



Havering

L O N D O N B O R O U G H

AUDIT COMMITTEE AGENDA

7.00 pm	Tuesday 28 November 2017	Committee Room 3A - Town Hall
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Members 6: Quorum 3

COUNCILLORS:

**Conservative
(2)**

Viddy Persaud
(Chairman)
Frederick Thompson

**Residents'
(1)**

Julie Wilkes (Vice-
Chair)

**East Havering
Residents'(1)**

Clarence Barrett

**UKIP
(1)**

David Johnson

**Independent
Residents'
(1)**

Graham Williamson

**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.

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 ANNUAL AUDIT LETTER (Pages 1 - 36)

5 MID YEAR 2017/18 TMSS REPORT (Pages 37 - 58)

6 ANNUAL GOVERNANCE STATEMENT 16/17 AMENDMENT (Pages 59 - 80)

7 ASSURANCE PROGRESS REPORT QTR 2 (Pages 81 - 96)

8 CLOSURE OF ACCOUNTS TIMETABLE (Pages 97 - 102)

9 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.

Andrew Beesley
Committee Administration
Manager

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AUDIT COMMITTEE

Subject Heading:	Annual Audit Letter
SLT Lead:	Debbie Middleton
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:	The audit letter highlights the area of work which was covered within the audit as well as their findings.

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

Our external auditors, Ernst & Young, have issued their annual audit letter to the Committee summarising the results of their 2016/17 audit.

RECOMMENDATIONS

The Committee is asked to note the contents of the letter and consider any issues raised by the external auditor.

REPORT DETAIL

1. The purpose of the letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from the auditors' work which they consider needing to be brought to the attention of the Council. The letter is included at appendix A.
2. The letter includes the following issues:
 - 2.1 Ernst & Young issued unqualified opinions on both the Council's Main accounts including the group position, and the Pension Fund financial statements. The Audit Results report was issued on 27 September 2017 and their certificate was issued on 30 October 2017 upon completion of their Whole of Government Accounts work.
 - 2.2 The auditors are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and considered this in issuing an unqualified opinion.
 - 2.3 The auditor recognises the increasingly challenging financial environment in which the Council is operating and Page 17 of their report identifies one significant risk in relation to *"the deployment of resources in a sustainable manner and working with partners and other third parties"*. In their assessment, they reiterated the need for the Council to deliver on its agreed savings plans in order to keep the Medium Term Financial Plan on track. As part of the audit report, Page 27 highlights the auditors observation of the authority's Medium Term Financial Strategy. These are summarised below.
 - The Council has set a balanced budget for 2017/18, but identifies a cumulative budget gap of £9.2 million in the period 2018/19 – 2019/20 (before allowing for the effect of any increases in Council Tax).
 - The Council's general fund expenditure was delivered in line with overall approved budget for 2016/17 as the overspend services was covered by the Council's corporate risk budget.

- The Council's 2017/18 budget includes the planned use of £1.8m of the corporate risk budget to support directorates in delivering their transitional plans to mitigate against demand led expenditure pressures.

2.4 Control themes and observations from the auditors are identified from page 20 of their letter:

Ref	Control Deficiency	Management response
CO1	There were a number of areas where the Council found it difficult to provide us with transaction listings for certain classes of debtor and creditor balances and income and expenditure transaction streams. This caused delays in the completion of our testing.	The auditors method of sampling balances during the audit differed from previous audits as a result it took time for the council to gather the required information. Once received, the information was sufficient and the auditors carried out the testing with no additional queries or errors found. Revised processes are being undertaken from both the auditors and the council. The auditors are revising the Client Assist schedule that details the information requirements for the audit and the council is placing new procedures in order to capture the required information throughout the year.
CO2	While the Council had issued a letter to its valuer setting out the relevant guidance to be followed in valuing assets, it had not formally recorded details of those assets subject to valuation, or how those assets were categorised: For example, by setting out how the asset was used, and whether or not it was to be treated as an investment property, held for sale, or surplus. This information was instead provided to the valuer through a series of meetings between the Council's property team and its valuer. Where formal instructions aren't issues to the valuer on an annual basis, there is a lack of a clear audit trail supporting valuation work and the risk of misunderstandings between the valuer and authority is increased.	The council engages Wilks, Head and Eve LLP to value its property assets. The auditors identified that insufficient documented instructions were given to the valuers. For 2017/18 a full list of assets to be valued has been sent to Wilks, Head and Eve to mitigate the risk of incorrect classification and our valuation bases.

Ref	Control Deficiency	Management response
CO3	The Council engaged a third party to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. We found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate, although our subsequent testing of this provision did not identified any further matters to bring to the attention of the Committee.	The Council commissioned Analyse Local (AL) to provide specialist advice in order to enable the Council to derive an accurate estimate of potential losses arising from business rates appeals. As this value has a direct impact on the amount of available resources, the Council felt that this data was more accurate than the base data provided by the Valuation Office Agency. We reviewed the information received from Analyse Local, and were satisfied with the submission. AL provide this service to approximately 150 local authorities across the country, and have advised us that no issues have been identified by any of these auditors. This was also the case for Havering, where no issue was identified in the calculation or data set. We therefore disagree that this is a control deficiency. However, the Council will undertake to document its review findings in future, to evidence that such due diligence takes place.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. There are no financial consequences arising from the outcome of the audit of accounts.

Legal Implications and risks:

There are no apparent legal implications in noting the content of the audit letter. The matters highlighted by the letter clearly identify areas of legal and financial risk but the management responses set out how these can be managed.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Report to those charged with governance 2016/17 - International Standard of Auditing – Report to Audit Committee, September 28th 2017

Appendix A

London Borough of Havering

Annual Audit Letter 2016/17

London Borough of Havering

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and 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 23 February 2017)" issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to the London Borough Of Havering (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council and Pension Fund's:	
▶ Financial statements	Unqualified - the financial statements gave a true and fair view of the financial position of the Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office on our review of the Council's Whole of Government Accounts return.	<p>Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The Council is above the specified audit threshold of £350 million.</p> <p>We identified a number of inconsistencies between the Council's return and its audited financial statements. Therefore we were unable to complete our review of the Council's return before the deadline of 29 September. The Council is currently working to resolve these inconsistencies, following which we will conclude our review.</p>

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 September 2017. We issued an updated version of this report on 29 September 2017, reflecting how we had resolved the matters noted as being outstanding in the initial report.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our certificate on 27 October 2017 closing the audit following the completion of our work on the Council's Whole of Government Accounts return. Our Pension Fund work was completed on 30 September.

Our review of the Council's housing benefit subsidy claim is currently in progress. We expect to complete this work in November 2017, in advance of the certification deadline of 30 November 2017. Once we have completed this work, we will issue a report to those charged with governance of the Council summarising the results of the work we have undertaken.

We would like to take this opportunity to thank the Council and Pension Fund staff for their assistance during the course of our work.

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

The background of the slide features a photograph of a grand, wide staircase made of light-colored stone steps. In the upper portion of the image, several large, fluted classical columns are visible, supporting a structure above. The lighting is warm, highlighting the texture of the stone.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 February 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements including the pension fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. The Council is above the specified audit threshold of £350 million. We identified a number of inconsistencies between the Council's return and its 2016/17 audited financial statements. We worked with the Council to resolve these differences and the WGA return was amended to be consistent with the audited financial statements. We submitted the audited return on 27 October 2017.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Group Statement of Accounts and Pension Fund Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 September 2017. We issued an unqualified audit report on the Council and Pension Fund Statements on 30 September 2017.

Our detailed findings on the audit of the Council and Group accounts and Pension Fund accounts were reported to the 28 September 2017 meeting of the Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that 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. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions. For local authorities the potential for the incorrect classification of revenue spend as capital is a particular	 We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested journals that met our criteria and agreed these to supporting documentation. The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial pension valuation and found no indication of management bias in this estimate. Our work on the property valuations focused on verifying and critically challenging the basis of valuation adopted by the valuer in relation to the Council's property, in particular for specialist assets which are valued on a depreciated replacement costs basis. We engaged our Internal specialists to review a sample of assets and gained sufficient assurance that the values reported in the financial statements were not materially misstated.

area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.	<p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>
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Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this 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 manipulating expenditure recognition.

For the Council, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

To address this risk we completed the following procedures:

- Tested material revenue and expenditure streams, including accounting estimates.
- Tested income and expenditure transactions around the period end to assess whether the recognition or deferral of this income and expenditure was appropriate.
- Tested capital expenditure on property, plant and equipment confirmed it met the relevant requirements to be capitalised.

As a result of the procedures we completed we were satisfied that the Council has recognised income and expenditure appropriately, and that the values disclosed in the Authority's financial statements are not materially misstated.

Other Key Findings	Conclusion
<p>Valuations - reliance on experts</p> <p>We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. These areas are both highly material balances in the Council's accounts which are based on estimates and professional judgement.</p> <p>In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their</p>	<p>Pensions: We have assessed and are satisfied with the competency and objectivity of the Council actuaries: Hymans Robertson LLP. Our own pension team and PwC (Consulting Actuary to the National Audit Office) have reviewed the work of the actuaries and conclude we can place reliance on them. We also challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>Property valuations: We are satisfied that the Council's valuers, Wilks Head & Eve, have the necessary qualifications and experience. We engaged our internal valuation specialist to review and critically challenge the basis and method of valuation adopted for a sample of assets, including particularly specialised assets which are valued on a depreciated</p>

qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area.

replacement costs basis which is a more judgemental valuation basis. We have concluded that there are elements of the Specialist's approach to valuation which are formulaic and are not consistent with UK valuation practice, given the characteristics of the properties being valued and considering the facts and circumstances at the valuation date. For the sample of properties we reviewed, we have however concluded that

- The valuation of the three assets fell within an acceptable range, albeit at the upper end of that range.
- The valuation of a Leisure Centre fell outside our acceptable range of £4.2million to £7.8 million. Taking the upper end of our valuation, we consider the Council's valuation of £8.9 million overstates the value of this asset by £1.1 million. We recorded this as an unadjusted judgemental error which was not material.

We considered the potential impact of these issues on the remainder of the Council's property, plant and equipment balance and have concluded that the overall valuation estimate is not unreasonable.

Group Accounts

The Council set up a wholly owned subsidiary company, Mercury Land Holdings, in October 2015. The Council prepared group accounts for the first time in 2016/17 in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). We considered there to be an increased risk that the financial statements did not meet the group accounting requirements defined by the Code as a result of these changes.

We reviewed and tested:

- The Council's assessment of all potential group entities against accounting standards IFRS10 and 11.
- The accounting policies adopted by the Council to ensure they were correctly applied and complied with the requirements of the Code.
- The consolidations of the companies' accounts have been undertaken correctly into the group accounts.
- All appropriate disclosures.

As a result of the procedures we performed we were satisfied that the Council's group accounts were compiled in accordance with the Code requirements and were materially accurate.

Presentation of expenditure and funding analysis statement and restatement of the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves

As a result of these changes, the service analysis in the accounts is now based on the organisational structure under which the Authority operates and shows the Authority's segmental analysis.

As part of our audit we:

Statement (MiRS)

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented. These changes impact the CIES and MiRS, and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

- Reviewed the Expenditure and Funding Analysis, CIES, MiRS and new notes to ensure disclosures are in line with the Code.
- Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported.
- Agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers.

We were satisfied that the accounts have been complied in line with the new Code requirements and the figures are materially accurate.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined materiality to be £11.2 million (2016: £11 million), which is 2% of gross expenditure reported in the financial statements.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.563 million (2016: £0.552 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified were:

- Remuneration disclosures including any severance payments, exit packages and termination benefits;
- Related party transactions; and

➤ Members' allowances.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



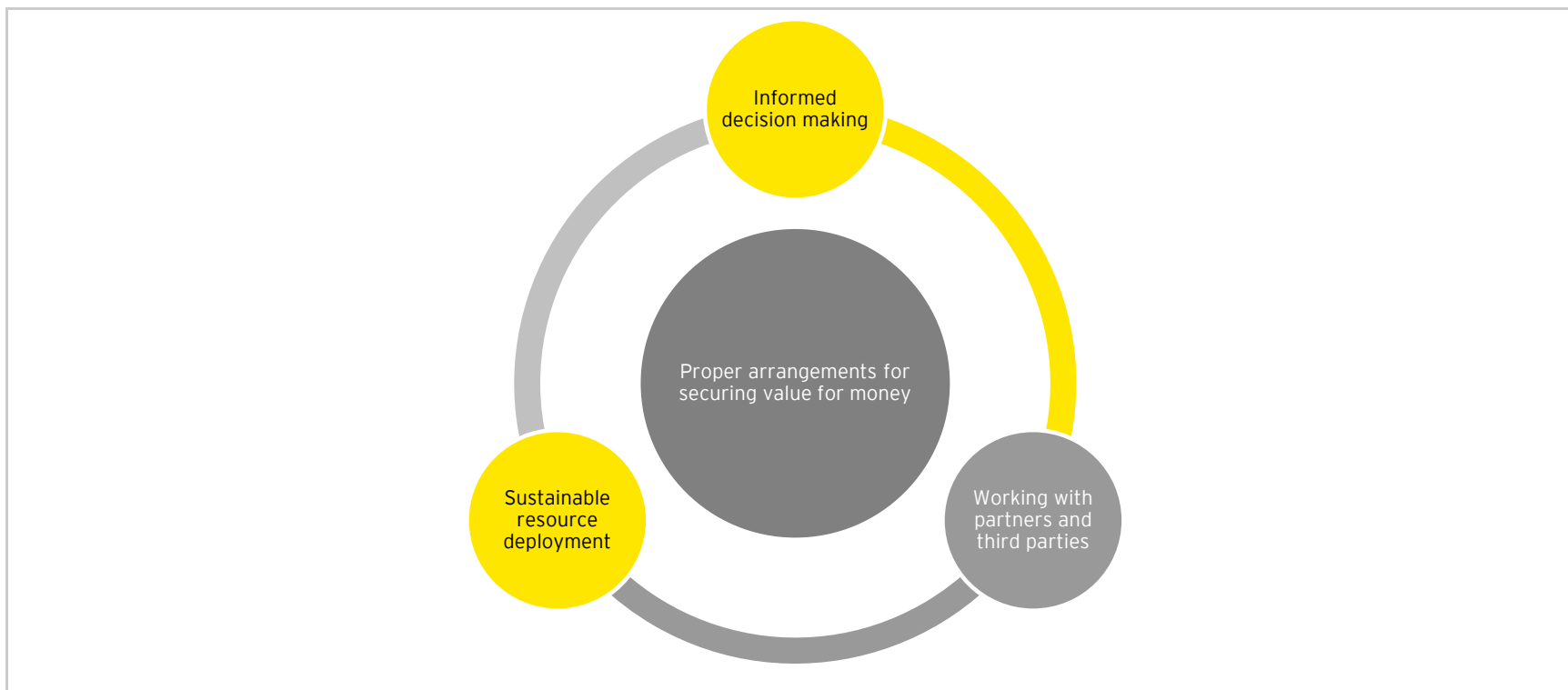
Value for Money

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. This is known as our value for money conclusion.

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.



We identified one significant risk in relation to these arrangements, in relation to the deployment of resources in a sustainable manner and working with partners and other third parties. The table below presents the findings of our work in response to the risk identified.

We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 30 September 2017.

Significant Risk	Conclusion
<p>The impact of continuing reductions in funding from central government, together with significant cost pressures in areas such as Adult and Children's services, is particularly challenging for the Council. With restrictions on annual council tax increases, the Council's medium-term financial strategy identifies the need to identify and deliver significant savings from 2017/18 and future years.</p> <p>Sustainability and Transformation Plans (STPs) give councils and local NHS organisations the opportunity to work together to improve the way health and social care is designed and delivered. The North East London STP brings together the challenges and opportunities that face NHS and care services in North East London as they work together to improve health and wellbeing within the funds available.</p> <p>While the Council has a history of being well managed and aware of issues impacting the Borough area as a whole, we considered there was a significant risk in relation to the Council's ability to deal with the challenging health and social care environment and deliver the savings required.</p>	<p>We have performed the procedures outlined in our Audit Plan. We considered the following areas and made the following observations.</p> <p>Financial management: We reviewed the Council's Medium Term Financial Plan and the assumptions within it, as well as outturn against the 2016/17 budget. The Council's general fund expenditure was delivered in line with overall approved budget for 2016/17. Within this overall position however, the Council reported an overspend of £4.47 million on services which was offset by an underspend on corporate and contingency budgets. The Council has set a balanced budget for 2017/18, but identifies a cumulative budget gap of £9.2 million in the period 2018/19 to 2019/20 (before allowing for the effect of any increases in council tax). The 2017/18 budget includes the planned use of £1.8 million of the corporate risk budget, which is part of the base budget, to support directorates in delivering their transitional plans to mitigate against demand led expenditure pressures. The Council will need to ensure delivery of its agreed savings plans during 2017/18 in order to keep its Medium Term Financial Plan on track.</p> <p>Level of reserves: We assessed the level of reserves that the Council has at 31 March 2017. The level of general fund reserves held by the Council at 31 March 2017 is £11.8 million. This is above the minimum level of £10 million recommended by the Council's Section 151 officer. We have therefore concluded that the Council has an adequate level of reserves.</p> <p>Partnership working: We considered the Council's decision making processes and partnership working. The Council has appropriate governance performance and risk management processes in place in relation to its main partnerships. There is evidence of the Council working effectively with partners in key areas, for example OneSource in the provision of back office services, and STP partners in relation to health and social care. The Council's Corporate Plan includes a clear vision for the future.</p>

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The Council is above the specified audit threshold of £350 million.

We identified a number of inconsistencies between the Council's return and its audited financial statements. Therefore we were unable to complete our review of the Council's return before the deadline of 29 September. We worked with the Council to resolve these inconsistencies and concluded our review and submitted the audited return on 27 October 2017.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any significant matters.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 28 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of your internal control we are required to communicate to you significant deficiencies in internal control. We brought the following matters to the attention of the Audit Committee

- There were a number of areas where the Council found it difficult to provide us with transaction listings for certain classes of debtor and creditor balances and income and expenditure transaction streams. This caused delays in the completion of our testing.
- While the Council had issued a letter to its valuer setting out the relevant guidance to be followed in valuing assets, it had not formally recorded details of those assets subject to valuation, or how those assets were categorised: For example, by setting out how the asset was used, and whether or not it was to be treated as an investment property, held for sale, or surplus. This information was instead provided to the valuer through a series of meetings between the Council's property team and its valuer. Where formal instructions aren't issues to the valuer on an annual basis, there is a lack of a clear audit trail supporting valuation work and the risk of misunderstandings between the valuer and authority is increased.
- The Council engaged a third party to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. We found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate, although our subsequent testing of this provision did not identified any further matters to bring to the attention of the Committee.

We have discussed the above issues with Council management and the finance team and will continue to work with them to ensure these issues are addressed for 2017/18.

A close-up, shallow depth-of-field photograph of a person's face as they look through a pair of black binoculars. The person's eyes are visible through the eyepieces, and their hands are holding the binoculars. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Focused on your future'.

Focused on your
future

Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From next 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 audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▸ Issued a thought piece on early closedown ▸ As part of our strategic Alliance with CIPFA, jointly presented accounts closedown workshops across England, Scotland and Wales ▸ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> ▸ Early discussion with the Council as to how we obtain transaction listings for key balances and transaction streams ▸ Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations ▸ Streamlining processes for responding to questions arising from the testing we undertake.
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▸ How financial assets are classified and measured 	Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority and Group will have to:

Area	Issue	Impact
	<ul style="list-style-type: none"> ▸ How the impairment of financial assets are calculated ▸ The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<ul style="list-style-type: none"> ▸ Reclassify existing financial instrument assets ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items <p>The Authority and Group is awaiting clarification of the exact requirements before investing time in the above work.</p>
IFRS 16 Leases	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, the new standard will have a significant impact for local authorities who lease in a large number of assets, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority and Group will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority and Group is has yet to commence work in this area due to the timing of implementation.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

We set out below a summary of our fees for the year ended 31 March 2017.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - Code work	To be confirmed	£151,844	£151,844	£151,844
Total Audit Fee - Certification of claims and returns	To be confirmed	£16,178	£16,178	£15,080
Total Audit Fee - Pension Fund	£21,000	£21,000	£21,000	£21,000

We are proposing an additional fee for the 2017/18 audit in relation to the following areas where additional audit time was required in relation to the audit of the Council's financial statements:

- procedures required to gain assurance over the material accuracy of property, plant and equipment valuations.
- work required to gain assurance on the balances and transactions relating to Mercury Land Holdings, the Council's wholly owned subsidiary company, which were consolidated into Group accounts for the first time in 2016/17.
- resolving issues identified on the Council's whole of government accounts return and agreeing changes to the return to reflect the Council's financial statements.
- Impact of delays in receiving responses to some audit queries.

We are currently confirming the value of the additional fee and will discuss and agree this with management before reporting to the Audit Committee. The scale fee variations are subject to Public Sector Audit Appointments Ltd (PSAA) approval.

We are currently completing our certification of the Council's housing subsidy claim and will confirm our final fee for this work in our certification report, which we expect to issue in January 2018.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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AUDIT COMMITTEE

28 NOVEMBER 2017

Subject Heading:

**TREASURY MANAGEMENT MID YEAR
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 2009 requires that
Council be provided with a mid-year
report on treasury activities.**

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 for 2017/18 was approved at a meeting of the Authority in February 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.

The key highlights of the Mid-Year report are as follows:

- 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 Q2 on comparable internally managed investments.
- No breach of the Authority's prudential indicators and treasury indicators.

RECOMMENDATIONS

- To note the treasury management activities for the half year detailed in the report
- To note the regulatory update on "Ring Fencing" set out in **section 1.2** of this report.
- To note 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 this report and the recent consultation by CIPFA on the Prudential and Treasury Management codes.
- To note 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**.
- To note 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**

1. External Context

1.1. Economic Backdrop

UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 EU referendum result continued to feed through into higher import prices. The new inflation measure CPIH (Consumer Prices Index including owner occupiers' housing costs) was at 2.7%.

Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England's (BoE) Monetary Policy Committee (MPC) made no change to monetary policy at its meetings in the first half of the financial year. The (MPC) sets monetary policy to meet the 2% inflation target, to help sustain growth and employment. At its meeting ending on 1 November 2017, the MPC voted by a majority of 7-2 to increase Bank Rate by 0.25 percentage points, to 0.5% the first upward move in 10 years. The BoE predict that the bank rate will start drifting up gradually going forward.

In the UK, some borrowers have started to pass through the rise in UK official interest rates into modestly upward revised rates for investors. This could present a modest increase in the investment income earned for the current financial year but not enough to warrant an increase in budgeted investment income.

Credit Background

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from **Aa1 to Aa2** which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

The ratings agency also:

- affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1,
- placed Lloyds Bank's A1 rating on review for upgrade,
- revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable,
- downgraded the long-term rating of Leeds BS from A2 to A3. The Authority had no exposure to Leeds BS at the end of Q2.
- downgraded long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment. The Authority's treasury advisers, Arlingclose remain comfortable with lending to these banks for a maximum period of six months.

The Authority had no exposure to Canadian banks at the end of Q2, and as per Arlingclose's advice the duration of lending to these banks has been reduced to a maximum of six months on the Authority's lending list.

- downgraded the ratings of the large Australian banks to Aa3 from Aa2 on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

The Authority had £10m exposure with an Australian bank (Australia and New Zealand Banking Group) at the end of Q2, with a rating of Aa3. The maturity profile is as below:

Date	Amount
18/12/2017	£5m
11/01/2018	£5m

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented by the end of 2019.

In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

1.2. Regulatory Updates

MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can “opt down” to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can “opt up” to be professional clients, providing that they meet certain criteria.

In order to “opt up” to professional, the Authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the Authority must have at least one year’s relevant professional experience. In addition, the firms must make an assessment that the person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

A decision to maintain “Retail” status is expected to limit the investment options available, compared to “Professional” status. It is also important to note that the option to “opt-up” is not a one off exercise. It will need to be undertaken with each and every counterparty / fund manager that a client may wish to transact. Without “Professional” status, the Authority will be unable to deliver its Treasury Management Strategy and as a consequence investment income assumed in the budget strategy.

The Authority meets the conditions to “opt up” to professional status and intends to do so in order to maintain their current MiFID status.

The Authority intends to carry out the opting up process through a portal provided by CIPFA: the CIPFA/PS Link MiFID II portal which is more efficient than writing separately to each counterparty.

CIPFA Consultation on Prudential and Treasury Management Codes:

Following consultation on the relevance, adoption and practical application of the Treasury Management and Prudential Codes, CIPFA has proposed changes to the Prudential Code.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to Council which will cover the basis of the capital programme and treasury management.

The prudential indicators for capital expenditure and the authorised borrowing limit would be required to be included in this report but other indicators may be delegated to another committee if desired by Council. Other proposed changes include applying the principles of the Code to local authority subsidiaries.

Proposed changes to the Treasury Management Code include the potential

for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England and a consultation is due to be published imminently.

Further, it is expected that the Chancellor's budget on 22 November will introduce new restrictions upon the ability of local authorities to borrow to fund commercial investment. An assessment of the potential impact upon the Council's regeneration and housing company investments will be undertaken in light of these announcements and consultations as they become clear.

2. Treasury Management Summary

The treasury management position as at 30th September 2017 and the change over the period is shown in table 1 below.

Table 1: Treasury Management Summary as at 30th September 2017

	31.3.17		30.9.17	30.9.17
	Balance	Movement	Balance	Rate
	£m	£m	£m	%
Long-term borrowing	210.234		210.234	3.60
Short-term borrowing	2.512	2.638	5.150	0.21
Total borrowing	212.746	2.638	215.384	3.52
Long-term investments	40.000	5.000	45.000	1.11
Short-term investments	130.808	8.996	139.804	0.56
Cash and cash equivalents	30.096	-9.051	21.045	0.50
Total investments	200.904	4.945	205.849	0.69
Net borrowing	11.842	-2.307	9.535	2.83

3. Borrowing Strategy During Half Year

3.1 The 30th September 2017 borrowing position is show in table 2 below.

Table 2: Borrowing Position

	Balance at 01/04/17	Raised	Repaid	Balance at 30/09/17	Weighted Average Rate
	£m	£m	£m	£m	%
Loans					
PWLB	203.234	-	-	203.234	3.60
Banks (LOBO)	7.000	-	-	7.000	3.60
Local Authorities and Other (Short Term Borrowing)	2.512	25.250	22.612	5.150	0.21
Total Loans	212.746	25.25	22.612	215.384	3.52

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	Raised	Repaid	Balance at 30/09/17	Weighted Average Rate
	£m	£m	£m	£m	%
Investments					
Fixed Deposits	162.000	104.500	90.500	176.000	0.70
Money Market Funds	6.920	239.050	244.130	1.840	0.24
Call Accounts	23.176	17.192	21.163	19.205	0.52
Covered Bonds	8.808	0.000	0.004	8.804	0.95
Total investments	200.904	360.742	355.797	205.849	0.69

- 4.2 At 30 September 2017, investments were spread amongst 13 counterparties in comparison with an average of 15 counterparties in the Arlingclose universe of 13 London Boroughs. **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 30/9/17

	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	0.372
Quarter 2	0.30	0.60	1.350	0.69	0.367
Total			1.350		0.739

- 5.2 The Authority outperformed its benchmark during the half year by 0.39%. This was achieved by locking into longer term deposits to mitigate the impact of falling 3 month LIBOR.
- 5.3 The Authority's 2017/18 budgeted rate of return was set at 0.60% and at the end of quarter 2; the authority outperformed its budgeted rate of return by 0.09%. The investment returns in the Arlingclose universe of 13 London Borough's was 0.48% as reported in the quarterly benchmarking.

6. Current Investment Opportunities

- 6.1 The Authority is made aware of long term investment opportunities by other oneSource Authorities, brokers or investment advisers.

- 6.2 Cabinet on the 13th September approved changes to the Treasury Management Strategy Statement (TMSS) which will now facilitate investment in a wider range of products.
- 6.3 In 2016/17, oneSource authorities (Newham and Bexley) and Warrington Council have invested in 5 year solar bonds. Subsequent to Cabinet's approval of the recommended changes to the TMSS, this authority now has the option of investing £3m in Solar bonds and the S151 Officer in consultation with the lead member for financial management will decide whether to take up this option.

7. New borrowing

- 7.1 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.
- 7.2 As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, 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.
- 7.3 As a result no long term borrowing was undertaken during the half year but this will be kept under continuous review as capital investment plans are developed and spending is monitored.
- 7.4 Market opportunities that may provide borrowing rates at less than equivalent PWLB will be considered, where such borrowing opportunities become available. The S151 Officer will consider the cost of carry before making a decision to borrow in advance of need or forward fixing borrowing rates. Such opportunities could be used by the Authority after careful consideration to potentially pay for the Authority's prefunding of the LGPS past service cost and deliver General Fund savings. However the S151 Officer will ensure that full cost of the capital programme over the same period and its affordability is adequately addressed before making a decision whether to use cash balances to prefund pension fund annual past service cost pension contributions for the next 3 years.

8. Compliance with Treasury and Prudential Limits

- 8.1 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. The Authority's approved 2017/18 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the Treasury Management Strategy Statement (TMSS) in February 2017. The changes to the 2017/18 TMSS presented to this Committee in June 2017 were approved by Full Council on the 13th September 2017 meeting. These changes as reported will enable the Authority to invest in secured bonds in unrated companies. Officers are currently reviewing those opportunities in consultation with the adviser after taking careful regard of risk.
- 8.2 During the half 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

None



Table 1 breakdown of Deposits at 30th September 2017

Institution Type	30th September 2017 Actual £m	31 March 2017 Actual £m
UK Banks		
Goldman Sachs INT"L Bank	23.100	18.000
Lloyds Bank PLC	15.000	24.000
Close Brothers Ltd	5.000	-
Royal Bank of Scotland	0.100	-
Santander UK PLC	0.005	20.176
Santander UK PLC (Covered Bond)	3.804	3.808
UK Building Societies		
Coventry Building Society	-	5.000
Nationwide Building Society	5.000	13.000
Yorkshire Building Society (Covered Bond)	5.000	5.000
Local Authorities & Other Public Sector		
Birmingham City Council	15.000	-
BlackBurn with Darwen Borough Council	5.000	-
Cheshire East Council	5.000	-
Eastleigh Borough Council	5.000	5.000
Falkirk Council	5.000	
Highland Council Inverness	5.000	12.000
Lancashire County Council	15.000	15.000
London Borough of Islington	5.000	5.000
Mid Suffolk District Council	5.000	
Newcastle Upon Tyne City Council	10.000	5.000
North Lanarkshire Council	5.000	5.000
Northumberland County Council	15.000	15.000
Stockport Borough Council	5.000	-
Non UK Banks		
Australia		
Australia & New Zealand Banking Group	10.000	3.000
Commonwealth Bank of Australia	5.000	10.000
Canada		
Bank of Montreal	-	4.000
Netherlands		
Cooperative Rabobank	10.000	15.000
Singapore		
Development Bank Singapore	7.000	2.000
United Overseas Bank	15.000	9.000
Money Market Funds		
HSBC Global Liquidity Fund Class G MMF	-	6.920
BNP Paribas Insticash Sterling MMF	1.840	-
TOTAL INVESTMENTS	205.849	200.904



Investment Benchmarking

30 September 2017

	Havering	13 London & Met Boroughs Average	135 LAs Average
Internal Investments	£205.8m	£102.9m	£63.5m
External Funds	£0.0m	£4.4m	£10.3m
TOTAL INVESTMENTS	£205.8m	£108.9m	£73.7m

Security

Average Credit Score	4.05	4.45	4.44
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.72	4.63	4.32
Average Credit Rating (time-weighted)	AA-	A+	AA-
Number of Counterparties / Funds	13	15	16
Proportion Exposed to Bail-in	32%	63%	64%

Liquidity

Proportion Available within 7 days	1%	50%	44%
Proportion Available within 100 days	40%	72%	67%
Average Days to Maturity	271	137	40

Market Risks

Average Days to Next Rate Reset	266	153	66
External Fund Volatility	0.0%	0.3%	1.8%

Yield

Internal Investment Return	0.69%	0.48%	0.48%
External Funds - Income Return		1.53%	3.48%
External Funds - Capital Gains/Losses		0.73%	1.17%
External Funds - Total Return		2.26%	4.65%
Total Investments - Income Return	0.69%	0.56%	0.89%
Total Investments - Total Return	0.69%	0.62%	1.12%

Notes

- 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.

Compliance Report

All treasury management activities undertaken during the half 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

	2017/18 Limit %	2017/18 Q2 Actual %	2018/19 Limit %	2019/20 Limit %
Upper limit on fixed interest rate exposure	100	94.36	100	100
Upper limit on variable interest rate exposure	25	5.64	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	5.57
12 months and within 24 months	40	0	0.00
24 months and within 5 years	60	0	0.52
5 years and within 10 years	75	0	9.54
10 years and above	100	0	84.37

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 30/09/2017

	Target £m	Actual £m
Total cash available by the next working day	5.000	1.940
Total cash available within 3 months	30.000	52.000

1.5 Gross Debt and the Capital Financing Requirement (CFR)

1.5.1 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 5: Gross debt and the CFR

	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

1.5.2 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.

1.6 Operational Boundary for External Debt

1.6.1 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 6: Operational Boundary

Operational Boundary	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	276.300	310.600	341.400
Other long-term liabilities	2.000	2.000	2.000
Total	278.300	312.600	343.400

1.7 Authorised Limit for External Debt

- 1.7.1 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 7: 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

IFRS 9 Financial Instruments

Introduction

IFRS 9 Financial Instruments is the new accounting standard for investments, borrowing, receivables and payables, which will apply to local authorities from the 2018/19 financial year onwards.

Although the first set of accounts under the new standard won't be prepared until April 2019, two of the changes may impact upon the revenue account balance on transition, and therefore need considering when setting the 2018/19 budget in the coming months.

The first change relates to the impairment of financial assets, where potential losses on investments must be charged to revenue in case actual losses are incurred in future. The largest impact will arise on loans and receivables to high risk debtors where a provision is not already in place.

The second impact arises from changes in the treatment of unrealised gains and losses on certain investments, where movements in market value must now be charged to revenue.

Impairment of Financial Assets

The new impairment rules require a loss provision to be created for most financial assets, including investments and service loans. The loss provision is created by a debit to the CI&ES, which in the absence of mitigating regulations will result in a charge to the General Fund.

The size of the provision, and hence the charge to revenue, depends on the type of asset, the risk of default and the likely loss given default.

Classification and Measurement of Financial Assets

Local authorities currently classify the vast majority of their financial assets as either "loans or receivables" or "available for sale". In either case, changes in fair value due to market fluctuations do not impact upon revenue. But the change to IFRS 9 means that more financial assets will be classified as "fair value through profit and loss" (FVPL) where changes in fair value DO impact upon revenue.

IFRS 9 requires financial assets to be accounted for at FVPL unless the following conditions are met:

- the authority does NOT hold the asset principally in order to sell it to another party,
AND EITHER
- the contractual cash flows are solely payments of principal and interest,
OR

- the asset is an equity instrument and the authority has designated it at “fair value through other comprehensive income”.

Pooled funds and equity investments

An equity investment is an instrument that evidences ownership of a share of an entity's net assets after all of its liabilities have been deducted. This includes ordinary shares in companies and units in collective investment schemes. IFRS 9 requires equity investments to be accounted for at FVPL (where movements in the share/unit price affect revenue) unless the investor makes an irrevocable election to designate the investment as held at “fair value through other comprehensive income” (FVOCI). FVOCI accounting is very similar to the current “available for sale” accounting where dividend income is taken to revenue but changes in fair value are taken to a revaluation reserve.

The Authority has three financial assets which are currently classified as “available for sale”, and as the Authority does not hold the asset principally to sell to another party there would be no change to the accounting treatment of these financial assets as a result of IFRS 9.

The Authority also has a 100% shareholding in its subsidiary, Mercury Land Holdings. The equity investments in MLH are currently being accounted for in line with IFRS 3, Business Combinations and as such IFRS 9 is not applicable to this element.

The Authority also provides long-term finance in the form of a loan to MLH. The loan is due to be repaid on an annuity basis over forty years. The authority intends to hold the loan over this period. The loan to MLH would be classified as a financial asset in the Authority's singly entity accounts and as such would be accounted for under IFRS 9.

IFRS 9 requires that a provision is made in the Income and Expenditure Statement to recognise the expected loss on this loan, in case actual losses are incurred in the future.

In the absence of mitigating adjustments, the loss provision created above will result to a charge in the General Fund.

Glossary of Terms

Appendix E

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.

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.

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AUDIT COMMITTEE 28 11 2017

Subject Heading:	Annual Governance Statement
CMT Lead	Jane West Managing Director oneSource
Report Author and contact details:	Jeremy Welburn Interim Head of Assurance Tel: 07976 539248 E-mail: jeremy.welburn@onesource.co.uk
Policy context:	This report presents the amended version of 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 provides an amended version of the 2016/17 Annual Governance Statement, following recommendations received from our external auditors.

RECOMMENDATIONS

1. To note the amendments to the 2016/17 Annual Governance statement.

REPORT DETAIL

1. The Accounts and Audit Regulations (England) 2015 require 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.
2. The Annual Governance Statement is prepared in accordance with the requirements of 'Delivering Good Governance in Local Government: Framework' (CIPFA/SOLACE, 2016).
3. The Annual Governance Statement is subject to audit alongside the Statement of Accounts. Following the 2016/17 audit, the external auditors requested that we amend the statement to ensure compliance with the code.
4. Two amendments were made to the statement, as detailed below and highlighted in Appendix 1:
 - 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 (pg. 4 of 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 (pg.11 of statement).
5. The two amendments have been approved by the Leader and Chief Executive.
6. The final version of the AGS is attached as appendix 1.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from commenting on/agreeing the Annual Governance Statement. However, implementation of the planned actions set out in the AGS may have financial implications. The expectation is that these will be contained within existing resources. Where this is not the case issues will be raised through the appropriate channels.

Failure to produce a robust AGS could result in adverse comments from the Council's External Auditors.

Legal implications and risks:

The Authority is statutorily obliged to conduct an annual review into the effectiveness of its systems of internal control prepared in accordance with proper practices. The Annual Governance Statement complies with that requirement. There are no apparent legal implications in noting the amendments to the Statement.

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.

BACKGROUND PAPERS

None.

Appendix 1 - 2016/17 Annual Governance Statement.

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ANNUAL GOVERNANCE STATEMENT

This statement, from the Leader and Chief Executive, provides reasonable assurance to all stakeholders that within the London Borough of Havering, processes and systems have been established which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to everyone who is served by the Borough.

The Annual Governance Statement is co-ordinated within the Assurance Service and the production and progress of the statement is monitored by the officer Governance and Assurance Board.

Scope of responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The London Borough of Havering is committed to operating in a manner which is consistent with the seven principles of the CIPFA/SOLACE* *Delivering Good Governance in Local Government Framework 2016 Edition*. This statement explains how the London Borough of Havering has complied with these principles and also meets the requirements of regulations 6(1) (a) and (b) of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework (detailed in Appendix A to this statement) has been in place at the London Borough of Havering for the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

Review of governance effectiveness

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based. A further, more detailed, description of our governance framework is included in Appendix A to this statement.

Constitution

The Monitoring Officer keeps the Constitution under continual review, having delegated powers to make amendments arising from organisational changes and legal requirements and to correct errors. Other amendments are considered by the Governance Committee and Council.

Governance and Assurance Board

The London Borough of Havering has an established officer governance group which was reviewed and refreshed for the start of 2016/17 and renamed the Governance and Assurance Board. Membership now includes the S151 officer, the Deputy Director Legal and Governance, the Head of Assurance and the Director of Finance (oneSource) with option to extend membership to meet the demands of the work programme. This Board is charged with reviewing the governance arrangements, overseeing the production of the Annual Governance Statement, monitoring progress against significant issues raised as part of this and reviewing arrangements for Risk Management including having oversight of the Corporate Risk Register.

Corporate Leadership Team

A new Chief Executive was appointed in May 2016, following the retirement of the previous Chief Executive. The Corporate Management Team (CMT) underwent a restructure that saw the deletion of the two previous Deputy Chief Executive roles and creation of Director roles for the following services: Neighbourhoods, Children's Services, Adult Services & Health and Chief Operating Officer incorporating the role of Chief Finance Officer (s151 officer). CMT was re-designated as the Senior Leadership Team (SLT) as a result of the restructure. The back office services are managed for Havering, Newham and Bexley by the Managing Director of oneSource, with eight members of the Corporate Leadership Team (CLT) having a dual role across Havering and Newham and three members across all three.

Governance Committee

The Council's Governance Committee, attended by the Leader of the Council and other Group Leaders, is charged with overseeing the organisation's governance arrangements including the Code of Conduct for Members. During 2016/17 the Governance Committee was given specific delegation by Council to review staff terms and conditions and implement any changes

Audit Committee

The Audit Committee is responsible for monitoring the adequacy and effectiveness of internal audit, the risk management environment, fraud and corruption arrangements and the provision of the external audit service. They receive regular reports in line with this remit and agree the annual audit plan, Annual Governance Statement and revisions to related policies. This monitoring is integral in the process to compile a robust Annual Governance Statement, which is approved by the Audit Committee. Significant governance issues are escalated to the Governance Committee by the Chair of the Audit Committee as required. Approval of the annual Statement of Accounts also falls under the remit of the Audit Committee.

Adjudication and Review Committee

The Adjudication and Review Committee is made up of ten Councillors and is politically balanced. The committee provides members for panels to consider complaints against councillors and also to make up 'Member review' panels (which is the default panel for considering complaints made by members of the public at Stage Three of the Corporate Complaints procedure through a paper exercise). Should a Member Review Panel consider that a complaint warranted a formal hearing it would adjourn and reconvene to hear the matter with the parties present. The Adjudication and Review Committee is also responsible for overseeing and confirming the appointment of 'Independent Persons' or the Independent School Appeal panels which are convened to review permanent pupil exclusions.

Overview and Scrutiny

The Overview and Scrutiny function reviews decisions made by the Executive and other bodies, e.g. National Health Service organisations and the police. The focus of their role is to provide a challenge to decisions made by the Executive and to assist in the development of policy.

In late 2014 a review of the Overview and Scrutiny arrangements was undertaken which led to a revision of its governance structure.

An overarching Board has been established which undertakes all call-in functions and acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees is co-ordinated to avoid duplication and to ensure that areas of priority are being pursued.

The Board has subsumed the role of the former Value Scrutiny Committee which oversaw general management matters. The remaining six Overview and Scrutiny Committees have become 'sub-committees' of the new Overview and Scrutiny Board. The Board's membership is politically balanced but includes the Chairmen of the Overview and Scrutiny sub-committees amongst others.

The Overview and Scrutiny Board and the sub-committees have the opportunity to consider performance information within their area of responsibility using monthly Members packs and other relevant performance data.

Each year Overview and Scrutiny is tasked with identifying areas of the Council's work that it wishes to consider in detail, for which purpose task groups comprised of members of the

Board and its sub-committees are set up to research the issue with the assistance of officers and sometimes external bodies and report their findings and recommendations.

Local Pension Board

During 2016/17 the Local Pension Board was formed which oversees the governance of the Pension Fund by the Pensions Committee.

Internal Audit (Assurance Services)

Internal Audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risk. In doing so Internal Audit supports the Chief Finance Officer in their statutory role as Section 151 Officer. Annually the Head of Internal Audit Opinion and annual report provides assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

The Internal Audit service is part of the oneSource shared arrangement and until July 2016 had an Interim Head of Internal Audit across both boroughs. The review of the audit and assurance function was identified as a significant issue in the 2014/15 Annual Governance Statement. The planned restructure was delayed until 2016/17 to enable the London Borough of Bexley to be included in the review.

In August 2016 the Internal Audit, Counter Fraud and Risk Management Services of all three boroughs were combined and restructured under the Head of Assurance post. There is a close working relationship between the Audit, Counter Fraud, Risk Management & Insurance. If there are perceived weakness in control identified by Counter Fraud or Insurance, Internal Audit are made aware.

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.

Risk Management

The revised Risk Management Policy and Strategy was agreed by the March 2016 Audit Committee. This saw the adoption of a roles and responsibility approach inclusive of the Mayor / Leader, various boards and forums down to an individual level.

The strategic risks to the achievement of the Authority's objectives are captured within a Corporate Risk Register which is overseen by the Governance and Assurance Board and reported to Audit Committee during 2016/17. The Corporate Risk Register was last reviewed and approved by SLT in March 2017, before being presented to the Audit Committee in May 2017.

External Inspectors

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently Ernst and Young (E&Y) is reported to the Audit

Committee. The Committee received a copy of the Audit Letter issued by Ernst & Young following completion of the 2015/16 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 26 September 2016 and the certificate of completion had been issued on 28 October 2016 once they had completed the WGA and Pension Fund 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. This was known as the value for money conclusion. Ernst & Young had issued an unqualified value for money conclusion on 30 September 2016.

Information Governance and Security

The council's ICT infrastructure is subject to external and independent scrutiny mandated by the government. The Public Sector Network (PSN) compliance is required and managed by the Cabinet Office. The council carried out penetration tests in May 2016 and remedial actions required have been carried out.

There were three incidents relating to disclosure of information investigated by the ICO in 2016/17. These incidents were investigated by the Information Commissioner's Office (ICO) and each case was found to have been caused by an administrative error. Controls and procedures in place at the time of each incident were considered by the ICO to be adequate and aside from some improvements that were recommended and implemented for the incident in May 2016, no further action was taken.

Significant governance issues 2015/16

The issues identified in the 2015/16 Annual Governance Statement have been monitored by management and the Governance and Assurance Board throughout the year with review periodically to challenge actions and progress by both the Senior Leadership Team and the Audit Committee.

1. Scheme of Delegation – This primarily related to the oneSource joint Scheme of Delegation which was originally raised as a 2014/15 significant issue following the decision to delegate functions to the Joint Committee. The Joint Committee agreed a consolidated Scheme of Delegation to oneSource officers on 22nd January 2016 which is now available on the intranet. This exercise apparently highlighted some issues with the LB Havering Scheme of Delegation and was raised as a significant issue going forward for 2015/16. A provisional review of the Constitution and the delegation arrangements was undertaken in the autumn 2016. Further review and decisions on how the Scheme of Delegation arrangements could be improved will be prioritised for 2017/18 and this has been placed on the Governance and Assurance Board agenda as a standing item to review progress.
2. Commissioning and Contracts – This was highlighted as a significant issue for 2015/16 as there were instances identified of failings by officers to comply with procurement rules. A number of actions have taken place during 2016/17 to deal with this including; a full review of the contracts register against spend, new thresholds introduced to One Oracle, audit work to provide assurance and the formation of a Joint Commissioning Unit to service Adult Social Services, Children's Services, Housing, Public Health and Learning and Achievement. There are ongoing issues identified during 2016/17 which has led to this remaining as a significant issue going forward in 2017/18.

Significant governance issues 2016/17 (to be addressed in 2017/18)

Significant Issue and action already taken	Planned action	Target date for completion	CMT Lead
<p>1. Scheme of Delegation</p> <p>A review of the Scheme of Delegation was identified following the amendments to include oneSource.</p> <p>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</p>	<p>➤ Review of the arrangements and format of the Scheme of Delegation ;</p>	<p>September 2017</p>	<p>Monitoring Officer</p>

Significant Issue and action already taken	Planned action	Target date for completion	CMT Lead
<p>2. Commissioning and Contracts (including compliance with procurement rules).</p> <p>There have been instances identified of failings by officers to comply with the Procurement rules.</p> <ul style="list-style-type: none"> ➤ New thresholds (all orders over £25k and collectively over £164k that do not have a contract in place) introduced to One Oracle ➤ A 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. 	<ul style="list-style-type: none"> ➤ Introduction and embedding of the Procurement Board ➤ Quarterly reports to SLT ➤ Strengthening checkpoint process compliance ➤ Continued programme of audit work to provide assurance 	<p>July 2017</p>	<p>Managing Director, oneSource</p>

Significant Issue and action already taken	Planned action	Target date for completion	CMT Lead
<p>3. Mercury Land Holdings (MLH)</p> <ul style="list-style-type: none"> ➤ It has been identified that a review of the governance arrangements in relation to MLH is required as the business moves forward. <p>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</p>	<ul style="list-style-type: none"> ➤ To review the governance, decision-making and Shareholder arrangements and to recommend or make such changes as are considered appropriate 	September 2017	Monitoring Officer and S151
<p>4. Projects and Programme Management</p> <ul style="list-style-type: none"> ➤ The Councils 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. <p>It is important that the</p>	<ul style="list-style-type: none"> ➤ To review the Councils project and programme management arrangements to ensure they sufficient to meet the increasing number of projects over the medium term 	July 2017	Chief Operating Officer

<p>Council reviews it's arrangements and capacity to manage the high number of projects and programmes to meet the agreed and desired outcomes.</p>			
<p>5. Information Technology & Information Governance</p> <ul style="list-style-type: none"> ➤ 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 <p>There are also increased risks generally in both the public and private sector around cyber security. In addition the new General Data Protection Regulation (GDPR) changes will come into effect in May 2018 and the organisation will need to respond, requiring a detailed focus on the information security.</p>	<ul style="list-style-type: none"> ➤ To review the Councils IT security arrangements to mitigate the risk to the Council ➤ To ensure all officers are aware and briefed on changes to the Data Protection legislation ➤ To carry out a review of the IT budgets to ensure that appropriate investment is being put into IT infrastructure ➤ To implement GDPR changes across the council through detailed and planned process. 	<p>March 2018</p>	<p>Managing Director, oneSource</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Conclusion

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.

Signed:

Leader of the Council

Chief Executive

Appendix A

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described in more detail below.

Our Vision for the Borough 2016/17 – Clean, Safe and Proud

During 2016/17 the Council had a three point vision for Havering:

- Havering will be clean and its environment looked after for future generations.
- People of all ages will be safe, in their homes and in the community.
- Residents will be proud to live in Havering, where we respect each other, value our traditions and work together to improve our quality of life.

To achieve this vision, the Council will support the local community with direct investment in the services and projects that matter most to local people, use its influence to attract investment to Havering, while preserving 'green Havering' and its quieter communities, and lead by example, by running a low cost, high standard local authority.

The organisation's Values

The work of the Council and its staff is anchored in the organisation's Values:

- Be Positive;
- Respect Others; and
- Work Together.

Codes of Conduct

The Council has Employee and Member Codes of Conduct supported by the requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade or who hold specific decision making and procurement positions. All officers, regardless of their employment status, are required to adhere to the Code of Conduct and to decline gifts and hospitality to ensure that they are not inappropriately influenced. Members are required to register within their declaration of interest any gifts and hospitality accepted. The Codes and related policies and procedures are communicated via induction sessions and are available via the intranet. The Employee Code of Conduct was updated and re-launched in 2014/15 to ensure that there is awareness of all requirements and of responsibilities. The relevant SLT member is tasked with ensuring that appropriate arrangements are in place for declarations and the systems are reviewed periodically by internal audit.

Corporate Performance Framework

The Corporate Performance Framework has been updated during 2016/17. The overall aim of the document is to generate a consistent, goal focused approach to performance management at all levels across the organisation. It provides information on the corporate performance monitoring and reporting process; clarifies roles and responsibilities with regards to this, and serves as a frame of reference for any activity linked to improving performance. By adhering to the guidance and parameters set out in the Corporate

Performance Framework, officers of the Council will ensure that their work is ultimately geared towards the realisation of corporate objectives.

The Council's Corporate Plan 2016/17 has been at the heart of the Corporate Performance Framework. It sets out the overall priorities and objectives of the organisation and outlines the key activities that will be undertaken as well as the measures put in place to monitor delivery.

Sitting beneath the Corporate Plan are individual service plans, which outline in more detail the work that will be undertaken to achieve the corporate objectives. A number of improvements were made to the service plan template for 2016/17, specifically:

- The narrative at the beginning of service plans has been more focused on the outcomes the service is seeking to achieve and on clarifying the 'golden thread' between the Corporate Plan, the service's target outcomes and what this means for individual teams within services.
- A section has been added analysing key volumetrics and recent trends in demand for services as well as projecting forward how demand for services is expected to change in the future and setting out the service's plans for mitigating / managing this.
- Increased use of benchmarking to inform target setting.
- The introduction of a more sophisticated approach to performance thresholds, with the blanket approach of $\pm 10\%$ replaced by the setting of specific tolerances for each individual performance indicator as part of the annual service planning process.
- More robust scrutiny and challenge of performance indicators and targets, with the Council's new Overview and Scrutiny Board participating in this process for the first time in readiness for 2016/17.
- The introduction of a quarterly review, progress monitoring and change control process, making Service Plans 'live' documents that will be revisited and refreshed throughout the year in light of changing and emerging priorities.

The Corporate Performance Framework operates at a number of different levels throughout the organisation. In addition to the Senior Leadership Team (SLT) and Members scrutinising the quarterly Corporate Performance Reports, individual performance management takes place as part of the supervision and Performance Development Review (PDR) process for each member of staff. Directorate Management Teams also receive and discuss monthly performance packs detailing performance against the key performance indicators in their respective service areas. The Overview and Scrutiny Board and its six sub-committees also consider the quarterly Corporate Performance Reports, together with any other reports that they have commissioned, and carry out their own independent reviews. Other key boards and forums (such as the Corporate Parenting Panel and Child Safety Performance Board) also receive regular performance packs specifically tailored to their remits. During 2016/17, work has also commenced on the implementation and rollout of "Power BI", a corporate performance

management tool which will visualise data better and enable leaders and managers to drill down deeper into the data presented in order to establish likely reasons for strong or poor performance.

During 2015/16 a particular issue was identified with the arrangements for reporting performance to Members and, as a result, improvements have been made to the reporting cycle in 2016/17. Under the arrangements for 2015/16, the quarterly and annual corporate performance reports were reported to Cabinet first, then the Overview and Scrutiny Board and then the various Overview and Scrutiny sub-committees. Depending on the corporate meetings schedule for any given quarter, this resulted in the whole cycle of reporting taking between four and seven months to complete. During 2016/17, reports have been presented to the sub-committees first, then to the Overview and Scrutiny Board and finally to Cabinet, which has reduced the time taken to complete the entire reporting cycle.

During 2016/17, the Council also developed and approved its first Business Intelligence Strategy. This sets out how the Council will gather and make best use of business intelligence in order to manage demand better, identify savings and make more accurate forecasts in terms of both finance and performance. It outlines areas that are integral to improving the assembly and use of business intelligence, including transparency and open data, customer insight, operational intelligence and data quality and how the Council plans to take these forward in the period up to 2019. Towards the end of 2016/17, consultation also commenced on a restructure of the Policy, Performance and Community service designed to resource delivery of the new Business Intelligence Strategy through the creation of a new Business Intelligence team.

A Data Quality Policy is appended to the Business Intelligence Strategy and staff throughout the organisation have been reminded of the importance of data quality and completeness through internal communication tools such as Core Brief. Methodology statements are in place in respect of all the corporate performance indicators in order to ensure that changes in personnel do not impact on the manner in which performance data is collected and analysed, and any performance data can be subject to either internal or external audit. Regular data quality reports are produced and regular data cleansing is carried out in respect of key areas such as Adults' and Children's Social Care.

During 2016/17, the Chief Executive has generated momentum in increasing the transparency of the Council. In line with this, an audit has been undertaken of the Council's adherence to the Local Government Transparency Code 2015 and swift action taken to rectify areas of non-compliance identified (for example, by ensuring that relevant information is produced and published in the required format).

Financial Rules and Regulations

The Council has Financial and Contract Procedure Rules, Policies and Guidance, along with other procedural documents. These guide officers in their everyday duties and ensure appropriate processes and controls are adhered to. The iProcurement system makes use of authorisation limits which are built into the management hierarchies rather than being manually checked before transactions are processed. Transactions are gradually being migrated onto this new system. Compliance with the various financial rules and regulations is monitored by management and considered during audits of systems and processes. Reports are available to managers through the One Oracle dashboards to enable monitoring and transparency of specific financial delegations.

Effective Audit Committee

The Audit Committee operates in accordance with the relevant CIPFA guidance. The Committee's terms of reference set out in the Constitution contain responsibilities relating to internal control, external audit and internal audit. Members are expected to serve a four year term on the Committee to ensure consistency; they also nominate named substitute members who receive the same level of induction and on-going training to ensure there is sufficient expertise at every meeting to challenge officers. During 2016/17 six members sat on the Audit Committee representing the Conservative, Residents', East Havering Residents', UKIP and Independent Residents' Groups of the Borough. The membership mirrors the political make-up of the Council. The Audit Committee met five times in 2016/17 and has an annual work plan made up of regular and specific agenda items.

Compliance with laws, regulations and internal policies

The Constitution sets out the framework for decision making and the publication of those decisions. There is a scrutiny system in place to ensure that the work of the Council complies with all appropriate policies and achieves value for money. Overview and Scrutiny has the power to call in and challenge all decisions of Cabinet and individual Cabinet Members and key decisions of staff. Legal, finance and human resources staff, as well as the Corporate Diversity Advisor, review every Cabinet, Council and Committee report and every Cabinet Member decision for compliance with laws, policies and regulations. The statutory officers also provide advice to Members at all appropriate times. Internal policies and procedures exist to guide officers and ensure compliance with legislation and proper practice.

Counter Fraud and Confidential Reporting

The Council has a corporate strategy for the prevention and detection of fraud and corruption. The oneSource Fraud Structure has been in existence since 1st April 2015. Responsibility for investigating and prosecuting housing benefit fraud has moved to the Department for Work and Pensions with effect from 1 April 2015.

The work of the service and achievement of the corporate fraud strategy is monitored by the Audit Committee. Proactive promotion of the strategy takes place throughout the year as part of the fraud strategy action plan. Integral to these arrangements is a suite of policies and strategies including; Confidential Reporting (also known as Whistleblowing) Policy, Bribery and Corruption, Money Laundering and a revised Anti-Fraud and Corruption Strategy which was agreed at the September 2015 Audit Committee. Each policy and strategy is communicated to staff via induction, the intranet and awareness raising initiatives. The effectiveness of arrangements is reviewed annually as part of a wider review of anti-fraud and corruption. The results of fraud investigations are publicised to further promote the arrangements in place, as appropriate.

The Council also undertakes and participates in a number of data matching exercises including the National Fraud Initiative (NFI). The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud and is conducted every two years. The 2016 NFI matches are available in 2017.

The council has signed a memorandum of understanding with London Councils to join the London Counter Fraud Hub, which is currently being piloted by 5 Boroughs, although we are not part of the initial pilot. The hub will enable all 33 councils in London to share their data in order to prevent and detect fraud in such as areas of business as council tax, business rates, and housing tenancies. It will operate on a payment by results commercial model, requiring no-up-front investment by the council.

In addition, the council has extended its housing fraud work, targeted at illegal sub-letting of council houses, RTB fraud and fraud associated with its homelessness operation.

Complaints

The Council's Corporate Complaints Policy and procedure has been in place since 1st April 2015. The Policy sets out a clear definition of a complaint, and encompasses robust auditing and performance monitoring procedures. Appropriate procedures are also in place to ensure that statutory complaints relating to adults' and children's social care are dealt with in accordance with the relevant regulations. The procedures are supported by the relevant technologies to ensure efficiency and streamlined processes and include an escalation procedure if a complainant remains dissatisfied.

Ombudsman

The Council comes within the jurisdiction of the Local Government Ombudsman. In 2016/17, the Ombudsman found nine cases of maladministration against the Council. Eight cases were "maladministration & injustice" and one was "maladministration, no injustice".

Training and Development

The Council has a commitment that every member of staff has an ongoing Performance Development Review (PDR) throughout the year as well as formal timescales for agreeing targets and objectives and outcomes.

The Council's One Oracle system captures performance, development and training information within modules meaning that system generated management information is available for both strategic and operational management of resources and decision making. It also allows for senior management to ensure that there is compliance within the organisation with corporate policy in this area and efficiently provides assurance that mandatory training, required for officers to competently fulfil their roles, has been completed.

The Council's expectations and demands on managers are high; a behavioural competency framework is in place and annually all people resources are assessed against the competencies as part of the annual Performance Development Review which also rates progress towards objectives. This has been carried out offline during 2016/17 due to some issues with the PDR section on Oracle.

The Council has attained the Member Development Charter. A development programme to keep Members up to date with changes and support their individual training needs is provided, with training is tailored to individual roles. Training is supplemented by information through briefings and bulletins.

Communication and Engagement

The Council strives to identify and develop new effective mechanisms to communicate and consult with the community. A wide number of fora take place to consult with members of the community, particularly targeting 'hard-to-reach' groups, such as the Over 50s forum, the BME (Black and Minority Ethnic) forum and the Inter Faith forum. The Council also has a small Community Development Team which focuses on community development but also supports and seeks to maximise engagement in key corporate consultation exercises.

The Council maintains a website to provide information and services to the residents of the Borough. The publication 'Living in Havering' is distributed to all households six times a year, promoting access to services and raising the profile of the work done by the Council and local people to make Havering a good place to live. This is augmented with regular emailed bulletins on a host of subjects including 'Living In Havering' branded e-newsletters to over 130,000 subscribers, as well as communication through a host of other channels, from social media to poster sites and the local press.

Consultation is carried out as part of the development of the MTFs and annual budget. Views are sought through various media and the budget itself is subject to scrutiny through Cabinet and Overview and Scrutiny Committees.

The public are also consulted on the Council's future priorities. In 2017 budget consultation the council asked residents about their priorities for the borough and the Council's intention to increase Council Tax including a precept for Adult Social Care to support services for vulnerable adults. There has also been comprehensive consultation and ongoing communications with residents in the Council's sheltered accommodation with proposals to completely re-provide those services over the next few years.

In 2017 the Council launched its new vision for the borough, Havering – making a Greater London. This encompasses four themes, Communities making Havering, Places making Havering, Opportunities making Havering and Connections making Havering. These four themes are outcome led with measurable targets against each.

Transformation

A number of new programmes/projects have been initiated to deliver savings required to close the budget gap over the medium term. In many cases these comprise a change to the way services are delivered or reduction in grant funding. All activity and savings are the responsibility of the Director or Assistant Director of the relevant service area. A new project and programme management system was implemented in late 2016 to ensure transparency and a consistent approach to reporting activity. This delivers 1) visibility to the Senior Leadership Team (SLT) and the Cabinet, 2) enables interdependencies between projects to be managed; and 3) ensure slippage is identified at an early stage and mitigations effectively managed. Monthly oversight of the transformation programme takes place at the SLT Transformation Management Meeting. SLT also monitors the position on budgets and delivery of the MTFs to ensure any risks are identified early and mitigations put in place.

Budget development and challenge sessions are also to be held with Members to consider and plan for the Council's priorities. A series of new initiatives are also being evaluated to assess the benefits of new ways of working to support the financial position and promote a stable workforce.

Partnerships and Collaborative Working

There are a number of partnership boards in place such as the Community Safety Partnership, the Health and Wellbeing Board and the Children's Trust. There are also a number of other fora in existence in Havering including the Culture Forum, a range of equality and diversity forums and many others.

The Council has for a number of years worked closely with neighbouring boroughs to share good practice and efficiency success. In response to the reduced funding for local government this work has expanded to consider stronger relationships that will yield cost savings to all parties. These initiatives have in the past involved shared procurements, information technology developments and shared management posts.

oneSource

In April 2014 the Council's shared back office service with the London Borough of Newham was launched. This arrangement is comprised of 22 services, 1350 staff and an agreed business case to save £40m over five years. This resulted in significant changes to the governance framework. A Joint Committee of six Members, three from each Council, was established to oversee the partnership arrangements and a shared management structure established with officers from each council having executive responsibilities delegated to them within the two Constitutions via the Scheme of Delegation.

The London Borough of Bexley has subsequently joined the shared service and delegated its finance and exchequer services to oneSource from 1 April 2016 through its Constitution and Scheme of Delegation. One Member from Bexley has joined the Joint Committee.

Mercury Land Holding

Mercury Land Holding has been established as a wholly owned subsidiary of LBH. In July 2016 the company embarked on its first development and the council has provided both equity and loans to the company to cover both development costs and company overhead and received income in the form of Loan Arrangement Fee, Commitment Fee, Lenders Agency Fee and Interest.

AUDIT COMMITTEE 28 11 2017

Subject Heading:	Head of Assurance – Quarter Two Progress Report 2017/18
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 two of 2017/18.
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 work undertaken by the Assurance Service (internal audit and counter fraud) during quarter two 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 and Counter Fraud 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 two.

Section 3 Appendices: Provide supporting detail for Members' information

Appendix A: Detail of Quarter Two Internal Audit work

Appendix B: Detail of Quarter Two 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 Members will be aware that the full range of Assurance Services; Internal Audit, Counter Fraud, Risk Management & Insurance, are now delivered by a shared service with LB Bexley and LB Newham as part of oneSource. The new structure has started to deliver additional resilience, financial savings and the operational efficiencies required in challenging financial times. This has been achieved by

sharing management posts, removing management duplication, and by improving the effectiveness and efficiency of processes.

- 1.1.7 This report brings together all aspects of internal audit and counter fraud work undertaken in quarter two, 2017/18, in support of the Audit Committee's role.
- 1.1.8 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 September 2017 Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in quarter one, 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 two.

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

2.1 Internal Audit

- 2.1.1 There have been 11 final reports issued in quarter two; seven of these were given an audit opinion of substantial assurance and the other four were moderate assurance. 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 Of the 42 recommendations raised in the reports issued in quarter two, one was high risk, 35 were medium risk and six were low risk. The one high risk recommendation relates to a follow up audit. Further detail is provided in Sections 3.2 and 3.3 below.

2.2 Pro-Active and Counter Fraud

- 2.2.1 The Audit Partner (Pro-Active Audit & Counter Fraud) received one new referral in quarter two in respect of a possible Freedom Pass fraud.
- 2.2.2 No cases had been completed during the quarter and one case is currently being worked on (See 2.2.1 above).
- 2.2.3 During the quarter the investigations team:
- Recovered ten properties with a nominal value of £180,000; and
 - Had seven Right to Buy applications withdrawn with a notional value of £608,928.
- 2.2.4 The total net savings for the Tenancy Fraud Project from October 2015 to September 2017 is £5.204m (taking into account the cost of the project of £617,029). The breakdown for each year is detailed below.
- April 2017 to September 2017 - £1.189m
 - April 2016 to March 2017 - £2.524m
 - October 2015 to March 2016 - £1.491m

Appendix A

3. Quarter Two - 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 reviews have been carried forward from 2016/17 and another four reviews added, three of which were at the request of clients. Ten 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 51.
- 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	13
Draft reports issued	1
In progress	17
To be completed	20
Total	51

- 3.1.3 The target outturn for completion of the audit plan is 90% at the end of the financial year. As at 18th October 2017, 61% 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 11 final reports issued in quarter two. It should be noted that no limited assurance reports were issued in this quarter.

Report	Assurance	Recommendations			
		High	Med	Low	Total
System Audits					
Grants to Voluntary Organisations	Substantial	0	1	0	1
Declarations of Interest	Moderate	0	3	0	3
Contract Monitoring – Streetcare	Substantial	0	2	0	2
Troubled Families (Sept' Claim)	Substantial	0	0	0	0
Disaster Recovery Follow Up	Substantial	1*	0	0	1
School Audits					
Crownfield Infants	Moderate	0	5	1	6
St Alban's Primary	Substantial	0	2	1	3
St Mary's Primary	Moderate	0	8	2	10
Squirrels Heath Junior	Moderate	0	8	2	10
IT Audits					
Change Management	Substantial	0	2	0	2
BACS Transmission	Substantial	0	4	0	4
Total		1	35	6	42

*The high risk recommendation for the Disaster Recovery Follow Up relates to a recommendation raised in the original audit. This was identified as being partially complete during the follow up review. Further detail is included in the outstanding audit recommendations update in Section 3.3 below.

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 two, there were two school health checks completed: St Josephs and Whybridge Infants.

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. A programme is now in place to follow up school audit recommendations which began with the new academic year in September 2017. A full update on this will be provided in the quarter three progress report.

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 two. This table does not yet include schools, as the process for following up these recommendations has only recently been introduced.

	High	Medium
No. of non-school Recommendations raised in Q2	1	12

3.3.5 The one high risk recommendation, referred to in the table at 3.2.1, 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 two have been followed up and none remain outstanding. Apart from the high risk recommendation noted below (3.3.6), there are no outstanding high and medium risk recommendations, which had been raised in previous quarters/years (as at the end of quarter 2).

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. Revised implementation date: 31/12/2017	Partially implemented

Appendix B

4. Quarter Two - Counter Fraud Audit Work

4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter two is shown below:

Type	Description	Quarter 2 Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Eleven requests for advice were received during the quarter.	Ongoing
Advice to Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. One request for advice was received during the quarter.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. Three referrals were received during the quarter.	Ongoing
FOI Requests	To undertake all Freedom of Information Requests relating to Internal Audit Investigations.	Ongoing
Investigation Recommendations	The recording of all investigation recommendations, follow ups and assurance of implementation. (See below)	Ongoing
Whistleblowing	All whistleblowing referrals.	Ongoing

4.1.2 The proactive audit investigation work comprises two elements:

- A programme of proactive investigations; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive reports (details provided in Section 4.4.1).

4.2 Reactive Investigation Cases

4.2.1 The table below provides the total cases at the start and end of the quarter two period as well as referrals, cases closed and cases completed.

Caseload Quarter 2 2017/18						
Cases at start of period	Referrals received	Referred To Criminal Fraud Team	Referred to HR	Audit Investigations		
				Not Proven Cases	Successful Cases	Cases at end of period
0	1	0	0	0	0	1

4.2.2 The table below provides information on the sources of Investigation referrals received.

Source and Number of Referrals Quarter 2 2017/18	
Number of Referrals/ Type	IA Reports Qtr. 2
Anonymous Whistleblower	0
External Organisations / Members of the Public	0
Internal Departments	1
Total	1

4.2.3 The table below shows the number and categories of Investigation cases at the end of the quarter two compared to the quarter one totals.

Reports by Category		
Audit Investigation Category	Previous Cases Qtr 1	Current Cases end of Qtr 2
Breach of Code of Conduct	0	0
Breach of Council Procedures	0	0
Falsification of Records	1	0
Miscellaneous	1	1
Misuse of Council Time	0	0
Procurement	0	0
Theft	0	0
Total	2	1

4.2.4 There were no case outcomes for the Investigations from July to September 2017.

4.3 Savings and Losses

4.3.1 The investigations carried out provide the Council with value for money through:

- The identification of monies lost through fraud and the recovery of all or part of these sums; and
- The identification of potential losses through fraud in cases where the loss was prevented.

4.3.2 There have been no savings or losses identified during quarter two of 2017/18.

4.4 Investigation Recommendations

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

Total 2017/18 Proactive Investigation Recommendations	
Recommendations Brought Forward from quarter 1	9
Recommendations made during quarter 2	0
Recommendations implemented during quarter 2	7
Recommendations Carried Forward	2
Of which High Priority*	1

*The high priority recommendation is in respect of the Service Manager for Disabilities to undertake an annual independent review / audit of the amenity fund accounts. Original implementation date 30/09/17, revised implementation date 07/11/17.

4.5 Tenancy Fraud Project

4.5.1 During the quarter the majority of resource has been focused on the Tenancy Fraud Project. The tables below show the work undertaken on the project during quarter two.

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
Jul	358	196	96	28	7	189
Aug	966	240	74	17	13	227
Sept	608	170	85	25	7	163
YTD	3,740	1,168	2,055	307	37	1,131

Internal Audit					
Month	Cases Under Investigation (open cases)	Closed	Total Properties Recovered	Cases referred for HB Fraud	RTB cancelled through audits
Jul	86	9	3	1	3
Aug	85	5	4	3	3
Sept	81	7	3	1	1
YTD	N/A	43	16	7	12

4.5.2 Outcomes for the quarter include the following:

- Ten properties were recovered with a nominal value of £180,000; and
- Seven Right to Buy applications were withdrawn with a notional value of £608,928;

4.5.3 The total net savings (minus project costs) for the project from October 2015 to September 2017 is £5.204m. The breakdown for each year is below.

- April 2017 to September 2017 - £1.189m
- April 2016 to March 2017 - £2.524m
- October 2015 to March 2016 - £1.491m

Appendix C: Current Status of 2017/18 Audit Plan

Audits completed and in progress as at October 2017

	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
	One Oracle Interfaces	DRAFT REPORT	
	Children's Commissioning	UNDERWAY	
LBH SYSTEM AUDITS	Fairkytes	COMPLETE	SUBSTANTIAL
	Troubled Families Programme	COMPLETE (Sept Claim). October claim underway.	SUBSTANTIAL
	No Recourse to Public Funds (NRPF)	UNDERWAY	
	Client Finance deputyship and appointeeship	UNDERWAY	
	Accounts payable service payments teams in directorates	UNDERWAY	
	Homelessness - Housing Tenancy Arrangements	UNDERWAY	
	Gifts and Hospitality (Corporate Culture)	UNDERWAY	
	Offsite Storage Follow up (Additional Task)	UNDERWAY	
	Private Sector Leasing scheme - Liberty Housing	SCOPING – fieldwork scheduled December	
	Contract Management: Client checking of contractor works	SCOPING – fieldwork scheduled November	
	Compliance with new Report Approval Processes	SCOPING – fieldwork scheduled November	
	Alternative delivery models	SCOPING – fieldwork scheduled November	
SCHOOLS	St Alban's RC Primary	COMPLETE	SUBSTANTIAL
	St Mary's RC Primary	COMPLETE	MODERATE
	Crownfield Infants	COMPLETE	MODERATE
	Squirrels Heath Infants	COMPLETE	MODERATE
	Health Checks (24)	X3 FINAL REPORTS ISSUED, X1 DRAFT REPORT	
ONESOURCE	Paris Applications (Additional Task)	UNDERWAY	
	Security over data warehouse	UNDERWAY	
	Establishment controls	UNDERWAY	
	Enforcement Agents	UNDERWAY	
	Staff vetting	UNDERWAY	
	Debt recovery	UNDERWAY	

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
	Children's disability service	Q4
	Care Act 2014 – Safeguarding	Q4
	Adoption (Additional Task)	Q4
	Housing Benefit - new claims or change in circumstances (was a oneSource audit)	Q4
	Information Governance/ Data Protection	Q3/Q4 (External)
	Housing and Planning Act 2016	DEFERRED - To be considered for 2018/19 plan
SCHOOLS	Towers Junior	Q4
	Squirrels Heath Junior	Q4
	Harold Court Primary	Q4
	Gidea Park Primary	Q4
	Branfil Primary	Q4
	Crownfield Juniors	Q4
	Elm Park Primary (Additional Task)	Q4
	Engayne Primary	Q4
	Scargill Infant	CANCELLED – applied to become an Academy
	Whybridge Junior	CANCELLED – applied to become an Academy
	Health Checks (24)	All remaining 20 Health Checks scheduled for Q4
ONESOURCE	Off payroll engagement/ IR35	Q4
	Procurement - including compliance with Public Contract Regulations 2015	Q4
	1Oracle follow up	Q4
	Serious and Organised Crime	Q4
	Budget Monitoring/ Savings Programme	Q3/Q4 (External)
	Cyber security	Q3/Q4 (External)
	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

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AUDIT COMMITTEE

Subject Heading:	Planning for Closure of Accounts 2017/18
SLT Lead:	Debbie Middleton
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Policy context:	Closure of Accounts 2017/18 Approach
Financial summary:	Prepare Havering to meet the challenge of a shorter timescale for the closure of accounts 2017/18

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 Accounts and Audit Regulations 2015 require that from financial year 2017/18, each local authority must prepare and publish its accounts by 31st May and 31st July respectively (currently 30th June and 30th September). This paper sets out the approach to be adopted by oneSource finance to prepare Havering to meet this new challenge

RECOMMENDATIONS

The Committee is asked to note the approach taken for the early Closing of Accounts for 2017/18.

REPORT DETAIL

1. Introduction and Background

- 1.1 The Accounts and Audit Regulations 2015 require that from financial year 2017/18, each local authority must prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively (currently 30th June and 30th September).
- 1.2 In order to prepare Havering to meet the challenge of this shorter timescale, oneSource finance has identified a number of areas of focus to reduce the lead time in the publication of the accounts and subsequent audit. These are set out in this paper.

2. Closedown Timetable and Closure of Accounts Group

- 2.1 A workshop involving key officers has been undertaken to redefine the closedown timetable in order to meet the new timescales. This workshop focused on identifying interdependencies, allocating names officers to each task and ensuring that a project management approach is adopted. The timetable focuses on timely and routing completion of activities that can be done during the course of the year, that have historically been left as a 'year end' exercise. Further, the same group will comprise the 'Closure of Accounts Group', which will meet regularly to monitor progress against defined closedown timetable.

3. Period 9 Close

- 3.1 Finance are currently 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 (minus the cashflow) by 31st January 2018. This will further reduce the amount of work required during the months of April and May, and will provide the auditor with a more substantive data set to carry out their interim audit work; with the aim of reducing the level of testing that takes place during the main audit.

4. Balance Sheet Review

- 4.1 As part of monthly processes, oneSource will be further promoting balance sheet monitoring and ownership during the course of the year. This will

yield many benefits including earlier identification of budgetary implications, and effectively produce the working papers to support year end balances throughout the course of the year.

5. Feeder System Timetable

- 5.1 To ensure greater rigour around monthly processes, the Corporate Business Systems Team will ensure there is greater compliance of feeder system information being posted to the general ledger. Coupled with this, the Financial Control team will be monitoring the timely completion of reconciliations. This will ensure that expenditure information is current and accurate, and avoid the need for time consuming investigations during the busy closedown period.

6. Communications & Training

- 6.1 The closure of accounts is an activity that requires varying degrees of participation from hundreds of officers across the Council. As such, coordinating these efforts effectively is dependent upon effective communication. In addition to the regular closure of accounts group meetings, there will be regular Council wide updates through the corporate communication channels, as well as a monthly updates to SLT. This will be further supplemented by short 'drop in' in sessions in Late November and February, to walk budget holders through critical activities they are responsible for building up to both period 9 and year end closure deadlines.

7. Group Accounting Considerations

- 7.1 Reporting the group position is a core requirement of the accounts. Finance will be working with the Shareholder Function and Investment Portfolio Management team, to ensure that there is a clear understanding of reporting requirements and the timescales with which these are to be submitted, across the entire group boundary.

8. Working with audit partners

- 8.1 The above activities are designed to primarily shorten the lead time in the production of the accounts, and ensure there is sufficient time to produce good quality, and accurate working papers. Whilst the latter is a crucial contributing factor to facilitating a smoother audit of accounts, we will continue to work with our audit colleagues to further explore areas of improvement resulting in a more efficient audit of the accounts. For example, there will be a joint training workshop delivered by the audit team and the financial control team for preparers of working papers to understand how they can meet audit requirements. In addition, there have been discussions with the team on how different audit methodologies can be used to further reduce the volume of testing that is currently required.

9. Review of Accounts

- 9.1 As part of the closedown planning process, each year the financial control team reviews the information disclosed within the accounts. The current volume is similar to that of the example provided within the Guidance notes. It is the intention to review each disclosure with a view of removing all but the essential items within the accounts. This will be done with consideration of the Financial Reporting Council's "Telling the story", and CIPFA LASAACS "Cutting the Clutter" initiatives, which are aimed at making the information held within the Statement of Accounts more accessible to the lay reader. Streamlining the level of disclosure will be crucial in minimising both the lead times for the production of the accounts, and the subsequent audit.

10. Member training

- 10.1 A brief training session was provided to members of the audit committee prior to the approval of accounts. Whilst the training was generally well received, feedback indicated that members would prefer a more in depth session, and earlier in the process. It is proposed therefore, that training is provided in July based on the approved draft accounts and members are invited to suggest which areas of the accounts the session should focus on.

11. Democratic Services engagement

- 11.1 The accelerated timetable poses a challenge for both officers and auditors. In initial planning discussions, the auditors have indicated that they will have difficulty in meeting the current deadlines for the dispatch of papers for committee. Accordingly, the Finance division will liaise with both audit and democratic services colleagues to determine a pragmatic approach that allows audit colleagues to present accurate and up to date information when reporting to members, and also affords members appropriate time to discharge their democratic duties.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

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

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

None

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