	Medium
			Total allocation of Days for Medium Priority Audits	**205**	
LBH	Schools	14 Schools	Selected on a Risk Basis.	70	
LBH	Schools	School Health Checks	Traded Service (Figure based on 17/18 buy in).	60	
			Total Allocation of Days for School Audits	**130**	
LBH - Charge	Governance	Contingency, Governance and proactive support.		140	
			Total Allocation of Days	**895**	

This page is intentionally left blank

Internal Audit Charter and Strategy 2018

Background

The purpose of this Internal Audit Charter and Strategy is to define internal audit's purpose, authority and responsibility, in accordance with the UK Public Sector Internal Audit Standards (PSIAS). It establishes internal audit's position within the Councils and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.

This Charter and Strategy also covers the role of the Head of Assurance and internal audit staff, and identifies the nature of professionalism, skills and experience required.

Statutory requirements for an Internal Audit function

The role of internal audit is underpinned by the statutory requirement. This is set out in the Accounts and Audit Regulations, which states that every local authority "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

The statutory requirement is also within Section 151 of the Local Government Act 1972. This states that every authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs" in that it should include "compliance with statutory requirement for accounting and audit".

The CIPFA statement on the Role of the Chief Financial Officer in Local Government states that the chief financial officer (CFO) must:

- Ensure that an effective internal audit function is resourced and maintained
- Ensure that the authority has put in place effective arrangements for internal audit of the control environment
- Support the authority's internal audit arrangements, and
- Ensure that the Audit Board/Committee receives the necessary advice and information, so that both functions can operate effectively.

In a local authority, internal audit provides independent and objective assurance to the Council, its Members, the Corporate Leadership/Management Team and in particular to the CFO, assisting the CFO in discharging his/her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Councils' financial affairs.

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board' and 'senior management' in relation to the work of internal audit. For the purposes of internal audit work, the 'board' refers to the Councils' Audit Board/Committee, which oversees the work of internal audit. Senior management is defined as the Corporate Leadership/ Management Team.

Definition of Internal Audit

Internal audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Applicable Standards that must be complied with

The internal audit function is required to comply with Public Sector Internal Audit Standards (PSIAS). The relevant internal audit standard setters, which include the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of local government, have adopted the common set of PSIAS from 1 April 2013. The PSIAS encompasses the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). Compliance with the Standards is subject to a quality assurance and improvement programme in line with the Standards.

The PSIAS incorporate a code of ethics to promote an ethical and professional culture. Auditors are required to comply with this code, as well as any code of ethics from other professional bodies they belong to and any code of ethics required by the partner Councils.

Responsibility of Internal Audit

The Head of Assurance must deliver an annual internal audit opinion and report that can be used by the partner organisations to inform its annual governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is the 'assurance role' for internal audit. In order to achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Councils' needs, adds value, improves operations and helps protect public resources.
- To provide assurance to management that the Councils' operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.

- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti-fraud, anti-bribery and anti-corruption culture within partner Councils, to aid the prevention and detection of fraud.
- To investigate allegations of fraud, bribery and corruption via the counter fraud team.

Responsibility of the Councils

Councils are responsible for ensuring that internal audit is provided with all necessary assistance and support to ensure that it meets the required standards.

The respective roles of managers in relation to internal audit are set out in the Councils' Financial Regulations.

Management is responsible for ensuring that systems of internal control are in place, good business practices are implemented and followed in all areas, compliance is maintained, risks, including fraud risks, are identified and mitigated, and effective governance is established.

The Financial Regulations are specific about the role of the Chief Financial Officer in relation to internal audit, setting out access rights, independence and support for resources sufficient to provide an opinion and support managers to prevent and detect fraud.

The Financial Regulations specify the responsibilities of the Directors in terms of access, explanations, reporting of allegations of fraud and engaging with the audit process.

The terms of engagement/audit briefing note provide greater detail on the roles of management and the internal audit service for individual topics of work such as:

- Audit planning
- Risk based audit reviews
- Investigating issues and concerns raised by services
- Auditing grant claims
- Follow up audit reviews
- Consultancy advice on controls and system development

Each individual audit assignment is governed by a specific terms of reference for that piece of work, detailing the scope of the audit and elements that will be covered, and if appropriate, the resources to be applied and the timeframe.

There is a separate terms of engagement covering counter fraud work, setting out in detail the respective responsibilities of the counter fraud team and managers, such as:

- Independent investigation function
- Advice around whether it is a fraud issue
- Fraud awareness.

This is supplemented by Council Policies which include:

1. The Anti-Fraud and Corruption response plan/Strategy
2. The Anti-Money Laundering response plan/Policies
3. Anti-Bribery Policies

These provide detailed guidance on what to do if a manager discovers fraud, corruption, money laundering or has an allegation reported to them.

Head of Assurance

The Head of Assurance is the Chief Audit Executive as referred to in the Public Sector Internal Audit Standards. They will have sufficient skill, experience and competencies to work with the leadership team and the Audit Board/Committee, influencing risk management, governance and the internal control environment of each Council. The Head of Assurance will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership, and adhere to professional values and the Code of Ethics.

The Head of Assurance is responsible for ensuring that there is access to the full range of knowledge, skills, qualifications and experience to deliver the audit plan and meet the requirements of the PSIAS. In addition to internal audit skills, the Head of Assurance will specify any other professional skills that may be needed by the internal audit team.

Independence of Internal Audit

Managers and staff within internal audit are required to make annual declarations of interest and declarations must be made, if required, by all other staff, in accordance with each Council's declaration's policy. Everyone is reminded of the need to make annual declarations of interest. Declarations made are reviewed by management and, if required, appropriate control measures are put in place to prevent conflicts of interest.

Where appropriate, internal audit may provide advice and support, regarding risk and controls, during the design and implementation of new systems. In such cases, independence is preserved by ensuring that the person providing this support takes no part in any subsequent audit.

Audit assignments are distributed in such a way as to ensure that independence is maintained and objective opinions can be given. Auditors work on a wide range of assignments and do not focus on any particular area of the Council's business.

When auditors are recruited from within the Council, they cannot audit the area where they previously worked for at least six months, to preserve the auditor's independence.

Relationships

The Head of Assurance reports directly to the S151 Officer of each Council, and the Director of Finance for oneSource.

The Head of Assurance has direct access to the Head of Paid Service (Chief Executive or equivalent), all levels of management and elected members, as set out in each Council's financial regulations.

The Head of Assurance can meet separately with the Chair of the Audit Board/ Committee, if required.

The Head of Assurance, or an appropriate representative of the internal audit team, attends meetings of the Audit Board/Committee.

The Head of Assurance, or an appropriate representative, attends meetings of the partner Councils' senior management teams to discuss the audit plan, following consultation over the proposals with Directors.

Scope of Internal Audit

Responsibility

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Due Professional Care

The internal audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council policies and procedures
- All relevant legislation
- Any code of ethics prescribed by an accounting or audit body to which an auditor is a member of.

Internal audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

Opinion work

The PSIAS state that the Head of Assurance is responsible for developing a risk-based plan. This takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the Head of Assurance uses his/her own judgment of risks, after consideration of input from senior management and the board. The Head of Assurance must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

For each audit assignment, terms of reference are developed and agreed with the client setting out the scope of the audit. At the completion of the audit, a report is produced which provides an audit opinion on the control environment in place.

The risk based plan is a live document and subject to reviews in year to take account of changes in the risk environment and internal factors within each Council.

Outcomes from audit reports are submitted to the Audit Board/Committee for information and discussion.

Non-opinion work

From time to time, the internal audit service will undertake work which does not contribute explicitly to the overall audit opinion. These will be probity or regularity audits in response to investigations, certification of grant claims or limited consultancy exercises in the form of support for new systems being developed.

Where such work is undertaken, this is set out as part of the Head of Assurance's annual report. The risk, for which the work is providing assurance, is also specified.

Prior to accepting any consultancy work, due consideration is given to its potential impact on the independence of internal audit and the impact on the ability of the section to provide sufficient assurance to provide an opinion on the Council's overall control framework.

Fraud

Managing the risk of fraud is the responsibility of line management; however the Section 151 Officer retains specific responsibilities in relation to the detection and investigation of fraud.

The wider internal audit service supports the Pro-Active Audit & Counter Fraud Team to provide a counter fraud function to support the Section 151 officer in the discharge of his/her responsibilities.

Fraud risks are also considered as part of the scope for audit assignments and specific testing takes place to ensure that there are adequate controls in place to prevent and detect fraud, errors and omissions, as part of the opinion work.

The oneSource Counter Fraud team is trained to deal with cases to a criminal standard and adhere to a range of legislative requirements to enable cases to be prosecuted, where necessary.

The Counter Fraud team undertakes work of a proactive nature through various data matching exercises. The aim is to try to identify potential frauds at an early stage, assess the controls against the risks and enable identified fraud to be dealt with whilst giving a level of assurance over Council data.

The Counter Fraud team also responds reactively to allegations of fraud from both internal and external sources, aiming to investigate cases where appropriate to a criminal standard. Council policies require that the Assurance Service is notified of all suspected or detected fraud and corruption.

The Counter Fraud team maintains and updates each Council's Counter Fraud policies, including:

- Anti-fraud and corruption policy statement
- Anti-fraud and corruption publicity policy
- Anti-fraud and corruption prosecution policy
- Anti-bribery policy
- Anti-money laundering policy
- Policy for the use of the confiscation regime within the Proceeds of Crime Act 2002.

The team also maintains specific, detailed guidance for managers to help them to deal with situations that they may be unfamiliar with the:

- Anti-fraud and corruption response plan/Strategy
- Anti-money laundering response plan/Policy

They also provide training and resources to enable officers to identify and prevent fraud in the design and control of their systems.

Work carried out by the Counter Fraud team is reported to Members and contributes to the Head of Assurance's annual opinion.

Reporting

The UK Public Sector Internal Audit Standards require the Head of Assurance to report to the top of the organisation and this is done in the following ways:

- The Internal Audit Charter and any amendments are reported to senior management team and the Audit Board/Committee. The annual Internal Audit Plan is compiled by the Head of Assurance, taking account of the risk framework and after input from directors and heads of service. It is then presented to the senior management team, the oneSource Management team and Audit Board/Committee, annually, for noting and comment.

- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Assurance) and the independence of internal audit will be reported annually to the Audit Board/Committee. Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported regularly to Audit Board/Committee.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Board/Committee.
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be included in the annual Head of Assurance report. If there is significant non-conformance, this may be included in the partner Council's Annual Governance Statement.

Internal Audit Access Rights

Internal audit has unrestricted access to all records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Audit may enter a property and has unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

Internal Audit Resources

Internal audit must have sufficient resources in terms of numbers, grades, qualification levels of experience, having regard to its objectives and to the Public Sector Internal Audit Standards.

The Head of Assurance is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities. If a situation arose whereby resources were insufficient this will be reported to the Directors of Finance, the Section 151 Officers and, if not resolved, Audit Board/Committees.

Havering
LONDON BOROUGH

AUDIT COMMITTEE	**28 FEBRUARY 2018**
Subject Heading:	**TREASURY MANAGEMENT QUARTER 3 UPDATE 2017/18**
SLT Lead:	**Debbie Middleton** **Interim Chief Financial Officer**
Report Author and contact details:	**Reena Patel / Stephen Wild** **Treasury Manager / Head of Pensions and Treasury** **01708432485** **Reena.Patel@onesource.co.uk**
Policy context:	**The code of practice on treasury management 2011 recommends treasury activities to be reported to a scrutiny committee on a quarterly basis.**
Financial summary:	**There are no direct financial implications from the report.**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Places making Havering	[x]
Connections making Havering	[x]

SUMMARY

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year end). This report provides an additional quarterly update to be reviewed by the Audit Committee.

The Authority's treasury management strategy for 2017/18 was approved at a meeting of the Authority in February 2017 and revisions to the strategy were approved at a meeting of the Authority in September 2017.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

RECOMMENDATIONS

- To note the treasury management activities for the third quarter detailed in the report

REPORT DETAIL

1. External Context

1.1. Economic Backdrop

The significant economic event was the increase in the Bank Rate in November by 0.25% to 0.50%, making it the first increase by the Bank of England's MPC to rates since July 2007. MPC at its meeting on the 8th February kept the bank rate on hold but indicated that the pace of interest rate increases could accelerate if the economy remains on its current track. Economists think the next rate rise could occur this May but they are not certain. This has added pressure on investment yields and officers have taken advantage of that by taking some longer term investment decisions.

The Bank also raised its forecast of growth this year from 1.5% last November to 1.7% now. But it says its forecasts are based on a "smooth" adjustment to Britain's departure from the European Union.

The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.8%.

Arlingclose expects the Bank of England to take a very measured approach to any monetary policy tightening. Any increases will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Money markets rates, unsurprisingly, have increased over the quarter: 1-month, 3-month and 12-month LIBID rates have averaged 0.43%, 0.47% and 0.76% over the period October-December.

Credit Background

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business will take effect in 2018.

In general, the agencies expect to give the ringfenced "retail" bank a higher credit rating than the non-ringfenced "investment" bank. In practice, this will only affect Barclays, HSBC, RBS and Lloyds to a lesser extent as other UK banks and building societies either only conduct retail banking activities or have less than £25 billion of deposits covered by the Financial Services Compensation Scheme.

Barclays Bank plc was upgraded to A from A- by Standard & Poor's (S&P), after the bank announced its plans for its ringfenced bank, Barclays Bank UK plc, and the non-ringfenced bank, Barclays Bank plc. S&P also assigned preliminary ratings of 'A/A-1' to Barclays Bank UK plc.

There have been no changes to Arlingclose's investment advice regarding banks and building societies during the quarter.

.

1.2 CIPFA Codes:

CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The Authority is currently considering the changes from the 2011 Code for incorporation into future Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which sets out the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. This strategy must be approved by full Council, and the determination of the Treasury Management Strategy can then be delegated to a committee.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy.

Revised Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Investments and Minimum Revenue Provision (MRP):

In November the MHCLG (previously the Department of Communities and Local Government (DCLG)), consulted on proposed changes to its Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP) with a deadline for responses of 22nd December.

The revised Investment Guidance was published on 2ndt February 2018 and comes into force on 1st April 2018. There is acceptance that it is unlikely that all local authorities will have time to adopt the changes before 31st March 2018 but it will be necessary include the disclosures in full in the first strategy presented to Full council after 1st April 2018.

It compels councils to be more transparent about the risks of investments but stopped short of setting limits – an idea mooted in the consultation. It also says that they should prioritise security over yield in choosing investments. It says: “Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”

It adds that where a Local Authority chooses to disregard this guidance it must say why and what it is doing to manage the risk.

Specifically it includes a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies should detail the extent to which core expenditure is reliant on investment income and a contingency plan should yields on investments fall. Loans to local authority companies and joint ventures can be made although they may not be seen as prudent if adopting a narrow definition of security and liquidity

Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and

- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

Loans made solely to generate a profit would be outside of the Statutory Guidance and need to be explained within the Capital or Investment Strategy

There is a change to the basis of prudent MRP to "cover the gap between the Capital Financing Requirement (CFR) and grant income/capital receipts"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

Officers are currently reviewing this new guidance and the CIPFA revised codes and in particular how it impacts on this authority's commercial agenda and will report back in detail at a future Audit Committee. Furthermore Officers will provide training for those members tasked with governance on these activities.

2. Treasury Management Summary

The treasury management position as at 31st December 2017 and the change over the period is shown in table 1 below.

Table 1: Treasury Management Summary as at 31st December 2017

	31.3.17 Balance £m	Movement £m	31.12.17 Balance £m	31.12.17 Rate %
Long-term borrowing	210.234		210.234	3.60
Short-term borrowing	2.512	16.737	19.249	0.38
Total borrowing	**212.746**	**16.737**	**229.483**	**3.32**
Long-term investments	40.000	-15.000	25.000	1.26
Short-term investments	130.808	28.792	159.600	0.60
Cash and cash equivalents	30.096	15.889	45.985	0.48
Total investments	**200.904**	**29.681**	**230.585**	**0.65**
Net borrowing	**11.842**	**-12.944**	**-1.102**	**2.67**

Longer term investments have seen a net reduction of £15m since the beginning of the year; this has been due to the lack of available opportunities in the money markets yielding an attractive rate of return in the long term. The situation is constantly under review to take advantage of opportunities as and when they arise.

3. Borrowing Strategy

3.1 The 31st December 2017 borrowing position is show in table 2 below.

Table 2: Borrowing Position

	Balance at 01/04/17 £m	Raised £m	Repaid £m	Balance at 31/12/17 £m	Weighted Average Rate %
Loans					
PWLB	203.234	-	-	203.234	**3.60**
Bank (LOBO)	7.000	-	-	7.000	**3.60**
Local Authorities and Other (Short Term Borrowing)	2.512	58.350	41.612	19.250	**0.38**
Total Loans	**212.746**	**58.350**	**41.612**	**229.484**	**3.32**

4. Investment Activity

4.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position during the half year is shown in Table 3 below.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Table 3: Investment Activity

	Balance at 01/04/17 £m	Raised £m	Repaid £m	Balance at 31/12/17 £m	Weighted Average Rate %
Investments					
Fixed Deposits	162.000	165.100	142.500	184.600	0.69
Money Market Funds	6.920	368.777	366.940	8.757	0.40
Call Accounts	23.176	26.207	21.176	28.207	0.50
Covered Bonds	8.808	0.431	0.219	9.020	0.52
Total investments	**200.904**	**560.515**	**530.835**	**230.584**	**0.65**

4.2 At 31 December 2017, the Authority's risk adjusted return was higher than the Arlingclose universe and average for its 13 London Boroughs. The Authority's average return on investments was 0.65% compared to an average return of 0.54% on internally managed investments within the Arlingclose benchmarking club.

4.3 The Authority has progressed on with the investments in the Solar Bonds issued by Rockfire Capital Ltd, which were initially purchased by Warrington Borough Council whilst the necessary approvals for this investment class were obtained by the Authority. A target date of 15th February has been set to transfer the bonds from Warrington Borough Council to the Authority, the issuer (Rockfire Capital) will then update the bond register to reflect the above changes.

Appendix A shows the breakdown of counterparties and investments for the authority.

Appendix B provides a summary of Arlingclose's quarterly benchmarking report.

5. Budgeted Income and Return

5.1 The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 4 below:

Table 4: 2017/18 Treasury Investment Performance to 31/12/17

	Benchmark Return 3 month LIBOR (Average Quarterly Rate) %	Budgeted Rate of Return %	Budgeted Interest (Full Year) £m	Actual Rate of Return %	Actual Interest to end of Quarter £m
Quarter 1	0.31	0.60	1.350	0.68	0.373
Quarter 2	0.30	0.60	1.350	0.64	0.359
Quarter 3	0.47	0.60	1.350	0.64	0.364
Total			1.350		1.096

Based on the actuals for Quarter 1- 3 and a projected position for Quarter 4, it is very likely that the Authority will achieve the investment income budget set out for 2017-18.

6. New borrowing

6.1 Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

6.2 As short-term interest rates have remained, and are likely to rise by a limited extent over the forthcoming two years and remain significantly lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead, referred to as internal borrowing.

6.3 As a result no long term borrowing has been undertaken during the current year but this will be kept under continuous review.

7. Compliance with Treasury and Prudential Limits

7.1 During the year, the Authority has 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. An update on indicators and limits are reported in **Appendix C** of this report.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report

BACKGROUND PAPERS

1. 2017/18 Treasury Management Strategy
2. 2016/17 Treasury Management Annual report and Proposed Changes to 2017/18 Treasury Management Strategy
3. Arlingclose Investment Benchmarking Q3 2017

Havering LONDON BOROUGH

Appendix A

Table 1 breakdown of Deposits at 31st December 2017

Institution Type	31st December 2017 Actual £m	30th September 2017 Actual £m
UK Banks		
Goldman Sachs INT"L Bank	23.100	23.100
Lloyds Bank PLC	13.000	15.000
Close Brothers Ltd	5.000	5.000
Royal Bank of Scotland	0.100	0.100
Santander UK PLC	5.008	0.005
Santander UK PLC (Covered Bond)	3.803	3.804
UK Building Societies		
Nationwide Building Society	-	5.000
Yorkshire Building Society (Covered Bond)	5.217	5.000
Local Authorities & Other Public Sector		
Birmingham City Council	15.000	15.000
Blackburn with Darwen Borough Council	5.000	5.000
Cheshire East Council	5.000	5.000
Dundee City Council	5.000	-
Eastleigh Borough Council	-	5.000
Falkirk Council	5.000	5.000
Gateshead Metropolitan Borough Council	5.000	-
Highland Council Inverness	15.000	5.000
Lancashire County Council	15.000	15.000
London Borough of Islington	5.000	5.000
Mid and East Antrim Borough Council	1.600	-
Mid Suffolk District Council		5.000
Newcastle Upon Tyne City Council	10.000	10.000
North Lanarkshire Council	-	5.000
Northumberland County Council	15.000	15.000
Plymouth City Council	7.000	-
Stockport Borough Council	5.000	5.000
Telford and Wrekin Borough Council	4.000	
Non UK Banks		
Australia		
Australia & New Zealand Banking Group	5.000	10.000
Commonwealth Bank of Australia	5.000	5.000
Canada		
Bank of Montreal	-	
Netherlands		
Cooperative Rabobank	15.000	10.000
Singapore		
Development Bank Singapore	12.000	7.000
United Overseas Bank	12.000	15.000
Money Market Funds		
HSBC Global Liquidity Fund Class G MMF	-	-
BNP Paribas Insticash Sterling MMF	8.757	1.840
TOTAL INVESTMENTS	**230.585**	**205.849**

Investment Benchmarking

31 December 2017

	Havering	13 London & Met Boroughs Average	150 LAs Average
Internal Investments	£230.3m	£111.0m	£63.1m
External Funds	£0.0m	£4.6m	£10.2m
TOTAL INVESTMENTS	**£230.3m**	**£117.4m**	**£73.3m**
Security			
Average Credit Score	3.91	4.45	4.51
Average Credit Rating	AA-	AA-	A+
Average Credit Score (time-weighted)	3.67	4.32	4.23
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	28	17	16
Proportion Exposed to Bail-in	30%	56%	61%
Liquidity			
Proportion Available within 7 days	6%	40%	41%
Proportion Available within 100 days	44%	69%	68%
Average Days to Maturity	242	100	41
Market Risks			
Average Days to Next Rate Reset	240	114	71
External Fund Volatility	0.0%	0.3%	2.1%
Yield			
Internal Investment Return	0.65%	0.57%	0.54%
External Funds - Income Return		1.33%	3.41%
External Funds - Capital Gains/Losses		0.67%	0.70%
External Funds - Total Return		2.00%	4.11%
Total Investments - Income Return	0.65%	0.65%	0.92%
Total Investments - Total Return	**0.65%**	**0.73%**	**1.14%**

Notes

- The internal investments figure stated above of £230.3m differs slightly from that stated in Appendix A (£230.5m). The difference is due to a transposition of figures that was spotted later during the monthly reconciliation process.
- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.

- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

Appendix C

Compliance Report

All treasury management activities undertaken during the year to Quarter 3 complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Interest Rate Exposures

1.1.1 This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table1: Interest rate exposure activity

	2017/18 Limit %	2017/18 Q3 Actual %	2018/19 Limit %	2019/20 Limit %
Upper limit on fixed interest rate exposure	100	89	100	100
Upper limit on variable interest rate exposure	25	11	30	35

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.1.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

1.2 Maturity Structure of Borrowing

1.2.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 2: Loan maturity structure

	Upper %	Lower %	Actual %
Under 12 months	40	0	8.29
12 months and within 24 months	40	0	3.05
24 months and within 5 years	60	0	0.48
5 years and within 10 years	75	0	8.97
10 years and above	100	0	79.21

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.3 Principal Sums Invested for Periods Longer than 364 days

1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

1.3.2 The limits set in the 2017/18 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify available for sale investments with maturities exceeding one year as short term investments.

Table 3: Investments for periods longer than 364 days

	2017/18 Limit £m	2017/18 Actual £m	2018/19 Limit £m
Limit on principal invested beyond year end	75	45	75

1.4 Liquidity Treasury Indicator

1.4.1 The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing.

Table 4: Liquidity activity as 31/12/2017

	Target £m	Actual £m
Total cash available by the next working day	5.000	8.857
Total cash available within 3 months	30.000	57.000

1.5 Security Treasury Indicator

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 5: Security Treasury Indicator

	31.12.17 Actual	2017/18 Target
Portfolio average credit rating	AA-	A+

1.6 Gross Debt and the Capital Financing Requirement (CFR)

1.6.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 6: Gross debt and the CFR Forecast at Quarter 3.

	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Long Term External Debt	210.234	210.234	210.234	256.234
CFR	250.578	280.794	325.527	371.890
Internal Borrowing	40.344	70.560	115.293	115.656

1.6.2 Total debt is expected to remain below the CFR during the year. The actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt, below.

1.7 Operational Boundary for External Debt

1.7.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 7: Operational Boundary

Operational Boundary	2017/18 £m	31.12.17 Actual	2018/19 £m	2019/20 £m
Borrowing	276.300	229.483	310.600	341.400
Other long-term liabilities	2.000	0.000	2.000	2.000
Total	**278.300**	**229.483**	**312.600**	**343.400**

1.8 Authorised Limit for External Debt

1.8.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 8: Authorised limit for external debt

Authorised Limit	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	303.900	341.700	375.500
Other long-term liabilities	2.000	2.000	2.000
Total Debt	**305.900**	**343.700**	**377.500**
Long Term Debt	210.200	210.200	210.200
Headroom	**95.700**	**133.500**	**133.500**

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail**-in is the opposite of a **bail**-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

Monetary Policy Committee (**MPC**) is a committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

Agenda Item 14

Havering
LONDON BOROUGH

AUDIT COMMITTEE	**28 FEBRUARY 2018**
Subject Heading:	**Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for 2018/19**
SLT Lead:	Debbie Middleton
Report Author and contact details:	Reena Patel / Stephen Wild Reena.Patel@onesource.co.uk/ Stephen.Wild@onesource.co.uk 01708 432485 / 02033 733881
Policy context:	The code of practice on treasury management 2011 recommends that the Treasury Management Strategy and Minimum Revenue Provision Statement are reported to a scrutiny committee for effective scrutiny.
Financial summary:	The Treasury Management Strategy forms part of the Council's overall budget strategy and financial management framework.
Is this a Key Decision?	No
When should this matter be reviewed?	Bi-Annually
Reviewing OSC:	Audit Committee

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, and published a revised Code on 29th December 2017. The new code was published too late to influence the 2018/19 budget cycle and therefore this report is presented in accordance with the 2011 Code.

In addition, the Department for Communities and Local Government (DCLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the DCLG Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management Indicators
- Prudential Indicators
- A Minimum Revenue Provision Policy (the means by which capital expenditure which is financed from borrowing is paid for by council tax payers)

This Cabinet meeting (7/02/18) approved:

- the Treasury Management Strategy Statement (TMSS) 2018/19,
- the Treasury Management and Prudential Indicators set out in Appendix 7 of this report.
- the Treasury Management and Prudential Indicators set out in Appendix 7 of this report.
- the Annual Minimum Revenue Provision (MRP) Statement for 2018/19 set out in Appendix 8 of this report; and
- recommended the annual TMSS and MRP statements 2018/19 to Council for approval.

RECOMMENDATIONS

- To note the report and make any comment on its content..

REPORT DETAIL

1. INTRODUCTION

1.1 The Authority's treasury policy is set out in **Appendix 1** of this report.

1.2 The Authority is required to set a balanced budget each financial year, which broadly means that income received during the year will meet its operational expenditure. As part of the overall financial management arrangements, a primary objective of the Treasury Management service is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.3 The second main objective of the Treasury Management service is to ensure property funding of the Authority's capital expenditure plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. In addition the Authority's commercial agenda established to mitigate the impact on services from government grant reductions is also driving its capital plans. The funding needs of these commercial activities differ from those of the general capital programme and this is addressed in this strategy. The Government is seeking to change how these commercial activities are reported in future through its current consultation papers and this will feature in future TMSS reports.

2. SERVICE DELIVERY AND PERFORMANCE ISSUES

2.1 **Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on economic growth. Transitional arrangements may prevent a “cliff-edge”, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain insipid throughout 2018/19.

2.2 **Credit outlook:** The health of the European banking sector although improving remains an area of concern.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities. This is expected to take place around March/April 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

2.3 **Interest rate forecast:** The Authority’s treasury adviser (Arlingclose) central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The MPC re-emphasised that any prospective increase in Bank Rate would be expected to be at a gradual pace and limited in extent.

A more detailed economic and interest rate forecast is attached in **Appendix 2**.

3. BALANCE SHEET SUMMARY AND FORECAST

On 31st December 2017, the Authority held £229.5m of borrowing and £230.3m of investments. This is set out in further detail in **Appendix 3**. Forecast changes at summary level are shown in the balance sheet analysis in table 1 below which is based upon the proposed Capital Programme for 2018/19 which will require the Council to borrow an additional £10m in 2019/20 and a further £30m in 2020/21.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
General Fund CFR	76	97	118	165	185	194	193
HRA CFR	175	175	175	175	175	175	175
Total CFR	**251**	**272**	**293**	**340**	**360**	**369**	**368**
Less: External borrowing	-215	-210	-210	-230	-260	-270	-270
Internal borrowing	**36**	**62**	**83**	**110**	**100**	**99**	**98**
Less: Usable reserves	-209	-176	-137	-121	-114	-114	-115
Less: Working capital	-28	-28	-28	-28	-28	-28	-28
Investments	**-201**	**-142**	**-82**	**-39**	**-42**	**-43**	**-45**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to be compliant with this requirement. The split between internal borrowing and external borrowing may change depending on the outlook on future interest rates.

4. BORROWING STRATEGY

4.1 Objectives: The Authority's borrowing strategy will be informed by:

- Interest rate forecasts and the shape of the interest rate curve.
- Spread of current debt maturities to avoid high concentrations in any year
- Shape of the Authority's future capital finance requirement (CFR) curve; and
- Balance of callable long term debt and non-callable long term debt in the portfolio.

4.2 Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. All capital investment schemes assume an external borrowing rate in their cost of capital.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The treasury advisor will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this results in a short term carrying cost.

Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

4.3 Medium term capital programme

The Authority’s General Fund CFR is increasing due to its decision in February 2016 to approve £100m of capital expenditure for regeneration and development financed by prudential borrowing.

Further to the additional £100m, approval is being sought to fund capital expenditure from prudential borrowing for the joint venture schemes’ Bridge Close, Rainham and Beam Park partnerships as part of the overall capital programme which is set out in the Medium Term Financial Strategy Report elsewhere on this Cabinet agenda.

The Authority’s HRA Business plan which is also set out elsewhere on this Cabinet agenda for approval will result in an accelerated use of the HRA ring fenced reserves and consequently a gradual decrease in the Authority’s total cash balances.

Based on the proposed 2018/19 capital programme, internal borrowing will be utilised in the first instance. However, it is forecasted that the Council’s General Fund will need to undertake additional external borrowing of £20m in 2019/20 and a further borrowing of £30m in 2020/21 in order to maintain working balances of approximately £40m.

As detailed in the HRA business plan, the current headroom available to the HRA is £34.334m. It should be noted that the move to an accelerated payment commitment to the Bridge Close JV LLP to acquire 375 affordable units will require the HRA to borrow an additional £13.333m in 2024/25 and a further borrowing of £4.409m by the close of 2025/26.

Appendix 4 shows the current profile of the Authority's borrowing.

Other factors such as interest rates and cost of carry will also be considered when determining the optimum period in which to undertake external borrowing and this may be earlier than is currently profiled.

The Council, if required, will look to borrow for the agreed capital programme at the best rates available within the stated borrowing limits in Table 1 and subject to budget availability.

4.4 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except LB of Havering Pension Fund)
- capital market bond investors: and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

The Authority's policy on Borrowing in advance of need is stated in **Appendix 8.**

4.5 **Lender's Option Borrowers' Option (LOBO):** The Authority holds a £7m LOBO loan, where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The LOBO loan has options during 2018/19, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will opt to repay the LOBO loan at no cost if the opportunity arises.

4.6 **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as set out in the section on treasury management indicators discussed later in this report.

4.7 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates although this is not expected to be a viable option in 2018/19. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. INVESTMENT STRATEGY

1.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £201.3m and £251.7m. The requirements of the proposed capital programme and likeliness of funding the programme through internal borrowing will possibly lead to a decline in cash balances over the coming period.

5.2 **Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 **Strategy:** Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates. The Authority will consider placing longer term deals while investment rates are at historically low levels where attractive rates with high quality counterparties are available.

5.3.1 Given the volatile nature of financial markets and the need to respond quickly it may be necessary to revise the strategy throughout the year. It is, therefore, proposed to delegate changes to the Chief Financial Officer (S151 Officer) in consultation with the Cabinet Member for Financial Management, ICT (client) & Transformation notifying the Authority in the Mid-year or the Annual Treasury Management Report.

5.4 **Approved counterparties and Limits:**

5.4.1 **Credit Ratings:** The Authority has chosen to apply the creditworthiness service provided by the treasury advisor, which employs a sophisticated modelling approach utilising credit ratings from all the three main credit rating agencies – Fitch, Moody's and Standard and Poor's. The credit ratings of counter parties are supplemented with the following:

- Credit watches and Credit outlooks from the credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warnings of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The use of these criteria for deposits with banks and building societies will meet the definition of "high" credit ratings as required by the CLG guidance.

5.4.2 The Authority's current criteria and durations for investments are set out in **Appendix 5.** The Chief Financial Officer (S151 Officer) will, on advice, make operational changes to the criteria in response to prevailing market conditions.

5.4.3 Investment instruments identified for use in the financial year are listed in **Appendix 6** under the 'Specified' and 'Non Specified' investment categories.

5.4.4 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury adviser, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.4.5 **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

All eligible counterparties and new types of investments will be discussed prior to their use by the Lead Member, Chief Financial Officer and other senior finance officers where the appropriateness and security of the investments will be assessed. Any counterparties or investments that fail to meet approval of the group will not be used despite meeting the investment strategy criteria.

5.4.6 **Liquidity management**: The Authority maintains a detailed cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

6. TREASURY MANAGEMENT INDICATORS

The CIPFA Prudential Code and TM Code requires authorities to set treasury indicators and these are set out in draft in **Appendix 7**. No breaches in the indicators are likely in 2018/19.

7. MINIMUM REVENUE PROVISION (the MRP)

The proposed MRP policy statement 2018/19 is set out in **Appendix 9** of this report. The policy has been amended to give the flexibility of using the annuity method for charging purposes and any revenue cost savings can be used to fund the holding costs associated with the commercial schemes.

8. LOANS TO THIRD PARTIES

The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Council's internal cash balances as external borrowing is not permitted in such circumstances.

9. OTHER ITEMS

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

9.1 **Policy on the use of financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. Whilst this provides the flexibility to use these instruments there are no immediate plans to deploy them in 2018/19.

9.2 **Policy on apportioning interest to the HRA:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed are assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

9.3 **Investment training:** The needs of the Authority's treasury management staff for training in investment management are assessed on a regular basis as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by the treasury management adviser and CIPFA. Relevant staffs are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

9.4 Investment advisers: The Authority's current treasury management adviser is Arlingclose Limited and receives specific advice on investment, debt and capital finance issues. The Authority recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon our advisers.

9.5 Investment of money borrowed in advance of need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

9.6 Markets in Financial Instruments Directive (MiFID II)

The Authority has opted up to the 'Elective Professional Status' where necessary in regards to MiFID II. The opt-up is an annual process or as and when dealing with a new financial institution.

9.7 Policy Implications & Corporate Priorities

The revised CIPFA Prudential Code and CIPFA Treasury Management Code released on 29/12/17 and were therefore published too late to influence the 2018/19 budget cycle and therefore this strategy is prepared in accordance with the 2011 code.

Furthermore, the Authority is also awaiting the publication on the outcome of the consultation carried out by DCLG on MRP and Investment Guidance.

Officers will arrange member training on the changes and help the Council respond to the new requirements.

The Codes appear to accept the drive for financial returns and the use of non-treasury related investments, but reaffirms the need for risk management and proportionality of commercial activities in relation to the Council's core activities.

REASONS AND OPTIONS

Reasons for the decision:

The statutory Codes set out that the Council ought to approve a Treasury Management Strategy Statement, the MRP Strategy and the Prudential Indicators.

Other options considered:

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Financial Management, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The Treasury Management Strategy Statement is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Council's financial risks associated with cash management via borrowing and investments.

For the financial year 2018/19, the budget for investment income has been set at £1.105m, based on an average interest rate of 0.60%.

The budget for long term debt interest payable in 2018/19 has been increased from £7.6m to £8.5m. This is based on the existing average long term debt portfolio of £210m at an average interest rate of 3.6% and has been adjusted for anticipated borrowing as described in paragraph 4.3.
Of the existing £210m of long term debt, £170m is in relation to HRA, with a budget for debt interest payable of £5.8m.
The General Fund Budget for debt interest on external debt has been increased by £0.900m from £1.8m to £2.7m to allow for external borrowing to be undertaken should it be considered necessary in 2018/19 to fund the cost of borrowing for the increased capital programme.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Variance from budget will be reported on a bi-annual basis to full Council.

Legal implications and risks:

The Council must comply with its duty under section 3 Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires the Authority to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA when considering its duty under section 3.

The Council has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at their disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent fashion and therefore there is a low risk of successful challenge.

Otherwise there are no apparent legal implications arising as a result of this Report."

Human Resources implications and risks:

There are no direct Human Resources implications arising as a result of this report

Equalities implications and risks:

There are no equalities implications within this report

BACKGROUND PAPERS

- London Borough of Havering – Treasury management strategy 2017/18 and MRP Policy statement

Appendix 1: Treasury Management Policy Statement

1. Treasury management within this Authority is undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services ("the CIPFA Code").

2. The Authority has been compliant with the requirements of the CIPFA Code and has formally adopted the key recommendations as described within Section 4 of the CIPFA Code.

3. In accordance with the CIPFA Code, the Authority defines treasury management activities as: "The management of the council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

5. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

6. The Authority will create and maintain, as the cornerstone for effective treasury management:

    a. Treasury policy statement, stating the objectives of its Treasury Management activities suitable Treasury Management Practices (TMP's) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    b. Treasury management Prudential Indicators as determined by the requirements of the CIPFA Prudential Code; and

    c. The content of the policy statement and TMPs will follow the recommendations contained in Sections 7 of the CIPFA Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the CIPFA Code's key principles.

7. The Authority will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, an annual report after its close and an interim review report.

8. The Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet Member for Financial Management and for the execution and administration of treasury management decisions to the Chief Financial Officer (S151 Officer), who will act in accordance with the Authority's policy statement and the CIPFA Code.

Appendix 2 – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk. The PWLB certainty rate is 80bps above the gilt yield rate across all time periods.

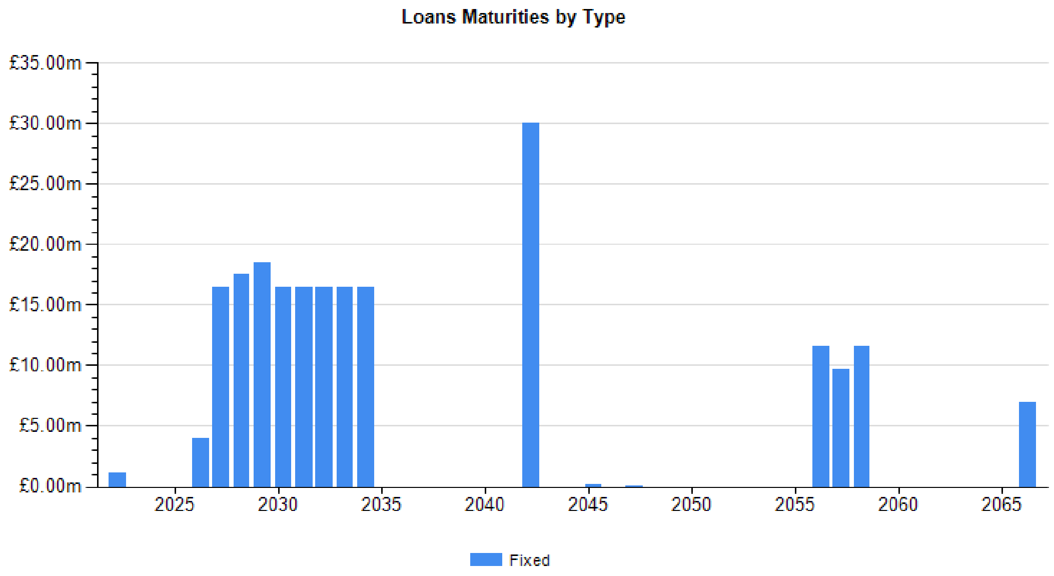
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.17
3-month LIBID rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.23
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.22
1-yr LIBID rate														
Upside risk	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.28
Arlingclose Central Case	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.78
Downside risk	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	1.15	0.92
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.35
10-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.60	1.38
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.34
20-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	2.10	1.95
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.41
50-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.33
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	2.00	1.84
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.41

Appendix 3 – Existing Investment & Debt Portfolio Position

	31/12/17 **Actual Portfolio** **£m**	31/12/17 **Average Rate** **%**
External borrowing:		
Public Works Loan Board	203.234	
Local authorities	19.000	
LOBO loans from banks	7.000	
Other loans	0.249	
Total external borrowing	**229.483**	**3.32%**
Treasury investments:		
Banks & building societies (unsecured)	95.208	
Covered bonds & repo (secured)	9.021	
Government (incl. local authorities)	117.600	
Corporate bonds and loans	0	
Money Market Funds	8.487	
Other pooled funds	0	
Total treasury investments	**230.316**	**0.65%**
Net Investments	**0.832**	

Appendix 4 – The Authority's Debt Portfolio

The graph and table below shows the debt and maturity profile of the Authority's **fixed** term borrowing.



Maturity Period	Total £
Liquid	
< 1 Year	
1 - 2 Years	
2 - 5 years	1,109,799
5 - 10 years	21,532,612
10 - 20 years	117,631,812
20 - 30 years	30,249,313
30 - 40 years	32,274,481
40 - 50 years	7,685,374
> 50 Years	
Total	£210,483,391

Appendix 5 – The Authority's Minimum Credit Rating Criteria

Credit Rating: Investment decisions are made by reference to the lowest published long term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

The notes below should be read in conjunction with table 1 overleaf.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the Authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.
   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.
   The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The Authority's credit rating criteria for UK Building Societies in 2018/19 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **Non Rated Building Societies –** The criteria in table 1 overleaf will apply.

4. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

6. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

7. **Residential Mortgage Based Schemes [New]** - Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access.

8. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

9. **Money Market Funds (MMF):** The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Table 1: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£35m 5 years	£35m 20 years	£35m 50 years	£15m 20 years	£15m 20 years
AA+	£35m 5 years	£35m 10 years	£35m 25 years	£15m 10 years	£15m 10 years
AA	£35m 4 years	£35m 5 years	£35m 15 years	£15m 5 years	£15m 10 years
AA-	£35m 3 years	£35m 4 years	£35m 10 years	£15m 4 years	£15m 10 years
A+	£35m 2 years	£35m 3 years	£15m 5 years	£25m 3 years	£15m 5 years
A	£35m 13 months	£35m 2 years	£15m 5 years	£25m 2 years	£15m 5 years
A-	£35m 6 months	£35m 13 months	n/a	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	n/a	£5m 5 years	£10m 5 years
	UK Local Authorities £35m; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Equity, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds.				
UK AAA	Residential Mortgage Based Schemes (RMBS) £25m				

Investment Limits: The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£35m each
Any group of organisations under the same ownership	£35m per group
Any group of pooled funds under the same management	£35m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£35m per country
Registered providers	£35m in total
Unsecured investments with building societies	£50m in total
Loans to unrated corporates	£35m in total
Money Market Funds	£50m in total
UK Residential Mortgage Backed Securities (RMBS)	£25m in total

Revisions made to this Investment Strategy from the 17/18 Strategy:

- The Authority at its meeting of 13th September 2017 approved undertaking investments in unrated and secured corporate bonds. The investment limits for this class was set at £5m with a maximum duration of 5 yrs.

- It is proposed to use a bank whose ratings fall below the criteria specified in Appendix 5, Table1; if the bank is a UK part nationalised /nationalised bank. These banks are deemed to be strategically important to the UK economy and the Government stake in these companies provides a stronger covenant.

- The Investment limits in Table 2 above have been extended to £35m from £25m. This increase provides the Authority with additional scope to make investments with institutions that have a strong credit rating and offer better yields.

- An additional investment category of Residential Mortgage Backed Security (RMBS) is included in tables 1& 2 above. Investment will be restricted to AAA rated funds with only UK exposure. These funds offer stronger risk-adjusted returns whilst maintaining high daily liquidity with time plus two days (T+2) access. This will enable officers to optimise returns on liquid assets and help achieve the Authority's treasury investment income budget.

Appendix 6 – Specified and Non Specified Investments

Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limits	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 5, Table 1	£35m	per Appendix 5, Table 1
	UK Building Societies	per Appendix 5, Table 1	£35m	per Appendix 5, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1	£35m	per Appendix 5, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 5, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 5, Table 1
Term Deposits	Local Authorities and other Public Institutions	UK Sovereign Rating	£35m	per Appendix 5, Table 1
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 5, Table 1		per Appendix 5, Table 1
Money Market Fund		Long Term A- [3]	£25m	
Enhanced Cash Funds		Long Term AA/Aa[4]	£25m	
Bond Funds		Investment Grade BBB or higher	£25m	
Gilt Funds		UK Sovereign Rating	£25m	
Property Funds		UK Property Only	£25m	
Equity Funds		FTSE 100 Companies Only	£25m	
Mixed Asset Funds		Mixed Investments 20% to 60% shares only	£25m	
Residential Mortgage Based Schemes (RMBS)		UK AAA	£25m	
1. £35m Limit per bank / banking group.				
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.				
3. Investments will be made with those MMF's which have long term rating of A-				
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating				

Page 209

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

Limits on non-specified investments are shown in table 2 below.

Table 2: Non-specified investment limits

	Cash Limit £m
Total long-term investments	75
Total Investments without credit ratings or rated below A-	20
Total Investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	15
Total non-specified investments	**110**

Page 211

NON SPECIFIED INVESTMENTS

<table>
<tr><th>Instruments</th><th>Non Specified Investments</th><th>Institution Type</th><th>Minimum Credit Criteria</th><th>Maximum Duration</th><th>Cash limit</th></tr>
<tr><td rowspan="6">Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.</td><td>Total long-term investments (investments over 1 year)</td><td>UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)</td><td>Per Appendix 5, Table 1</td><td>10 yrs.</td><td>£75m</td></tr>
<tr><td rowspan="2">Total investments without credit ratings or rated below A- (except UK Government and local authorities)</td><td>Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies</td><td>N/A</td><td rowspan="2">5 yrs.</td><td rowspan="4">£20m</td></tr>
<tr><td>Other banks and building Societies rated below A-.</td><td>N/A</td></tr>
<tr><td>Total Investments made in pooled investment vehicles.</td><td></td><td></td><td rowspan="2">7 yrs.</td></tr>
<tr><td>Total Investments made in un-rated bonds.</td><td></td><td></td></tr>
<tr><td>Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+</td><td>Non UK Banks</td><td>Per Appendix 5, Table 1</td><td>10 yrs.</td><td>£15m</td></tr>
<tr><td></td><td>Total non-specified investments</td><td></td><td></td><td></td><td>£110m</td></tr>
</table>

Appendix 7 – Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.
As stated in the section 9.7 of the main report, these indicators are subject to review per the revised CIPFA prudential code published in December 2017.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A-

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£20m[1]

1. Revised to £20m from £30m, as short term temporary borrowing is readily available in current market conditions at attractive rates. This will help officers optimise returns.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross [principal borrowed will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	25%	30%	35%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. (LOBO option dates are treated as potential repayment dates and variable rate borrowing is excluded)

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£75m	£75m	£75m

Prudential Indicators 2018/19

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.
To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

As stated in the section 9.7 of the main report, these indicators are subject to review per the revised CIPFA prudential code published in December 2017.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
General Fund	66.359	90.968	137.946	53.894	29.920	4.035
HRA	37.542	51.723	31.140	21.442	42.778	39.803
Total Expenditure	**103.901**	**142.691**	**169.086**	**75.336**	**72.698**	**43.838**
Capital Receipts	17.183	39.639	23.223	7.395	23.359	8.659
Government Grants	29.037	40.844	65.066	32.925	4.087	4.850
Reserves & Revenue	33.868	21.777	13.976	7.991	15.727	26.303
S106	0.809	1.347	0.693	0.000	11.620	0.000
External Funding	0.000	16.855	16.565	1.273	3.270	0.000
Borrowing	23.004	22.229	49.563	25.752	14.635	4.026
Total Financing	**103.901**	**142.691**	**169.086**	**75.336**	**72.698**	**43.838**

Estimates of Capital Financing Requirement (CFR): The CFR measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Actual £m	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m	31.03.23 Estimate £m
General Fund	75.910	97.438	117.583	164.584	185.741	194.444	192.861
HRA	174.669	174.669	174.669	174.669	174.669	174.669	174.669
Total CFR	**250.579**	**272.107**	**292.252**	**339.253**	**360.140**	**369.113**	**367.530**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.17 Actual £m	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m
Borrowing	214.571	210.234	210.234	230.234	260.234	260.234

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	360.100	369.100	367.500
Other long-term liabilities	10.000	10.000	10.000
Total Debt	370.100	379.100	377.500

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	448.200	458.600	457.900
Other long-term liabilities	10.000	10.000	10.000
Total Debt	458.200	468.600	467.900

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**
General Fund	1.89	2.17	3.28	5.72
HRA	4.00	3.40	3.50	3.50

Ratio of financing costs to the net revenue stream is set to increase gradually as the Authority's commercial agenda moves forward. The above figures incorporate borrowing pressures that may result due to the commercial undertakings.

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the new capital programme.

Incremental Impact of Capital Investment Decisions	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax	17.14	36.88	82.08
HRA - increase in average weekly rents	0.45	0.22	0.20

Appendix 8 – Borrowing in advance of need

Borrowing is primarily required to finance the council's capital expenditure programme and is long term in nature. Views of interest rate movements and moreover rising interest rate risk must be managed. This may result in borrowing in advance of need to secure long term finance on advantageous terms and reduce financing risk when capital will be required.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

There are attendant risks associated with investments but the council has taken measures to substantially reduce the level of credit risk from holding investments and manage the carry cost (the difference between borrowing costs and investment yield)

Officers will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. Risks associated with any borrowing in advance activity will be subject to proper appraisal and subsequent reporting through the mid-year or annual reporting mechanism

Appendix 9 – Minimum Revenue Provision (MRP)

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum provision requirement since 2008, The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* issued in 2012.

The broad aim of the DCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The DCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £2.9m on a reducing balance method

For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments, but under exceptional circumstances MRP the annuity or equal instalments method may apply. Furthermore, where appropriate provision of MRP will commence in the year after the asset becomes operational.

Estimated life periods will be determined under delegated powers. The council may defer to the estimated useful economic life periods specified in the MRP guidance, but reserves the right to determine such periods and prudent MRP.
As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

No MRP will be charged in respect of assets held within the Housing Revenue Account.

Third party loans – Under statutory requirements the payment of the loan will normally be treated as capital expenditure. The subsequent loan repayments, (which are treated as capital receipts under statutory requirements), will be used to reduce the long term liability and consequently the CFR. As a result MRP will not generally be charged on the loan as it is not appropriate to do so.

This page is intentionally left blank

Havering LONDON BOROUGH

AUDIT COMMITTEE, 28 FEBRUARY 2018

Subject Heading:	Audit Committee – Annual Report 2017/18
CMT Lead:	Daniel Fenwick
Report Author and contact details:	**Victoria Freeman, 01708 433862, Victoria.freeman@onesource.co.uk**
Policy context:	**As required under the Council's constitution, the document attached summarises the work of the Committee during the 2017/18 municipal year.**
Financial summary:	**No impact of presenting of information itself.**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The annual report of the Committee is attached for approval and referral to full Council.

RECOMMENDATIONS

1. That the Committee to approve the Annual Report 2017/18 and refer this to Council.
2. That the Committee delegate to the Chairman and Vice-Chair approval of the final version of the report in order that issues covered at the Committee meeting on 28 February can also be included in the annual report.

REPORT DETAIL

The attached document summarises the work of the Committee during the 2017/18 municipal year. It is recommended that the Committee agree that the report should be referred to full Council for consideration, as required under the Council's constitution. In order to capture issues discussed at this meeting of the Committee, it is further recommended that approval of the final wording of the Annual Report be delegated to the Committee Chairman and Vice-Chair.

IMPLICATIONS AND RISKS

Financial implications and risks: There are no financial implications arising from consideration of this report.

Legal implications and risks: None of this covering report.

Human Resources implications and risks: None of this covering report.

Equalities implications and risks: None of this covering report.

BACKGROUND PAPERS

None.

ANNUAL REPORT ON THE

WORK OF THE AUDIT COMMITTEE

2017/18 FINANCIAL YEAR

1. Introduction

This reports covers the period April 2017 to March 2018 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Actions taking during the year, including training, to ensure the effectiveness of the Audit Committee; and
- Future planned work and challenges.

2. Background

2.1 The Audit Committee has been in place for a number of years. The Committee's terms of reference list the responsibilities and authorities delegated in the Council's Constitution, which comprise:

Internal control
- To consider and monitor the adequacy and effectiveness of the authority's risk management and internal control environment and to make recommendations to full Council where necessary.

External audit
- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

Internal audit
- To support the Officers with their delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To approve the Annual Statement of Accounts, including the Annual Governance Statement, and to recommend as necessary to the Governance Committee regarding the committee's responsibilities to monitor corporate governance matters generally.
- To monitor proactive fraud and corruption arrangements.

The Audit Structure (as at April 2018):

Audit Committee:	Councillor Viddy Persaud (Chairman) Councillor Julie Wilkes (Vice-Chair) Councillor Clarence Barrett Councillor David Johnson Councillor Frederick Thompson Councillor Graham Williamson*

**For part of the 2017-18 municipal year and was replaced by Councillor Mylod.*

Internal Auditors:	oneSource
External Auditors:	Ernst & Young

During the year under review, the Sub-Committee met on four occasions and dealt with the following issues:

3. Audit Committee coverage

3.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

3.2 Regular work

The Committee has regularly reviewed:

- Progress against the audit plan and performance;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti-fraud and corruption activity, including frauds investigated and outcomes;
- Treasury Management activity; and
- The Accounts closedown timetable and progress reports.

3.3 Specific Review / Reports

There were several during the year including a review and approval of:

- the Statement of Accounts;
- the Annual Governance Statement; and
- the Annual Audit Plan.

The Committee also received assurances via:

- Annual Report from Internal Audit that includes the Annual Assurance Statement; and
- The work of external Audit (EY).

4. Priorities and work plan for the forthcoming year

4.1 The Audit Committee is currently planned to meet on four occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of quarterly progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's external auditor.

4.2 Officers will continue to ensure all members on the Committee, and their nominated substitutes, are adequately trained.

4.3 The Committee will continue to oversee the effectiveness of the audit team and wider fraud resources in accordance with Public Sector Audit Standards Audit and Accounts Regulations 2015.

4.4 The Committee will focus on the embedding of the Risk Management arrangements agreed in the Revised Management Policy and Strategy.

4.5 Fraud prevention and detection will continue to be high on the Audit Committees agenda going forward.

4.6 The Committee will continue to focus on ensuring Value for Money and challenging weak areas that have been highlighted by the work of Internal Audit.

4.7 A draft forward plan and indicative training plan are detailed in Appendix B.

APPENDIX A

AUDIT COMMITTEE AGENDA ITEMS – FROM JUNE 2017 TO MAY 2018

June 2017

- Internal Audit Annual Report 2016/17
- Annual Governance Statement 2016/17
- Accounts Closure Update
- Treasury Management Annual Report

September 2017

- Annual Statement of Accounts 2016/17
- Treasury Management Update Q1
- Internal Assurance Report Q1

November 2017

- Annual Audit Letter
- Closure of Accounts Timetable
- Treasury Management Mid-Year Update 2017/18
- Internal Assurance Report Q2
- Annual Governance Statement 2016/17 (Amendment)

February 2018

- External Audit Plan 2017/18: London Borough of Havering and Havering Pension Fund
- 16/17 Grants Certification Report
- Accounting Policies 2017/18
- Closure of Accounts Timetable 2017/18
- Assurance Progress Report Quarter 3
- Governance Update
- Internal Audit Strategy and Charter and 2018/19 Plan
- Treasury Management Q3 Update 2017/18
- Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Statement for 2018/19
- Audit Committee – Annual Report 2017/18

April 2018

- External Audit – Interim Audit update (if necessary)
- Head of Assurance Annual Report 2017/18
- Annual Report on Risk Management
- Member Training Plan

APPENIX B

AUDIT COMMITTEE – DRAFT FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
July 2018	• Annual Governance Statement 2017/18 • Treasury Management Annual Report 2017/18 • Annual Statement of Accounts 2017/18 • External Audit Report to those charged with Governance (ISO 260) • Response to Auditors report to those charged with Governance • Assurance Progress Report Q1 • Treasury Management Update Q1	Training on the role of the audit committee and the financial statements will take place between May-July
October 2018	• 2017/18 Annual Audit Letter • 6 Month Review of Risk Management • Assurance Progress Report Q2 • Treasury Management Quarter 1 Update	Per training plan to be considered April 18
January 2019	• External Audit Plan 2019/20 for London Borough of Havering and Havering Pension Fund • Governance Update • 17/18 Grants Certification Report • Assurance Progress Report Q3 • Draft Treasury Management Strategy Report 19/20 • Treasury Management Mid-Year Report • Accounting policies 2018/19 • Closure of Accounts Timetable 2018/19 • 2019/20 Internal Audit Plan, Strategy and Charter	
April 2019	• Head of Assurance Annual Report 2018/19 • Audit Committee – Annual Report 2018/19 • Member training plan	