



Haverling

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm	Thursday 5 September 2019	Committee Room 3B - Town Hall
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Members 6: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

**Upminster &
Cranham
Residents' Group
(1)**

**North Haverling
Residents Group
(1)**

Viddy Persaud (Vice-
Chair)
Roger Ramsey
Judith Holt

Gerry O'Sullivan

Gillian Ford

Martin Goode
(Chairman)

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

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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:-

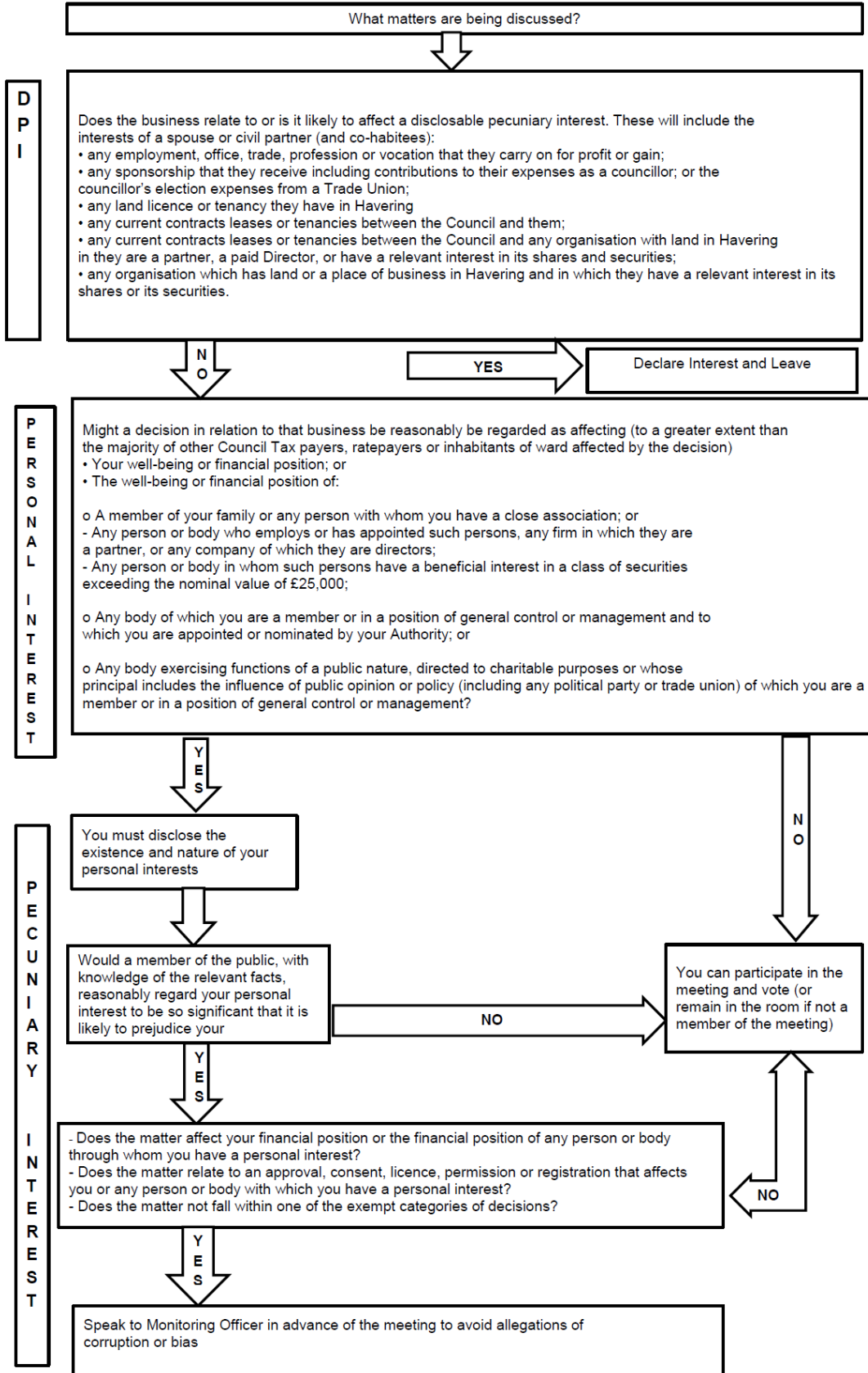
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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



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) – receive.

3 DISCLOSURE OF INTERESTS

Members are invited to disclose 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 24 April 2019 (attached) and authorise the Chairman to sign them.

5 TREASURY MANAGEMENT ANNUAL REPORT 2018/19 (Pages 5 - 20)

Report attached.

6 ANNUAL STATEMENT OF ACCOUNTS 2018/19 AND EXTERNAL AUDIT REPORT TO THOSE CHARGED WITH GOVERNANCE (ISO 260) (Pages 21 - 26)

Report attached, appendices to follow when available.

7 ASSURANCE END OF YEAR REPORT (Pages 27 - 44)

Report and appendix attached.

Andrew Beesley
Head of Democratic Services

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
24 April 2019 (7.00 - 7.55 pm)**

Present:

COUNCILLORS:

Conservative Group Matt Sutton (Vice-Chair) and +Robert Benham

**North Havering
Residents Group** Martin Goode (in the Chair)

Residents' Group Gerry O'Sullivan

**Upminster & Cranham
Residents' Group** Gillian Ford

Apologies were received for the absence of Councillors Roger Ramsey (Robert Benham substituted) and Viddy Persaud.

Unless otherwise indicated all decisions were agreed with no vote against.

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

22 MINUTES OF THE MEETING

The minutes of the previous meeting of the Committee held on the 30 January 2019 were agreed as a correct record and signed by the Chairman.

23 HAVERING PENSION FUND - AUDIT PLANNING REPORT

The Council's external auditor's Ernst & Young presented their audit plan for the Havering Pension Fund.

The plan summarised the external auditor's initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlined their planned audit strategy in response to those risks.

The Audit Plan covered the external auditor's opinion on whether the financial statements of the Havering Pension Fund gave a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2019; and their 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 Council. The indicative fee for the audit of the Pension Fund was £16,170.

The Committee requested a full rationale of risks and processes in place and were advised that Ernst & Young would present their findings of accounts, action required and recommendations at the next meeting.

RESOLVED:

That the Committee noted the 2018/19 Provisional Audit Plan.

24 GRANT CERTIFICATION REPORT

Officers submitted an overall summary of the 2017/18 audited grants claims compared to 2016/17.

For 2017/18, the PSAA arrangements required only the certification of the Council's Housing and Council Tax Benefits Subsidy (BEN01). The Housing and Council Tax Benefits Subsidy for 2017/18 had now been certified by Ernst and Young. There were no amendments to the claim for 2017/18, and there were none in 2016/17. The Housing and Council Tax Benefits claim for 2017/18 was unqualified, as was in 2016/17. Of the one claim audited for 2017/18, it met its Audit Commission/Grant Funding Body certification deadlines as did the claim for 2016/17. Members noted that the audit fee and the complexity of the audit work was reflected in the fee for 2017/18 which was £15,080.

The Teachers Pensions Authority and the Department of Communities and Local Government required external and independent certification of the Council's final statutory returns for 2017/18. These items were no longer covered by the Scope of the PSAA appointment of statutory audits, therefore the audit fees for these grants were negotiated separately with Grant Thorndon LLP.

- Teachers Pensions – assurance required against £36.2m total contributory salary which included £9.4 m of teachers pensions contributions. Grant Thornton was engaged and concluded that the End of Year Certificate had been prepared in accordance with the regulations underpinning the Teachers' Pension Scheme.
- DCLG Pooling of Housing Capital receipts – Certification of £13.9m Housing Capital receipts (indicative figure subject to final audit). Grant Thorndon had yet to provide the final assurance of the audit, however it was not expected that any issues would be raised.

RESOLVED: That

- i) The contents of the report be noted.**
- ii) The year-on-year grant claims performance be noted.**

25 ANNUAL AUDIT REPORT - 2018/19

Members received the annual report of the Audit Committee, which summarised the work of the Committee during 2018/19.

RESOLVED: That

- **The Committee approved the Annual Report 2018/19; and referred the report to Council.**
- **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 the 24 April 2019 can also be included in the report.**

26 DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19

Officers advised the Committee that the Accounts and Audit Regulations required the Council to conduct at least annually a review of the effectiveness of its system of internal control and to approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control.

During discussion, Members were advised that the draft Annual Governance Statement had been presented to Cabinet, who were satisfied that all continuity plans had been updated. In future, the corporate risk programme would be reported to Cabinet.

RESOLVED:

That the Committee agreed the 2018/19 Annual Governance Statement, subject to any changes to the draft made as a result of recommendation one and any changes required by the Leader and the Chief Executive prior to signature.

27 HEAD OF ASSURANCE - PROGRESS REPORT QUARTER FOUR 2018/19

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

There had been seven final reports issued in quarter four. Of these reports, two were given an audit opinion of substantial assurance, two moderate assurance and the remaining three were not assigned an assurance rating due to the nature of work carried out. Three high risk recommendations were raised.

The Committee requested that a narrative be provided against those planned audits that had been cancelled.

Resolved:

That the report be noted.

28 INTERNAL AUDIT PLAN - 2019/20

The Committee received a report which set out the approach to producing the draft Internal Audit Plan for 2019/20, and invited Members to comment.

Members were advised that officers within the Assurance Service had been involved in discussions with the Section 151 Officer, Directors and senior management to review risks in their areas. This work identified that the Corporate

Risk Register required refreshing and hence the Council's Risk Management Strategy was revised.

The draft Internal Audit Plan had been developed in line with the Corporate Plan priorities 2019/20 and was flexible to allow for changes in the risk and operational environment in which the Council operates.

RESOLVED:

That the draft 2019/20 Internal Audit Plan and the Shared Service Internal Audit Charter and Strategy, was approved.

29 **REVISED RISK MANAGEMENT STRATEGY**

The Committee received a report which presented the revised risk management strategy for Havering Council and which provided details of how the risk management process would be strengthened within the Council.

Members were advised that the Assurance Service had been working to review the Havering Council risk strategy, as the current document was out of date. The aim of the exercise was to clearly define the roles of senior management and all officers involved in the risk management process and reiterate the significance of effective risk management.

RESOLVED:

That the contents of the report, be noted.

Chairman

AUDIT COMMITTEE 25 JULY 2019

Subject Heading:	Annual Treasury Management Report 2018/19
SLT Lead:	Jane West Chief Financial Officer
Report Author and contact details:	Zainab Roberts / Stephen Wild Treasury Manager / Head of Pensions and Treasury 01708 434 306 Zainab.Roberts@havering.gov.uk
Policy context:	This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirement of both the CIPFA Code of practice on Treasury Management, (the code) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code)
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).

The Authority's treasury management strategy Statement (TMSS) for 2018/19 was approved at a meeting of the Authority in February 2018 and revisions to the strategy were approved at a meeting of the Authority in November 2018.

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.

RECOMMENDATIONS

- To note the treasury management activities for the financial year 2018-19 detailed in the report.

KEY HIGHLIGHTS

- Investment income for the year was £2m compared to a budget of £1.5m.
- The Authority's weighted average return outperformed that of the treasury adviser's London Local Authority Group.
- During 2018/19 this Council operated within the treasury limits and prudential indicators set out in the Strategy.
- International Financial Reporting Standard (IFRS) 9 came into effect in 2018-19. The expected credit losses are not material as the Authority's investments are placed with highly credit worthy institutions and Local authorities. The Rockfire bond deemed to meet the SPPI (solely principal plus interest) test and treated at amortised cost.

REPORT DETAIL

1. External Context

1.1. Economic Backdrop

After raising the Bank rate to 0.75% in August 2018, the MPC voted unanimously to hold rates in various meetings. The Bank of England predicted a gradual increase in inflationary pressures.

The Authority's treasurer adviser (Link Asset Services) 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. Link predicted that interest rate will be on hold until mid- year 2020.

The increase in Bank Rate resulted in higher money markets rates: 3-month and 12-month LIBID rates averaged 0.73%, 0.98%.

The 50 year PWLB rates for fixed term borrowing were 2.12% and 25 years PWLB at 2.25%. The Authority did not forecast to undertake any additional borrowing in the 2018-19 borrowing strategy. This was kept under review during the year; assessing the need to externally borrow at various times during the course of the year. No long term borrowing was undertaken in the year as it has been cost effective to use internal borrowing or to borrow short term loans.

1.2 Credit Background

As at 31.03.2019 the authority has invested £19.1m in foreign banks are (Rabobank - £5m, United Overseas Bank Ltd - £4.1m, Development Bank Singapore - £5m and Australia and New Zealand Banking Group - £5m). The long term ratings of these institutions are stable outlook except the Rabobank that was downgraded but remains above the Authority's minimum credit quality threshold. Most of the Authority investments are with Local Authorities which do not have credit ratings but have government support. The Authority is currently using three money market funds (MMFs) to manage the day-to-day cash flow requirements which are Insight, Federated Prime rate and Blackrock.

1.3 Financial Instrument Regulations:

IFRS 9 came into effect on 1st April 2018. All the Authority's investments are deemed to meet the SPPI (solely principal plus interest) test and treated at amortised cost.

The new regulation requires measurement of any expected credit loss. As the Authority's investments exceeds minimum credit rating agreed in TMSS, the expected credit loss was deemed to be not material and therefore no adjustment was required to the Authority's accounts.

1.4 Credit Rating developments

The Standard and Poor (S&P) Global Ratings has been upgraded with the Long Term Rating of The Royal Bank of Scotland Group Plc and its core operating subsidiaries e.g. National Westminster Bank. In addition to this, the Outlook on all entities has changed to "Stable" from "Positive".

The upgrade reflects The Royal Bank of Scotland Group plc (RBSG) strengthened credit fundamentals following a long period of restructuring and refocusing. It has addressed the majority of legacy assets and legal risks, maintained a robust capital position, and laid the foundations for improved cost efficiency and earnings. As a result, S&P believe RBSG's creditworthiness is more comparable with peers, and S&P now align its unsupported group credit profile with our 'bbb+' anchor for UK Banks.

Moody's Investor Services (Moody's) has changed the Outlook on the Long Term Rating of Barclays Bank PLC (NRFB) and Goldman Sachs International Bank. At the same time, all ratings were affirmed.

The Positive Outlook on Barclays Bank PLC (NRFB) ratings reflects the progress it has made in its restructuring plan including the de-risking of its balance sheet, which will lead to higher profits and an improved capital position.

Moody's said the ratings affirmation reflects Goldman Sachs's strengthened capital ratios, its continued resilient profitability, aided by strong cost discipline, and an expected gradual reduction in the firm's reliance on wholesale funding as it continues to grow its deposit business.

As explained in the Treasury Management Strategy Statement (TMSS), investment decisions are made by reference to the lowest published long term credit rating from Fitch, Moody's or Standard & Poor's ratings agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

2. Treasury Management Summary

The treasury management position as at 31st March 2019 and the change over the period is shown in table 1 below.

Table 1: Treasury Management Summary as at 31st March 2019

	31.3.18		31.03.19	31.03.19
	Balance	Movement	Balance	Average Rate
	£m	£m	£m	%
Long-term borrowing	210.234	-	210.234	3.60
Short-term borrowing	30.252	(29.901)	0.351	0.38
Total borrowing	240.486	(29.901)	210.585	3.59
Long-term investments	33.000	5.000	38.000	1.61
Short-term investments	150.850	(16.750)	134.100	0.95
Cash and cash equivalents	44.739	(30.249)	14.490	0.77
Total investments	228.589	(41.999)	186.590	1.07
Net borrowing	11.897	12.098	23.995	2.52

3. Borrowing Strategy

3.1 The 31st March 2019 borrowing position is shown in table 2 below.

Table 2: Borrowing Position

	Balance at 01/04/18	Raised	Repaid	Balance at 31/03/19	Average Rate
	£m	£m	£m	£m	%
Loans					
PWLB	203.234	-	-	203.234	3.60
Bank (LOBO)	7.000	-	-	7.000	3.60
Local Authorities and Other (Short Term Borrowing)	30.252	0.100	(30.000)	.352	0.38
Total Loans	240.486	0.100	(30.000)	210.586	3.59

As illustrated in Tables 1 & 2 above long term investments have remained below £200m generating a lower return in comparison to the average cost of long term borrowing. It has been cost effective to use internal resources to fund unfinanced capital expenditure incurred in 2018/19.

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 financial year is shown in Table 3 below.

4.2 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

	31.3.18 Balance	Movement	31.03.19 Balance	Average Rate %
Investments				
Banks & Building Societies (Fixed Unsecured)	49.000	(14.900)	34.100	0.99
Banks & Building Societies (Call & Notice Accounts Unsecured)	23.202	1.798	25.000	0.93
Banks & Building Societies (Fixed Secured)	8.800	(7.800)	1.000	1.22
Government (incl. Local Authorities)	131.850	(22.850)	109.000	1.09
Money Market Funds	12.737	1.753	14.490	0.77
Corporate Bonds and Loans	3.000	-	3.000	4.00

4.3 At 31 March 2019, the Authority’s risk adjusted return was higher than the average for 14 London Boroughs in the LINK benchmarking club. The Authority’s average return on investments was 0.92% compared to an average return of 0.90% on internally managed investments within the Link benchmarking club.

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

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: Treasury Investment Performance during the year 2018-19

	Benchmark Return 3 month LIBOR (Average Quarterly Rate) %	Budgeted Rate of Return %	Budgeted Interest (Full Year) £m	Weighted Actual Rate of Return %	Actual Interest to end of Quarter £m
Quarter 1	0.68	0.60	1.500	0.81	0.449
Quarter 2	0.78	0.60	1.500	0.88	0.495
Quarter 3	0.80	0.60	1.500	0.98	0.548
Quarter 4	0.80	0.60	1.500	1.00	0.540
Total			1.500	0.92	2.032

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 Interest rate forecasts expected only gradual rises in medium and longer term borrowing rates during 2018/19, and the two subsequent financial years. Variable or short-term rates were expected to be the cheaper form of borrowing over the period.

6.3 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 B** 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

None

Appendix A

Table 1 breakdown of Deposits at 31st March 2019

Institution Type	31st March 2019 Actual £m	31st December 2018 Actual £m
UK Banks		
Goldman Sachs INT"L Bank	5.000	15.000
Lloyds Bank PLC	15.000	10.000
Close Brothers Ltd		5.000
National Westminster Bank Plc		.100
Santander UK PLC	20.000	20.000
Santander UK PLC (Covered Bond)	1.001	1.001
Local Authorities & Other Public Sector		
London Borough of Haringey	4.000	4.000
London Borough of Croydon	5.000	5.000
Slough Borough Council	5.000	5.000
Dorset County Council		5.000
Dundee City Council	5.000	5.000
Telford and Wrekin Borough Council	5.000	5.000
Gateshead Metropolitan Borough Council	5.000	5.000
Highland Council Inverness	5.000	5.000
Lancashire County Council	5.000	5.000
Lincoln City Council		1.750
London Borough of Islington	5.000	5.000
London Borough of Barnet	5.000	5.000
Newcastle Upon Tyne City Council	10.000	15.000
Woking Borough Council	5.000	5.000
Northumberland County Council	10.000	10.000
Plymouth City Council	10.000	10.000
Powys County Council	5.000	5.000
Cambridgeshire County Council	5.000	5.000
Mid Suffolk District Council	5.000	5.000
Eastleigh Borough Council	10.000	10.000
Non UK Banks		
Australia		
Australia & New Zealand Banking Group	5.000	5.000
Netherlands		
Rabobank Nederland	5.000	5.000
Singapore		
Development Bank Singapore	5.000	10.000
United Overseas Bank	4.100	4.100
Money Market Funds		
BNP Paribas Insticash Sterling MMF		7.600
Federated Prime Rate Sterling Liquidity 3	5.500	1.900
Insight Liquidity Sterling C3	8.990	
Unrated Corporate Bonds		
Rockfire Capital Ltd	3.000	3.000
TOTAL INVESTMENTS	186.590	208.451

Appendix B

Compliance Report

All treasury management activities undertaken during the financial year 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

	2018/19 Limit %	2018/19 Actual %	2019/20 Limit %	2020/21 Limit %
Upper limit on fixed interest rate exposure	100	96.60	100	100
Upper limit on variable interest rate exposure	25	3.40	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	0
12 months and within 24 months	60	0	3.86
24 months and within 5 years	80	0	0
5 years and within 10 years	100	0	34.75
10 years and above	100	0	61.39

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 2018/19 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

	2018/19 Limit £m	2018/19 Actual £m	2019/20 Limit £m
Limit on principal invested beyond year end	75	38	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 at 31/03/2019

	Target £m	Actual £m
Total cash available by the next working day	5.000	14.490
Total cash available within 3 months	30.000	67.800

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

	31.03.19 Actual	2018/19 Target
Portfolio average credit rating	A+	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 at 31st March 2019

	31.03.19 Actual £m	31.03.20 Estimate £m	31.03.21 Estimate £m	31.03.22 Estimate £m
Long-term External Debt	210.234	210.234	210.234	256.234
General Fund	67.797	104.693	130.435	138.063
Housing HRA	174.669	212.660	254.784	284.808
Regeneration Prog.	30.877	122.537	173.897	212.414
TOTAL CFR	273.343	439.890	559.116	635.285
Internal Borrowing	63.109	229.656	348.882	379.051

1.6.2 Total debt is expected to remain below the CFR. Actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt as 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. These limits may be reviewed as part of mid-year TMSS report in the event of a change in the interest rate outlook and the decision is made to fund the increase in CFR from external debt.

Table 7: Operational Boundary

Operational Boundary	2018/19 £m	31.03.19 Actual	2019/20 £m	2020/21 £m
Borrowing	385.000	210.234	423.000	436.000
Other long-term liabilities	10.000	0.000	10.000	10.000
Total	395.000	210.234	433.000	446.000

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 borrow. The authorised limit provides headroom over and above the operational boundary for unusual cash movements

Table 8: Authorised limit for external debt

Authorised Limit	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	414.000	472.000	487.000
Other long-term liabilities	10.000	10.000	10.000
Total Debt	424.000	482.000	497.000
Long Term Debt	210.234	210.234	210.234
Headroom	213.766	271.766	286.766

IMPLICATIONS

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. The Treasury Management Annual Report is a requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. Local Authorities are required by regulation to have regard to both codes when carrying out their duties in England and Wales under Part 1 of Paragraph 1 of this report confirms that this report has been produced in accordance with both codes.

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



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.

AUDIT COMMITTEE

Subject Heading:

Annual Statement of Accounts 2018/19 & External Audit Report to those charged with Governance

SLT Lead:

Jane West

Report Author and contact details:

Contact: Radwan Ahmed
Designation: Head of Finance –Financial Control & Corporate Business Systems
Telephone: 0203 373 0934
E-mail address:
Radwan.Ahmed@oneSource.co.uk

Policy context:

Audit Committee responsible for approving accounts.

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
Places making Havering
Opportunities making Havering
Connections making Havering

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 31st July 2019. At this stage our auditors, Ernst and Young, expect to issue an unqualified opinion on the Statement of Accounts.

RECOMMENDATIONS

The Committee is asked to:

- a) Consider the contents of this report and the Statement of Accounts (Appendix A) , alongside the "External Audit Report to those charged with Governance" (Appendix B) and any verbal updates by the External Auditor under that agenda item, following their examination of the Council's accounts.
- b) Note that the audited accounts must be published by 31st July 2019.
- c) Note the amendments to the accounts arising from the audit of the accounts set out at section 1 of the Report.
- d) Approve the Statement of Accounts for the financial year ended 31st March 2019, having regard for the auditor's Report.
- e) Agree that the Chair of the Committee, in consultation with the Chief Operating Officer and Statutory Chief Finance Officer be delegated to approve any subsequent amendments to the Statement of Accounts that may be necessary as a result of audit completion procedures.
- f) To sign the Letter of Representation (Appendix C).

REPORT DETAIL

1. Statement of Accounts 2018/19

The Accounts and Audit Regulations 2015 require that the authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively (previously this was 30th June and 30th September). Although, this is the second year of the new statutory deadline, this change has had a significant impact on both Havering and our auditors to ensure the accounts are completed within the required timescales.

Our auditors, Ernst and Young, have almost completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings will be circulated prior to audit committee.

The latest draft of the Statement of Accounts and Annual Audit report will be provided prior to the audit committee however there are only a few minor changes from the draft that had been circulated in June. These changes are currently being agreed with the auditors as a result of their work. The two main changes relate to:

- a presentational adjustment within the Financial Instrument disclosure (note 18) to include accrued interest within short term investment table
- a technical accounting adjustment of the Council's pension liability to incorporate recent legal developments. This has resulted in an increase in the liability by £8.2m, but has no impact on the council's general reserves.

Following approval of the recommendations by this Committee, the accounts and Letters of Representation must be signed by the Chair of the Committee and the Chief Financial Officer.

2. Accounting Policies

The Audit Committee meeting of 30th January 2019 noted the accounting policies to be applied to the financial year 2018/19, and these are reflected in the draft Statement of Accounts. The accounting arrangement around the group has been applied to consolidate Mercury Land Holdings within Havering's accounts, as in 2017/18. The joint venture arrangements has been disclosed within the accounts, however, the balances have been negligible to warrant full incorporation.

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 Council's financial position.

Legal implications and risks:

The Audit Committee is the decision making body in relation to the approval of the Annual Statement of Accounts which is one of the miscellaneous functions not to be the responsibility of the Executive.

There are no apparent legal implications in adopting the recommendations set out in this Report.

Human Resources implications and risks:

N/A

Equalities implications and risks:

N/A

Appendix A

London Borough of Havering

Statement of accounts for the financial year 2018/19

To Follow

Appendix B

Report to the Audit Committee of the authority on the audit of the statement of accounts and pension fund accounts for the year ended 31 March 2019 (ISA (UK&I) 260)

To Follow

Appendix C

London Borough of Havering – Letter of Representation

Havering Pension Fund– Letter of Representation

To Follow

AUDIT COMMITTEE

Subject Heading:	Assurance End of Year Report 2018/19 incorporating Head of Assurance Opinion
SLT Lead:	Jane West, Chief Operating Officer
Report Author and contact details:	Jeremy Welburn, Head of Assurance Tel: 01708 432610 / 07976539248 Email: jeremy.welburn@onesource.co.uk
Policy context:	To present a summary of the outcomes of Internal Audit and Counter Fraud work completed during 2018/19 and the Head of Assurance's annual opinion.
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 brings together all aspects of audit, assurance and counter fraud work undertaken in the 2018/19 financial year, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority. The report includes the Head of Assurance opinion on the internal control environment for 2018/19.

RECOMMENDATIONS

Members are asked to consider the Assurance End of Year Report 2018/19 incorporating Head of Assurance Opinion and to make any appropriate recommendations.

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 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, which 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.

1.5 This report summarises the outcomes of audit and counter fraud work undertaken during 2018/19 in support of the Audit Committee's role.

1.6 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.

Appendix 1: Assurance End of Year Report 2018/19 incorporating Head of Assurance Opinion. This report is presented in the following sections:

Section 1: Head of Assurance Annual Opinion
Section 2: Outturn of 2018/19 Internal Audit Plan
Section 3: Audit Recommendations Update
Section 4: High Risk Recommendations Detail
Section 5: Schools Programme
Section 6: Limited Assurance Report Summary
Section 7: Counter Fraud
Section 8: Risk Management Arrangements
Section 9: Governance Arrangements
Section 10: Audit Committee
Section 11: Audit Work Undertaken during 2018/19

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications or risks arising directly from this report which is for information only.

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:

Regulation 6 of the Accounts and Audit Regulations 2015 requires the Authority to conduct a review of the effectiveness of the system of internal control which must be considered by the relevant committee or by full Council. This report seeks to comply with that statutory obligation and there are no apparent risks in noting the Report.

Human Resources implications and risks:

The recommendations made in this report do not give rise to any identifiable HR risks or implications that would affect either the Council or its workforce.

Equalities implications and risks:

None arising directly from this report.

Assurance End of Year Report 2018/19 incorporating Head of Assurance Opinion

1 Head of Assurance Annual Opinion

- 1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit (Head of Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This is achieved through an audit plan that has been focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Assurance opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.
- 1.2 In line with best practice, Internal Audit prepares, in consultation with senior management, an annual risk based strategic plan. The audit plan is, if necessary, amended during the year to reflect changes within the Council’s risk profile.
- 1.3 From the work undertaken during the 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 2017/18. In giving an opinion the system of internal control can provide only reasonable, and not absolute, assurance.
- 1.4 The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan, that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management’s progress in respect of addressing control weaknesses.
- 1.5 The table below provides a summary of Audit Opinions issued in 2018/2019. It should be noted that some of the work undertaken by Internal Audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Category	Substantial	Moderate	Limited	No Opinion
Shared Service Audits	2	0	0	1
LBH Systems Audits	4	5	1	6
LBH Schools Audits	3	6	1	0
Total	9	11	2	7

1.6 The table below provides the definitions of the assurance levels provided by internal audit:

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, weaknesses were identified and therefore there is a need 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.

1.7 There can be some qualifications to the opinion where audit works results in a limited assurance. One LBH audit was given a Limited Assurance audit opinion during 2018/19. A detailed summary of the Direct Payments report is provided in Section 6 of this report.

2 Outturn of 2018/2019 Internal Audit Plan

- 2.1 The Annual Audit Plan, approved by the Audit Committee in February 2018, comprised 47 audit reviews. Members will be aware that the plan is subject to revision and amendment at any time should higher priority risks or tasks be identified. Adjustments have been made since the plan was approved (see table below) and the current number of audit reviews is 34.
- 2.2 Members are reminded that the 2018/2019 Audit Plan was presented as a flexible plan to allow for changes in the risk and operational environment in which the Council operates. As such, the plan included a list of high and medium risk audit areas, covering the range of Council activities which, in conjunction with management, had been assessed as requiring assurance during 2018/2019. The number of audits on the list totalled 895 audit days, which exceeded the available resources by around 100 days. This overstatement was deliberate and the list of audits has been refined throughout the year during discussions with senior management. The Audit Committee has been informed of all changes to the plan at the regular progress updates during the year.
- 2.3 The table below shows delivery of the 2018/19 audit plan (excluding School Health Checks), with further detail provided in Section 11.

Audit Plan Status	Number of Audits / Tasks
Approved Audit Plan 2018/19	47
2017/18 Audit tasks brought forward to 2018/19	1
Audit tasks added to the Plan	7
Audit tasks cancelled	(9)
Audit tasks deferred to 2019/20	(12)
Total	34
Final reports issued / completed	30
For completion in 2019/20	4
Audits completed	34

- 2.4 The table below details the results of the final reports issued since the last progress report.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Reablement	Moderate	0	4	0	4
Direct Payments	Limited	0	10	0	12
GDPR	Moderate	3	3	0	6
PMO/Project Management Arrangements	No Opinion	N/A	N/A	N/A	N/A
Replacement for SWIFT	No Opinion	N/A	N/A	N/A	N/A
System Audits Totals		3	17	0	22
School Audits					
James Oglethorpe	Substantia	0	4	0	4
Scotts Primary	Substantia	1	2	0	3
School Audits Totals		1	6	0	7
Totals		4	23	0	29

3 Audit Recommendations Update

- 3.1 Internal Audit follows up all 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.
- 3.2 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 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:	Advisories - Pertaining to best practice.

- 3.4 The status of all recommendations raised during 2018/19 is outlined within the table below.

Systems Audits				
Number of Recommendations	High	Med	Low	Total
Recommendations raised since the last progress report	3	17	0	22
Total Recommendations Raised during 2018/19	5	44	3	54

School Audits				
Number of Recommendations	High	Med	Low	Total
Raised in quarter four and not yet due for implementation	0	3	0	3
Total Recommendations Raised during 2018/19	11	45	23	79

- 3.5 Of the five high risk recommendations raised for systems audits during 2018/19, three are not yet implemented since they related to the GDPR audit that has only recently been issued as final. Detail of these recommendations and their proposed implementation dates is detailed in Section 4. All high risk recommendations raised during 2018/19 for schools audits have been implemented.

4 High Risk Recommendations Detail - GDPR

Recommendation	Original Management Response
<p>Management should review all contracts to identify high and low risk processor relationships, as well as those who they may share joint controller status with. Management should also evidence any plans or schedules to complete the task of issuing updated contracts and logging all outcomes. The list of requirements that should be included in the third-party vendor agreements can be found within Article 38.</p>	<p>All contracts and agreements issued are compliant with GDPR. Processors and contractors were contacted before the start of GDPR in May 2018 about requirements. The advice from the ICO was that contracts / agreements should be reviewed over a period of time because of the scale of work required. Contracts are therefore updated and new agreements implemented when the contracts are reviewed. We will continue to review this process and develop systems to speed up the review of contracts and data processing agreements.</p>
<p>Implementation Date: December 2019</p>	

Recommendation	Original Management Response
<p>It is recommended that management establish an appropriate plan i.e. assigning sufficient staff to complex cases, to address the delay in responses to data subject requests, including access (SARs) as well as future requests, to ensure a rating in the 90%+ bracket.</p> <p>Management should also evidence where an extension has been sought outside of the one month allowance. This can be done by enhancing the individual rights logs (statistics) which should also highlight cases where the 2 months allowance was surpassed.</p>	<p>The one month period may be extended by two further months where necessary under GDPR, taking into account the complexity and number of the requests. We inform the requester of any extension within one month of the request, as well as the reasons for the delay. Responses will continue to be monitored.</p>
<p>Implementation Date: September 2019</p>	

Recommendation	Original Management Response
<p>oneSource should revisit their 'All Asset' and 'All Flows' registers to ensure missing information is included and instances of wrongly applied lawful basis for processing are rectified. Additionally, those reviewing the Asset register should be fully aware of the six legal basis of the GDPR and which should apply in each processing activity type.</p>	<p>Corrected the instances of wrongly applied lawful basis for processing personal data. Started the review of processes that has missing information.</p>
<p>Implementation Date: August 2019</p>	

5 Schools Programme

- 5.1 There are currently 44 borough maintained schools within Havering with 32 schools having received a triennial audit between the financial years 2016/17 – 2018/19. The remaining twelve maintained schools were assessed on the assurance given at their last triennial audit and considered to be low risk; therefore a triennial audit was not delivered as part of the three year rolling programme. These schools have received at least one health check since their last triennial visit, and seven are scheduled to be reviewed as part of the 2019/20 audit plan, with the remaining five schools receiving a health check.
- 5.2 In addition to assessing the implementation of recommendations raised following the previous audit, the Health Check also reviews the perceived high risk areas, including those common themes noted in paragraph 5.4 below.
- 5.3 Assurance opinions are given for each school report. Of the 11 schools receiving a triennial audit in 2018/19, three received Substantial Assurance, six received Moderate Assurance and one limited assurance was given for two schools audited jointly, as part of a federation.
- 5.4 Recommendations raised during the 2018/19 audits produced some common themes found across multiple schools:
- Self-Employment: Schools need to ensure they are completing the relevant IR35 HMRC checks prior to employing self-employed individuals, to ensure compliance with HMRC regulations;
 - Payroll: Payroll details of the person checking the monthly payroll report should be subject to independent verification, to mitigate the risk of fraud; and
 - Charging Policy: the threshold above which refunds will be given needs to be decided and added to the Policy.
- 5.5 During 2018/19 the service delivered 19 Health Checks, one being to an out of borough school, generating total revenue in year of £16,625.
- 5.6 The Schools Financial Value Standard (SFVS) is designed to assist schools in managing their finances and to give assurance that they have secure financial management in place. As Governing bodies have formal responsibility for the financial management of their schools, the standard is aimed primarily at governors. The SFVS returns are used to inform the risk based internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

6 Limited Assurance Report Summary – Direct Payments

- 6.1 The Direct Payments audit was carried out as part of the annual Internal Audit Plan for 2018/19, agreed by the Audit Committee, in line with the respective terms of reference.
- 6.2 The overall audit opinion on the system reviewed provides **Limited Assurance** that risks material to the achievement of the system's objectives are being adequately managed. This means that 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.
- 6.3 This audit makes ten medium priority recommendations that aim to mitigate the risks identified. These are outlined with the relevant findings below. All recommendations have been accepted by management and an appropriate timescale for implementation agreed.

Finding	
<p>Data provided during the audit showed that of 308 referrals received by the Financial Business Intelligence (FBI) Team between April and October 2018, 50% contained inaccuracies and / or omitted information. Furthermore, 103 referrals received during this period contained an incorrect budget figure.</p> <p>Errors are being logged and reported at the Business Unit Management Performance (BUMP) meetings within the Joint Commissioning Unit. A more effective control would be to report the errors to an equivalent meeting within Adults Social Care that would enable action to be taken to address issues at the source.</p>	
Recommendations	
R1	Action should be taken to address the errors in calculating budgets before submission to the Financial Business Intelligence Team; to reduce the time spent rectifying errors and potential delays in paying the direct payment.
R2	Poor performance and error rates monitoring should be reported to the monthly Adult Social Care Performance meeting. Action should be taken to address the issues being reported by the FBI Team, to reduce the percentage of support plans / referrals received that contain errors.

Finding

There is currently no target timescales for setting up a direct payment however; there is a target of 35 days for completing the financial assessment.

A sample of 24 cases was selected for review, which found:

- In 18 cases there was a delay ranging from one month up to four months before the financial assessment was completed;
- In three cases the assessment had not been completed at the time of the review (the contract was signed by the service user four months earlier).
- In one case, the direct payment began in March 2017 and ceased in September 2018. A total of £15k was paid during this time; however, no assessment to determine the financial status of the service user was carried out.

Further discussions established that the financial assessment cannot be completed until the service provision is added to the system, which is completed by the Direct Payments Team once the contract has been signed by the service user.

The findings show that the 35-day target for the financial assessment is not being met. These findings highlight a risk that direct payments are paid to individuals who are not entitled to financial support and that avoidable administrative costs are being incurred.

Recommendations

R3	Expected timescales for the setting up of a direct payment should be established and incorporated into the JCU Corporate Pack as part of the key performance indicator monitoring. This timescale should align with the financial assessment target.
R4	The current arrangements for completing the financial assessment after the direct payment has been set up should be reviewed to reduce the risk of financial loss from both the administrative cost of setting up, and payment of a direct payment to service users not entitled to financial support.

Finding	
<p>The Direct Payments team are responsible for ensuring that direct payment funds are being used appropriately, not only in relation to permitted spend outlined in the Direct Payment policy, but that funds are being used in a way that meets the needs of the service user.</p> <p>Making a decision as to whether spend is appropriate is reliant on the level of detail contained within the support plan. Where a direct payment is being paid for a personal assistant, the appropriateness of spend is easy to determine. However payments for Social Inclusion means that the funds could be used in a multitude of ways, which hinders the teams ability to make an informed decision where the support plan is not prescriptive.</p> <p>In these instances, the team is reliant on the support and advice of Social Care to determine whether spend, particularly in relation to Social Inclusion is appropriate. Discussions during the review established that there is no collaborative working relationship between the Direct Payments Team and Social Care for addressing issues in this area and as a result, appropriate action is not always taken to address perceived misuse of funds.</p>	
Recommendation	
R5	Support plans that include a direct payment for social inclusion should outline some of the expected activities for which this payment can be used, to provide a guide to the Direct Payments Teams, allowing an informed decision to be made as to the appropriateness of spend.
R6	A formal process should be established to enable the Direct Payments Team to liaise with Social Care for clarification when the use of a direct payment, which may be a permitted use of funds, does not appear to be an appropriate use of funds in regards to the service users needs set out in the support plan.
R7	The Team should explore the use of existing software such as Power BI / IDEA to support and increase the efficiency of the various checks being undertaken to ensure compliance with the policy.

Finding	
<p>The aim of direct payments is to give individuals responsibility for their own arrangements. Where service users opt to self manage their account, they accept a responsibility for meeting statutory obligations as an employer. Whilst liability primarily rests with the service user, it could be argued that the Council retains a duty of care to ensure that Direct Payment recipients are meeting these obligations.</p> <p>The Direct Payments Policy sets out that accounts will be audited quarterly. Audits are crucial for ensuring that accounts are being managed in line with the policy, however auditing the account is a resource intensive process, which requires information and supporting documents to be obtained from the service user. This review has established that full audits where the account is checked in its entirety, including all receipts, balances and checks as to whether the service user is meeting their statutory obligations as an employer, are not currently being carried out. Instead, smaller audits, based on information available on PFS are being completed whenever there is an existing reason to be reviewing the account.</p>	
Recommendation	
R8	The practicalities of meeting the frequency of audits set out within the Direct Payment policy should be reviewed.
R9	Reviews of accounts to ensure statutory obligations as an employer are being met should focus on those accounts being self-managed and those accounts managed by Payroll providers whose standard service does not cover all of the statutory obligations the service user is responsible for.
Finding	
<p>The Direct Payment policy sets out that the Council has the right to take action in the event that direct payments are not being spent / managed appropriately including referring the case to Internal Audit / Fraud. However the policy does not clarify which circumstances would lead to the various actions outlined, and due to the difficulties in determining when spend is appropriate the Councils right to take action is not consistently applied. Action is often to address an individual issue as it arises, such as recovery of inappropriate spend, however there is little evidence that ongoing abuse of accounts / suspicions of fraud are being appropriately escalated for further investigation.</p>	
Recommendation	
R10	<p>The Direct Payment Policy should be amended to specifically outline what action will be taken, by the Direct Payments Team, in the following circumstances:</p> <ul style="list-style-type: none"> • Use of fund in ways not permitted by the Policy; • Use of funds not permitted based on the service users needs / support plan; • Suspected fraudulent use of funds. <p>The policy should clearly set out when and how issues will be escalated; including any additional / high-level approval required prior to any action being taken.</p>

7 Counter Fraud

- 7.1 **Corporate Fraud** - The Council has a zero tolerance approach to fraud and the work of the Fraud Team supports this priority. The team offers both a criminal, proactive and reactive support service. The team have looked into 16 cases this financial year, including current investigations into allegations of purchase card and procurement fraud
- 7.2 **Housing Fraud** - The Council take a zero tolerance approach to tenancy fraud and have 40 open investigations. The team will investigate all allegations of tenancy fraud and take action where we have sufficient evidence that fraud has taken place. This action can include a criminal prosecution and/or a claim for possession of the property through civil courts; we will always look to make a claim for any legal costs occurred as well as any relevant compensation due.
- 7.3 The team check on average 20 RTB applications per month to ensure that the Council are not losing stock fraudulently. Referrals both internally and externally have decreased; to counter this we plan to carry out internal awareness sessions and external marketing campaigns.

8 Risk Management Arrangements

- 8.1 Members will be aware that the revised Risk Management Strategy was submitted to the Audit Committee at the April meeting. It is intended that a Risk Management update will be presented to the Audit Committee at the meeting to be held in October 2019.

9 Governance Arrangements

- 9.1 There is an established officer Governance and Assurance Board at LB Havering, which the Head of Assurance attends. The work of Internal Audit informs this group and issues brought to the group and identified in the Annual Governance Statement (AGS), inform the annual audit plan. Governance arrangements are routinely considered as part of all internal audit reviews.

10 Audit Committee

- 10.1 The Audit Committee has had a pivotal role in ensuring the risk management, governance and internal control environment is adequately robust.

11 Audit work undertaken during 2018/2019

Audit Title	Status	Opinions
LBH Systems Audits		
Children with Disabilities	Completed	Substantial
Financial Monitoring of CAD Placements	Completed	Substantial
SEN Transport	Completed	Substantial
Care Packages	Completed	Moderate
No Recourse to Public Funds (NRPF) Follow Up (Additional Task)	Completed	Moderate
Project and Programme Governance Follow Up (Additional Task)	Completed	Substantial
Disabled Facilities Grant – Capital Grant Determination 2017/18 (Additional Task)	Completed	N/A
Disabled Facilities Grant (Additional Task)	Completed	Moderate
IR35	Completed	N/A
Troubled Families (Additional Task)	Completed	N/A
Non Contracted Spend (Additional Task)	Completed	N/A
Reablement Services	Completed	Moderate
Direct Payments	Completed	Limited
PMO / Project Management Arrangements	Completed	N/A
Replacement for SWIFT	Completed	N/A
GDPR	Completed	Moderate
Shared Service Audits		
One Oracle Interfaces (2017/18)	Completed	Substantial
Financial Controls Phase 1 (forms part of the Key Financial Systems audit allocation)	Completed	N/A
Pension Fund Administration	Completed	Substantial
LBH Schools		
St Patrick's Catholic Primary	Completed	Moderate
Brady Primary	Completed	Moderate
Hylands Primary	Completed	Moderate
Nelmes Primary	Completed	Moderate
St Ursula's Catholic Primary	Completed	Moderate
The Learning Federation (Mead & Broadford)	Completed	Limited
R.J. Mitchell Primary	Completed	Moderate
Parsonage Farm Primary	Completed	Substantial
James Oglethorpe Primary	Completed	Substantial
Scotts Primary	Completed	Substantial
Health Checks (18)	18 Completed	Various

Appendix 1 - Audit Committee 25 July 2019

Audit Title	Status
LBH Systems Audits	
Payroll (Transactional Services)	For Completion in 2019/2020
Financial Controls Assurance Phase 2 (forms part of the Key Financial Systems audit allocation – Additional Task)	For Completion in 2019/2020
Procurement	For Completion in 2019/2020
Cloud Computing (forms part of the ICT audit allocation)	For Completion in 2019/2020
Economic Development Programme Review	Move to 2019/20 – delayed to allow time for framework to be implemented.
General Project Assurance Work	Move to 2019/20 – delayed to allow time for framework to be implemented.
Housing – Fixed term tenancy agreements	Move to 2019/20 – Service restructure
Corporate Health and Safety	Move to 2019/20 – Medium risk
Contract Management	Move to 2019/20 – Medium risk
Emergency Planning and Business Continuity	Move to 2019/20 – Service request
School Expansion Programme	Move to 2019/20 – Agreement with service
Social Care Transitions	Move to 2019/20 – Agreement with service
Right to Buy	Move to 2019/20 – Service restructure
Private Sector leasing – new payments system	Cancelled – Service request, system now implemented.
Homelessness/Housing – new system	Cancelled – Service request, system now implemented.
Joint Commissioning Unit	Cancelled – Subject to external service review
Housing and Planning Act 2016	Cancelled – Amended to low risk due to changes to the Act
Homelessness – Homelessness Reduction Act	Cancelled – Peer Review
Adoption and Permanency Prescription	Cancelled – External review covered planned scope
Shared Service Audits	
Pension Fund Governance	Move to 2019/20 – Service request due to changes in management
Treasury Management	Move to 2019/20– Service request due to changes in management
NNDR – Debt Recovery and Write Offs	Cancelled - Now forms part of the Financial Controls Assurance Work
LBH Schools	
Suttons Primary	Move to 2019/20 – Requested by school, rescheduled for early 19/20
Gaynes Language College	Cancelled – Converted to academy
Sanders Drapers	Cancelled - Converted to academy

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