



Havering

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.00 pm	Wednesday 28 April 2021	Town Hall, Main Road, Romford
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Members 6: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

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

**North Havering
Residents Group (1)**

Viddy Persaud (Vice-
Chair)
Roger Ramsey
Judith Holt

Gerry O'Sullivan

Gillian Ford

Martin Goode
(Chairman)

**For information about the meeting please contact:
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Protocol for members of the public wishing to report on meetings of the London Borough of Havering

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

Reporting means:-

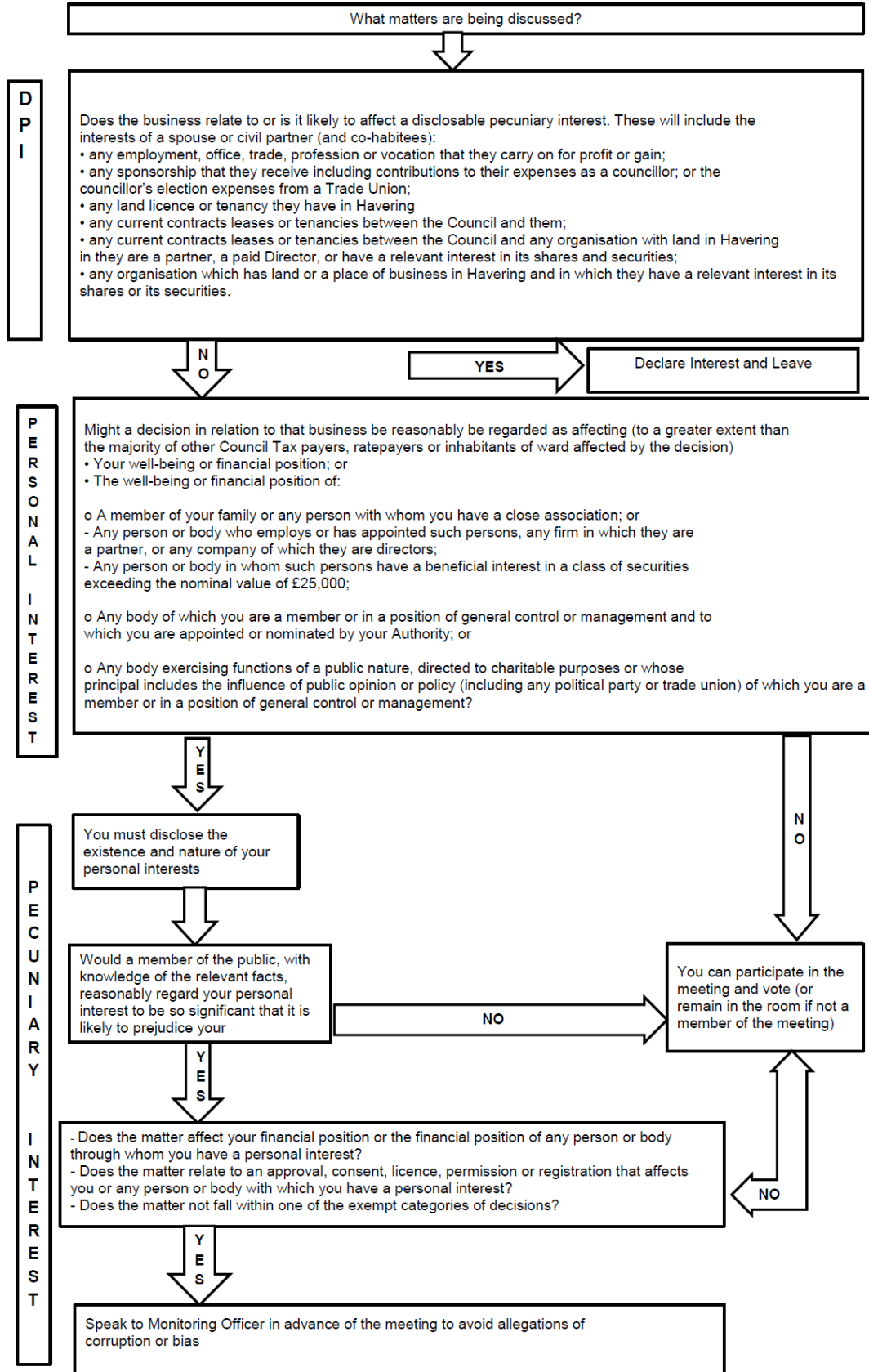
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

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

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

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

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

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

4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 24th February 2021 and authorise the Chairman to sign them.

5 HEAD OF ASSURANCE REPORT (Pages 5 - 24)

Report and appendix attached

6 EXTERNAL AUDIT PLAN 2020-21 (Pages 25 - 62)

Report and appendix attached

Andrew Beesley
Committee Administration
Manager

Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
24 February 2021 (7.05 - 8.45 pm)**

Present:

COUNCILLORS:

Conservative Group Viddy Persaud (Vice-Chair), Roger Ramsey and
Judith Holt

Residents' Group Gerry O'Sullivan

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

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

There were no apologies

60 PROTOCOL FOR VIRTUAL MEETING

The Committee noted the protocol.

61 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 28 October 2020 were agreed as a correct record and, due to COVID-19, will be signed by the Chairman at a later date.

62 ACCOUNTING POLICIES 2021-22

The report presented to the Committee gave an update to the Accounting Policies for 2021-22.

Members noted that there were no significant changes as the changes had been deferred to 2022-23 due to the COVID-19 pandemic. Members noted that leased assets would be added to the asset sheet and heritage buildings would cover historical buildings of which Havering is reported to have only Upminster Windmill. Committee members expressed concern that other buildings in the borough should be included. It was reported by officers that historic costs were based on current day valuations of what the cost of the asset would have been when it was obtained by the Council.

The Committee noted the accounting policies for 2021-22.

63 CLOSEDOWN TIMETABLE 2020-21

The report brought before the Committee gave an update of the progress of the closure of the accounts for 2020-21.

The Committee noted that the Council closed its accounts in July 2020 and the external audit was due to be completed by 30th November 2020 but as at January 2021 tis was still ongoing. The Committee noted that the statutory deadline for the publication of draft accounts was 31st May 2021 with the audit to be completed by 31st July 2021.

The Committee noted the report.

64 LBH COUNCIL & PENSION FUND ANNUAL STATEMENT 2019-20

The report put before the Committee presented the Council's Pension Fund annual statement for 2019-20.

It as noted by the Committee that the audit date had been extended to the 30th November 2020, however the audit was continuing. It was also noted that the Council had made changes to the going concern disclosures but it was suggested by EY that more changes needed to be made. Members were advised that 1 error had been found in the accounts but this had since been rectified and had no material impact and did not affect usable resources.

The committee agreed all recommendations as set out in the report. Authority was delegated to the Committee Chair and Chief Operating Officer to complete the audit sign off process of the 2019/20 accounts. If necessary, any significant issues would be relayed to the Committee Members.

65 AGS 2019-20 SIGNIFICANT ISSUES UPDATE

The report presented to the Committee reported on the progress of the significant governance issues as shown in the 2019-20 AGS.

Committee members were pleased to note that the issues are monitored monthly by the Governance and Assurance board. The Committee questioned the target date for completion to which officers commented that the target is due to the end of the financial year and some issues will be resolved before but stated that some issues would have to be carried over into the next financial year.

The Committee noted the report.

66 CORPORATE RISK REGISTER

The Committee received the corporate risk register.

The Committee noted that directorates are keeping their risk registers up to date. Members suggested 2 additional risks of the mental and physical effects of isolation and the risk of the lower levels of skills and training for local business employees following COVID-19 with a view of utilising apprenticeship programmes.

The Committee noted the report.

67 2021/22 DRAFT INTERNAL AUDIT PLAN

The Committee received a report that outlined the draft internal audit plan for 2021-22

Members noted it was flexible but focused on the themes in the corporate plan with some areas having been brought forward as they were not considered due to COVID-19, such as parking issues. Members were keen for any other issues to be reported on at the next meeting.

The committee noted the report.

68 INTERNAL AUDIT & COUNTER FRAUD PROGRESS REPORT

The report put before the Committee advised on the work taken with regards to the internal audit and counter fraud.

Members noted that reviews of assurance for schools were only for LA maintained schools, housing fraud referrals had doubled but was still relatively low. Members did note that full visits regarding housing fraud could not be carried out due to COVID-19.

The Committee noted the report.

69 TREASURY MANAGEMENT STRATEGY STATEMENT 2021-22

The Committee received the Treasury Management strategy statement for 2021-22.

It was noted by the Committee that the requirements for and restrictions placed on investments had not changed significantly. Members commented on the exposure to fossil fuel companies. It was noted that treasury has no investments in Fossil Fuel Companies and the Havering Pension Fund has a very small amount of holdings in these companies in proportion to total assets.

The Committee noted the report.

Chairman

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AUDIT COMMITTEE – 28th APRIL 2021

Subject Heading:

Head of Assurance Annual Report and 2020/21 Internal Audit Plan Outturn

SLT Lead:

Jane West, Chief Operating Officer

Report Author and contact details:

Jeremy Welburn, Head of Assurance
Tel: 01708 432610 / 07976539248
Email: jeremy.welburn@onesource.co.uk

Policy context:

To present a summary of the outcomes of Internal Audit and Counter Fraud work completed during 2020/21 and the Head of Assurance's annual opinion.

Financial summary:

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

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

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

SUMMARY

This report brings together all aspects of audit, assurance and counter fraud work undertaken in the 2020/21 financial year, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority. The report includes the Head of Assurance opinion on the internal control environment for 2020/21.

RECOMMENDATIONS

Members are asked to consider the Assurance End of Year Report 2020/21 incorporating Head of Assurance Opinion and to make any appropriate recommendations.

REPORT DETAIL

1. Introduction

1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner/sponsor
- Third line – independent assurance.

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

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

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

1.5 This report summarises the outcomes of audit and counter fraud work undertaken during 2020/21 in support of the Audit Committee's role.

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

Appendix 1: Head of Assurance Annual Report and 2020/21 Internal Audit Plan Outturn. This report is presented in the following sections:

Section 1: Head of Assurance Annual Opinion

Section 2: Outturn of 2020/21 Internal Audit Plan

Section 3: Audit Recommendations Update

Section 4: Schools Programme

Section 5: Counter Fraud

Section 6: Risk Management Arrangements

Section 7: Governance Arrangements

Section 8: Audit Committee

Section 9: Audit Work Undertaken during 2020/21

IMPLICATIONS AND RISKS

Financial implications and risks:

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

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

Legal implications and risks:

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

Human Resources implications and risks:

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

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Assurance End of Year Report 2020/21 incorporating Head of Assurance Opinion

1 Head of Assurance Annual Opinion

- 1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit (Head of Assurance) is required to provide an annual opinion to the Audit Committee, based upon and limited to the work performed by Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is achieved through an audit plan that is focused on key strategic and operational risk areas, agreed with senior management and approved by the Audit Committee. The Head of Assurance opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based audit work formulated around a selection of key systems and risks.
- 1.2 In line with best practice, Internal Audit prepares, in consultation with senior management, an annual risk based strategic plan. The audit plan is, if necessary, amended during the year to reflect changes within the Council's risk profile.
- 1.3 From the work undertaken during the 2020/21 year, **reasonable assurance** can be provided that there is generally a sound system of internal control across the Council. This opinion is broadly consistent with the 2019/20 view. However, it should be noted that the reasonable assurance opinion provided overall last year contained three areas of significant issues, as detailed below:
- Financial control areas such as payroll and purchase cards;
 - Controls over private sector leasing arrangements: and
 - Procurement, specifically a lack of contracts in place for a number of suppliers.
- 1.4 Purchase Cards and Private Sector Leasing arrangements have been followed up during 2019/20 and reasonable assurance can be provided on the controls operating in these areas.
- 1.5 The payroll audit recommendations will be followed up in the first Quarter of 2021/22, as the implementation of a new financial system (Fusion) has meant that testing has not been possible until this point.
- 1.6 The Procurement Service is undergoing a significant strategic review at the time of this report, so the Internal Audit Service will review the control environment again when this work is completed. Other audits throughout 2020/21 have included elements of procurement testing, so there has been a level of audit coverage throughout the year in this area.
- 1.7 The basis for this opinion is derived from an assessment of the range of individual opinions arising from assignments, contained within the Internal Audit risk based plan, that have been undertaken throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

Appendix 1 - Audit Committee 28 April 2021

- 1.8 It should be noted that the Council's response to the COVID 19 pandemic has meant that the approach and focus of internal audit work has been subject to change during the course of 2020/21. The Internal Audit service has adapted its work schedule to ensure that the key risks have been addressed and prioritised to provide sufficient coverage of the control environment.
- 1.9 The table below provides a summary of Audit Opinions issued in 2020/21. It should be noted that some of the work undertaken by Internal Audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Audit Category	No Opinion	Substantial	Moderate	Limited	No Assurance
LBH Systems Audits	5	2	3	1	0
LBH Schools Audits	0	5	4	0	0
Total	5	7	7	1	0

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

Key to Assurance Levels	
Substantial Assurance	There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Moderate Assurance	Whilst there is basically a sound system of control within the areas reviewed, weaknesses were identified and therefore there is a need to enhance controls and/or their application and to improve the arrangements for managing risks.
Limited Assurance / No 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.

2 Outturn of 2019/2020 Internal Audit Plan

- 2.1 The Annual Audit Plan was approved by the Audit Committee in July 2020. The plan was developed using a thematic approach, in line with the Corporate Plan priorities for 2020/21, with time allocated under each theme to carry out risk identification and process mapping, where required. Members are reminded that the 2020/21 audit plan was presented as a flexible plan, subject to review through the year to ensure that emerging risks are covered. Adjustments to the plan are made to allow for changes in the risk and operational environment in which the Council operates. Where changes are made they are outlined in the table provided in section 9.
- 2.2 Due to the COVID emergency response, the priorities and risk profile of the Council changed significantly during 2020/21. Internal Audit adapted their work to provide assurance on the emergency response projects and changing risk environment. The COVID-19 pandemic was reflected in the plan presented to Audit Committee in July, with tasks added to the plan as emergency response projects were initiated across the council.
- 2.3 It should be noted that Internal Audit have been involved in providing assurance on the progress of a number of the key response projects, including the COVID 19 risk register. The service has also been included in the key emergency response boards, including Silver and Bronze groups and the Council's recovery group. Internal audit have also regularly liaised with key Officers involved in the pandemic response, such as within Business Continuity and Emergency Planning. As a result, Internal Audit have been able to provide assurance on the Council's emergency response throughout the course of the year.
- 2.4 School closures meant that all school audits were postponed until later in the year, with resources used during Quarter Two to adapt the programme to ensure we were able to carry out off-site audits where restrictions relating to the pandemic remained in place longer term. A member of the audit team was redeployed temporarily during Quarter One and Quarter Two to assist with the NHS shielding calls project. Work on supporting risk management and adapting the corporate risk register to reflect the pandemic also took priority during this time.
- 2.5 The table below details the results of the final reports issued / reviews completed since the last progress report presented to Members in February 2021:

Report	Assurance	Recommendations			
		High	Med	Advisory	Total
System Audits					
Treasury Management	Substantial	0	0	1	1
Troubled Families	Substantial	0	0	0	0
Health and Safety	N/A	0	0	3	3
Temporary Accommodation	N/A	N/A	N/A	N/A	N/A
System Audits Total		0	0	0	1
School Audits					
Parklands Junior School	Moderate	0	3	3	6
Clockhouse Primary School	Substantial	0	1	4	5
Corbets Tey School	Substantial	0	1	1	2
Elm Park Primary School	Moderate	1	1	7	9
St Mary's Catholic Primary School	Moderate	1	3	9	13
St Peter's Catholic Primary School	Moderate	0	2	6	8
Squirrels Heath Junior School	Substantial	0	0	1	1
School Audits Total		2	11	31	44

3 Audit Recommendations Update

- 3.1 Internal Audit follows up all audit recommendations with management when the deadlines for implementation are due. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review.
- 3.2 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.
- 3.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

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

3.4 The status of all recommendations raised during 2020/21 is outlined within the table below:

Systems Audits				
Number of Recommendations	High	Med	Advisory	Total
Recommendations raised since the last progress report	0	0	4	4
Total Recommendations Raised during 2020/21	6	4	4	14

School Audits				
Number of Recommendations	High	Med	Advisory	Total
Recommendations raised since the last progress report	2	11	31	44
Total Recommendations Raised during 2020/21	2	17	38	57

3.5 The details of the high risk recommendations were provided to Members in each of the progress reports provided at the previous Audit Committee meetings. It can be confirmed that all high risk recommendations raised during 2020/21 that were due by 31st March 2021 have been implemented.

3.6 The table below provides details of all recommendations raised for systems audits during 2020/21:

Audit	Risk	Recommendation	Status as at 31/03/21
Purchase Card Compliance	Med	<p>Mandatory training / guidance should be provided to approving managers and cost centre managers to ensure that they understand their respective roles in the monitoring and control of purchase card spend, not only in achieving value for money, but also in the prevention and detection of fraud. Training / guidance should cover:</p> <ul style="list-style-type: none"> • The need to ensure stock being purchased is actually received; • Consideration as to whether the most appropriate procurement route is being used to achieve value for money; • Whether spend is in line with budget forecasts, particularly where the budget holder does not have visibility of purchase card spend; • What reports are available to approving managers and cost centre managers around purchase card activity within their area; • The link between purchase card activity and the budget monitoring process; and • Possible indicators of fraud. <p>It is suggested that as part of the production of training / guidance, that advice from the Fraud Team and Finance is obtained.</p>	Not yet due

Contract Management - Housing	High	Immediate discussions with the contractor to check that (for work invoiced to date): jobs raised on openhousing were carried out as expected; that the rates charged on the invoices match the schedule of works in the contract and that these invoices have been paid; any additional payments made that appear to be duplicates, errors or, over and above the amounts in the schedule of work should be recouped from the contractor; and where supporting information cannot be identified for the jobs without job numbers, the Contractor must be asked to provide the supporting evidence.	Implemented
	High	Invoices received from the contractor should be reconciled to the openhousing system to ensure the requests for payment is valid. The following should be included as part of this process: <ul style="list-style-type: none"> - verification against the relevant open job orders in openhousing; - amounts charged matched to the schedule of rates in the contract; - that the job has been completed to the expected standard; and - once payment is made, this is recorded and the job is closed on the system. 	Implemented
Private Sector Leasing - Follow Up	High	A systematic check of existing PSLs should be carried out to ensure all key documents are in place, particularly those required to support that the property is safe for tenants to be placed in it. All documents should be stored on a suitable IT platform. Households deemed to be at risk due to living in properties that have significant faults and/or unavoidable hazards should be expected to be subject to a planned move.	Implemented
	High	Action should be taken to implement a process for the reporting, recording and recovery of rechargeable repair costs to tenants arising from the void process. Responsibilities in relation to this process should be clearly communicated to all appropriate Teams / Officers.	Not yet due
	Med	Similar to the current rules around four weeks rent arrears, a decision should be made as to what level of outstanding rechargeable repairs costs would prevent a tenant being awarded a secure / fixed term tenancy.	Implemented

Private Sector Leasing – Follow Up	High	<p>A review should be undertaken of the current PSL Scheme including the Rent Guarantee Scheme and cashless bond arrangements. This should include:</p> <ul style="list-style-type: none"> • The value of the cashless bond • What term the bond exists • When and how the bond can be redeemed • When rent payments to landlords will be begin; • When rent payments will cease, including any ongoing payments of rent after the property has been handed back; • Circumstances whereby the Council would be entitled to stop rental payments e.g. in the event that the Councils ability to use the property is delayed by the owner or a suitable tenant cannot be identified; and • The payment of financial incentives and compensations payments. <p>Expectations arising from this review should in clearly outlined in documented procedures and any associated PSL literature available to current and prospective landlords.</p>	Implemented
	High	<p>The service should work with Legal Services to review the wording of the lease agreement with the property owner to ensure the Council does not assume liabilities that should rest with the landlord and to reduce the Council’s risk of exposure.</p> <p>Advice should be sought at this time to establish how / when the Council would be in a position to replace the leases for the existing portfolio.</p>	Implemented
Business Continuity & Emergency Planning	Med	<p>Documented guidance should be produced detailing the expectation of managers in relation to BCP. This should include: the requirement to hold a hard copy BCP; guidance on completing the BCP; responsibility for checking third party contractors’ BCPs and where additional support can be obtained if necessary.</p>	Implemented
	Med	<p>As part of the Council’s Covid-19 response work, and any associated lessons learnt exercises, consideration should again be given to the development of local risk registers. The decision about the need for such local registers should be informed from the feedback on how the existing risk register structure coped during the pandemic. It should then be considered as to whether the existence of local registers may have been useful. Any local risk registers should follow the same principles as for the CRR (in terms of scoring and presentation) but include lower level risks, specific to each service, but which do not score highly enough in isolation to be included on the CRR. If implemented, local risk registers should then be regularly reviewed to ensure that any changes in risk score are identified and escalated as necessary.</p>	Implemented

Treasury Management	Adv	It is advised that the authorised signatory list is included in the Treasury Management Procedures document, to enable all officers involved in the Treasury Management process to be fully informed.	N/A
Health and Safety	Adv	Where H&S policies have not been updated, or cannot be located, remedial action should be taken and these updated policies made available to staff.	N/A
	Adv	Once the Fusion system is able to establish links to the new H&S e-learning platform, this should be used to monitor compliance with training requirements. Regular reporting should take place, with any non-compliance escalated to CMT. In addition, a Training Needs Analysis should be conducted, to ensure that staff training requirements are adequately mapped out against their roles.	N/A
	Adv	A central log of Risk Assessments should be developed to allow the Corporate H&S Team to more effectively monitor compliance. Compliance should then be discussed at the Corporate H&S Management Board meetings with non-compliance monitored and escalated to CMT if necessary.	N/A

Schools Programme

- 4.1 There are currently 44 borough maintained schools within Havering. Of these, 40 schools will have received a triennial audit between the financial years 2018/19 – 2020/21. The remaining four maintained schools were assessed on the assurance given at their last triennial audit and considered to be low risk; therefore a triennial audit was not delivered as part of the three year rolling programme. These schools have received at least one health check since their last triennial visit, and are scheduled to be reviewed as part of the 2021/22 audit plan.
- 4.2 In addition to assessing the implementation of recommendations raised following the previous audit, the Health Check also reviews the perceived high risk areas, including those common themes noted in paragraph 4.4 below.
- 4.3 Assurance opinions are given for each school report. Currently, eight schools out of the 20 schools due in 2020/21 have received their Triennial audit, a further seven are underway with the remaining three audits moved to the 2021/22 plan. Of the nine schools who have received a triennial audit in 2020/21, five received Substantial Assurance, and four received Moderate Assurance.
- 4.4 Recommendations raised during the 2020/21 audits produced some common themes found across multiple schools:
- Orders should be raised on the finance system before the invoice is received;
 - Supplier invoices should be paid within the required 30 day payment period; and
 - Residential School trips: Schools should produce an end of trip profit and loss statement which should be presented to Governors for information purposes.
- 4.5 During 2020/21, the service was due to deliver nine Health Checks, generating total revenue in year of £8,262. Due to COVID 19, and the resulting closure of all schools, the Health Checks have been delayed, with priority given to the delivery of the Triennial Audits.
- 4.6 The Schools Financial Value Standard (SFVS) is designed to assist schools in managing their finances and to give assurance that they have secure financial management in place. As Governing bodies have formal responsibility for the financial management of their schools, the standard is aimed primarily at governors. The SFVS returns are used to inform the risk based internal audit programme. All schools within Havering completed and submitted their copies of the SFVS to the LA within the agreed timescales.

5 Counter Fraud

- 5.1 **Corporate Fraud** - The Council has a zero tolerance approach to fraud and the work of the Fraud Team supports this priority. The team offers both a criminal, proactive and reactive support service. The team have looked into 14 cases this financial year, including current investigations into allegations of theft, falsifying timesheets and procurement fraud.
- 5.2 **Housing Fraud** - The Council take a zero tolerance approach to tenancy fraud and have 57 open investigations. The team will investigate all allegations of tenancy fraud and take action where we have sufficient evidence that fraud has taken place. This action can include a criminal prosecution and/or a claim for possession of the property through civil courts; we will always look to make a claim for any legal costs occurred as well as any relevant compensation due. It should be noted that the ability to investigate housing fraud has been severely impacted by the lockdowns throughout the year, with visiting of properties not being possible for a significant proportion of the year.
- 5.3 The team check on average 15 RTB applications per month to ensure that the Council are not losing stock fraudulently. Referrals both internally and externally have decreased; to counter this we plan to carry out internal awareness sessions and external marketing campaigns.
- 5.4 Proactive Counter Fraud Investigations

Proactive work undertaken during 01/01/2021 to 31/03/2021 is shown below:

Description	Risks	Status
Advice to Directorates	General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Two requests for advice were received.	Ongoing
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc. One request for advice were received.	Ongoing
Fraud Hotline	To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. No referrals were received.	Ongoing
FOI Requests	To undertake all Freedom of Information (FOI) Requests. One request was received.	Ongoing
National Fraud Initiative Data Upload	To co-ordinate the data upload for the 2020/21 NFI. All data has been uploaded in accordance with the NFI Specification. Matching has now been completed and the results are now available for reviewing. 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.	Ongoing

5.5 Reactive Investigation Cases

Three referrals were brought forward from the previous year and 16 cases were received during the year. Of the 19 cases:

- One case was passed to Legal;
- Four cases were passed to Management / HR for Investigation;
- One case resulted in the employee's assignment not being renewed;
- Five cases resulted in a disciplinary investigation;
- Five cases have been investigated where there was no case to answer; and
- Three are still under investigation.

5.6 Housing Cases

The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications:

Description	2019/20	2020/21 (to date)
Number of referrals	25	57
Properties recovered	4	2
Notional Saving	£72,000	£36,000
RTB checked	208	178
RTB stopped	1	4
Notional Saving	£108,000	£449,200
Total Notional Saving	£180,000	£485,200

6 Risk Management Arrangements

- 6.1 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 progress reported to the Audit Committee. Significant work has been underway during 2020/21 to review the risks facing the Council. The Governance and Assurance Board has overseen this process to ensure that the corporate risk register reflects the risks facing the Council. During 2020/21 Internal Audit have taken a lead on engaging with Directors and offering workshops to assist in establishing Directorate and Service risks.
- 6.2 It should be noted that the number of risks the Council is facing have increased, and in some cases escalated as a result of COVID-19. The Corporate Risk Register has been reviewed and approved by SLT via the Silver/Bronze groups established to manage the COVID-19 response. The Corporate Risk Register is also presently to Audit Committee every six months.
- 6.3 The risk management strategy and supporting policies are reviewed regularly to ensure they remain relevant to the Council's systems and procedures, and will be approved by the Audit Committee biannually.

7 Governance Arrangements

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

8 Audit Committee

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

9 Audit work undertaken during 2020/21

Audit Title	Status as at end 2020/21	Opinion	Comments
LBH Systems Audits			
Purchase Cards (compliance work)	Completed	Moderate	
Private Sector Leasing Follow Up	Completed	Moderate	
Management of NHS Shield Data (COVID-19 response)	Completed	N/A	
Management of food distribution to vulnerable individuals (COVID-19 response)	Completed	N/A	
Fusion - Oracle upgrade	Completed	N/A	
ICT Inventory (Laptop Security) – Smarter Working Project	Completed	Moderate	
Contract Management - Housing	Completed	Limited	
Troubled Families (Additional Task)	Completed	Substantial	
Treasury Management	Final Report	Substantial	
Health & Safety	Completed	N/A	
Temporary Accommodation (Additional task)	Final Report	N/A	
Reablement	Draft Report		
Payroll (compliance work)	Underway	Since work on these audits was still underway at the end of March, these will be added to the 2021/22 plan with a view to complete in April 2021.	
Social Care Transitions	Underway		
Business Continuity and Emergency Planning	Underway		
Housing Voids	Underway		
Responsive Repairs	Paused	This work has been paused due to contract renewal and focusing resources on voids work.	
Planning	Moved to 21/22	Moved due to resource reallocation as a result of other emerging risks.	
Parking	Moved to 21/22		
Procurement	Moved to 21/22	Moved due to ongoing strategic review of procurement.	
SEND - transport	Moved to 21/22	Moved due to pressures on services due to pandemic response.	
Post implementation review of Liquid Logic	Moved to 21/22		
Safeguarding Adults	Moved to 21/22		
Direct Payments	Moved to 21/22		
Housing Compliance	External review commissioned by the Housing Service of the Compliance Programme (April 2021). Internal Audit will take assurance form this work when completed		
Outbreak management plan and infection control	Audit removed from plan with agreement of S151. Assurances can be taken from arrangements in place to monitor and manage the pandemic.		
Leaving Care	Removed following discussion with Director and assurances on this area provided by external reviews (including ongoing stocktake work, University of		

Appendix 1 - Audit Committee 28 April 2021

	Bedfordshire research outcomes and subsequent improvement programme).
Licensing Schemes	Removed following risk discussion with Director.

Appendix 1 - Audit Committee 28 April 2021

LBH Schools			
Harold Court Primary	Completed	Substantial	
La Salette Primary	Completed	Substantial	
Parklands Junior	Completed	Moderate	
St Marys Catholic Primary	Completed	Moderate	
Corbets Tey School	Completed	Substantial	
St Peters Catholic Primary	Completed	Moderate	
Clockhouse Primary	Completed	Substantial	
Squirrels Heath Juniors	Completed	Substantial	
Elm Park Primary	Completed	Moderate	
Rainham Village Primary	Underway	Since work on these audits was still underway at the end of March, these will be added to the 2021/22 plan with a view to complete by May 2021.	
Squirrels Heath Infants	Underway		
St Edwards CofE Primary	Underway		
Crownfield Juniors	Underway		
The Towers Federation (2 schools)	Underway		
Harold Wood Primary	Underway		
Ardleigh Green Learning Federation (2 schools)	Move to 21/22	Onsite request by school	
Crowlands Primary	Move to 21/22		
Crownfield Infants	Move to 21/22		
Health Checks (9)	Due to prioritisation of resources for school triennial audits and the system audits, health checks have not been completed in 2020/21 and will be moved to 2021/22		

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AUDIT COMMITTEE – 28TH APRIL 2021

Subject Heading:	External Audit Plan 2020/21
SLT Lead:	Jane West
Report Author and contact details:	Contact: Debbie Hanson E-mail address: dhanson@uk.ey.com Ernst and Young Kevin Miles Designation: Financial Reporting Accountant Financial Control Telephone: 01708 434551 E-mail address: kevin.miles@havering.gov.uk
Policy context:	To consider the External Audit Plans for the London Borough of Havering and for the Pension Fund
Financial summary:	There are no direct financial implications to the report. The cost of the audit is contained in the audit plan

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

Communities making Havering	<input type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input checked="" type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

The attached reports advise the Audit Committee of the proposed External Audit Plan for 2020/21.

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

RECOMMENDATIONS

1. To note the contents of the plan, in particular the materiality and reporting levels.
2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

REPORT DETAIL

Background

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

The final audit is to commence in September 2021 with the publication of the opinion by the end of the year. It is planned to table the draft 2020/21 accounts at a meeting in July and the audited accounts will be brought back to this Committee along with the audit opinion for approval.

The Committee is asked to note the materiality and reporting levels set by the auditors on page 27 of their plan (page 14 for the pension fund). The audit fee is outlined on page 44 of their Council plan. The overall audit fee for 2020/21 is £226,567, the same as 2019/20. Both years include a proposed increase to the scale fee of £91,147 for both 2019/20 and 2020/21. The fee also includes a charge of £18,500 for the Housing Benefit and Teachers Pension Return. GT were appointed to do the TP return in 2019/20 as EY did not have the resources to complete the audit by the deadline set by the Teacher's Pension organisation. There might be additional audit fees for additional risks for COVID risk review work and value for money assessments required by the National Audit Office (NAO).

The Pension Fund audit plan is also enclosed. The audit fee scale outlined on page 27 of the pension plan has increased from last year's fee of £16,170 to £18,325. In addition there are fees of £5,000 for IAS19 review work and further fees for going concern review work.

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

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

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


Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

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Havering Pension
Fund

Indicative Audit Planning
Report

Year ended 31 March 2021

April 2021

16 April 2021



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

Dear Audit Committee / Pension Committee Members,

2020/21 Indicative Audit Planning Report

We are pleased to attach our Indicative Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks. We have not yet completed all our planning procedures and we will provide an updated Plan if there are any changes to our risk assessment or planned audit approach following the completion of these procedures.

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

We welcome the opportunity to discuss this report with you on 28 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

Debbie Hanson

For and on behalf of Ernst & Young LLP

Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from 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 April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Havering Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Havering Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error: Management Override	Fraud risk	No change in risk or focus	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Misstatements due to fraud or error: Incorrect posting of investment valuation and income journals	Fraud risk	No change in risk or focus	We have identified the incorrect posting of investment valuation and income journals as a specific risk where misstatements due to fraud or error may arise for the Pension Fund. There is the risk that management may post inappropriate investment journals for the year end 31 March 2021.
Valuation of complex investments (including pooled property funds, pooled infrastructure and pooled private debt)	Significant risk	No change in risk or focus	<p>The Fund's investments include complex investments such as pooled property funds investments. The valuation of such investments are based on 'unobservable' inputs.</p> <p>Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p> <p>The proportion of the fund comprising of these investment types was around 18.9% in 2019/20. As these investments are more complex to value, we have identified the Fund's investments in level 3 investments as significant risk, as even a small movement in these assumptions could have a material impact on the financial statements.</p>

Overview of our 2020/21 audit strategy

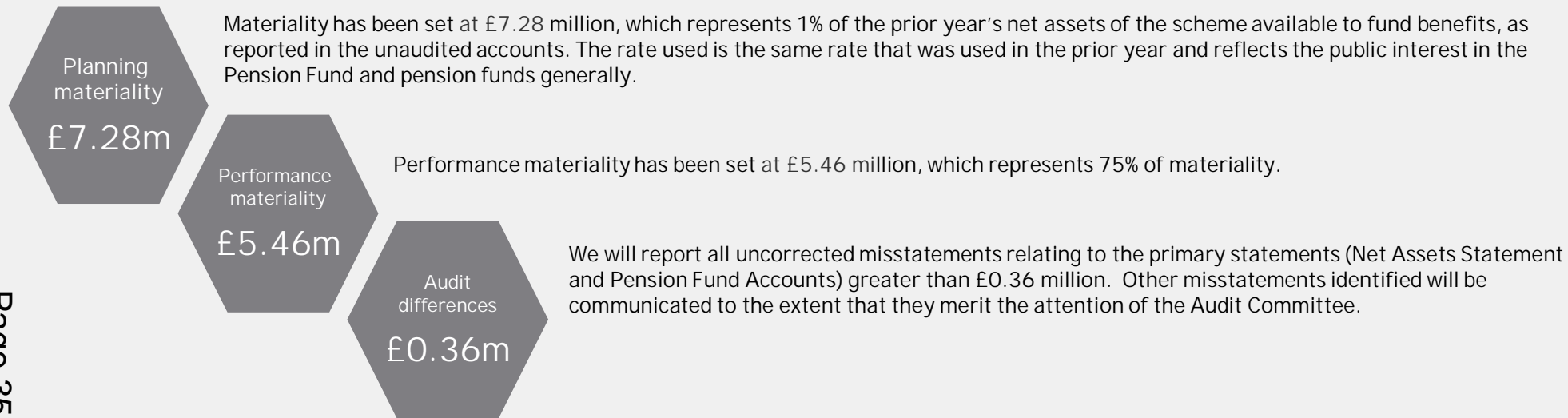
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

	Risk identified	Change from PY	Details
Going concern assessment and disclosures Page 34	Higher inherent risk	No change in risk or focus	<p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. There is therefore a presumption that the Pension Fund will continue as a going concern.</p> <p>However, the current uncertain economic environment as a result of Covid-19 increases the need for the Fund to undertake a detailed going concern assessment to support this assertion.</p> <p>In addition, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p> <p>The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Fund's assessment will also need to cover this period. Therefore, the Fund's going concern assessment and disclosure in the accounts will need to consider information relevant to the 2022/23 financial year.</p>

Overview of our 2020/21 audit strategy

Materiality



Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of London Borough of Havering.

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

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

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

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

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuation of pension assets, in particular property related assets, and the introduction of new accounting standards, such as IFRS 9 and 16, in recent years. Therefore, to the extent any of these are relevant in the context of Havering Pension Fund's audit.



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02 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud and error: Management override and incorrect posting of investment journals

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What is the risk?

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

We identify and respond to this fraud risk on every audit engagement.

We have considered the specific areas where this risk may be manifested. The valuation of investment assets is a key metric for measuring the performance of the pension fund. We consider that management has an incentive to increase these values reported in the financial statements and is in a unique position to influence the posting of year end investment asset valuation journals. There is therefore a risk this may result in misstatements either due to fraud or error.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To respond to the specific fraud risk we have identified relating to the incorrect posting of investment journals we will perform the following additional audit procedures:

- Verify agreement of the Pension Fund's investment asset holdings as at 31 March 2021, including asset values, and investment income for 2020/21 to source reports from the Pension Fund's custodian and individual fund managers.
- Agreed the reconciliation of holdings included in the Net Assets Statement to the source reports from the Pension Fund's Custodian and Investment Fund Managers.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p>Valuation of complex investments (including pooled property funds, pooled infrastructure and pooled private debt)</p> <p>Financial statement impact</p> <p>The proportion of the fund comprising of complex investments (Pooled property funds) at 31 March 2020 was approximately £133.7 million, representing 18.9% of total pension fund.</p> <p>As these investments are more complex to value, we have identified the Fund's level 3 investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.</p>	<p>The Fund's investments include complex investments such as pooled property funds investments. The valuation of such investments are based on 'unobservable' inputs.</p> <p>Judgements are taken by the Investment Managers to value those investments where prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.</p> <p>Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.</p> <p>For 2020/21, potential ongoing impacts of the Coronavirus pandemic may increase this volatility, particularly for pooled property valuations.</p>	<p>We will:</p> <ul style="list-style-type: none"> ➤ Review the basis of valuation and assess the appropriateness of the valuation methods used. Where appropriate this may include the use of EY Pension or valuation experts to support the audit team if necessary. ➤ Review the latest audited financial statements of the individual investment funds to: <ul style="list-style-type: none"> ➤ Confirm the valuation of a sample to the underlying net assets of the individual investment funds, ➤ Ensure there are no matters arising that highlight weaknesses in the funds valuation. ➤ Where possible, perform analytical procedures to check the valuation output for reasonableness against our own expectations. ➤ Review disclosures in the Fund's financial statements to ensure that where significant estimates and/or judgements have been made in relation to valuation of complex investments, they are appropriately disclosed.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
<p>Going concern disclosures</p> <p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p> <p>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. The revised standard increases the work we are required to perform when assessing whether Havering Pension Fund is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.</p> <p>The CIPFA Guidance Notes for Practitioners 2020/21 accounts states ‘The concept of a going concern assumes that an authority’s functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.’</p> <p>‘If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.’</p>	<p>The revised standard requires:</p> <ul style="list-style-type: none"> ➤ Auditor’s challenge of management’s identification of events or conditions impacting going concern, more specific requirements to test management’s resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; ➤ Greater work for us to challenge management’s assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; ➤ Improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management’s assessment is appropriate, and to set out the work we have done in this respect. While Pension Funds are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements; ➤ A stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ➤ Necessary consideration regarding the appropriateness of financial statement disclosures around going concern. <p>The revised standard extends requirements to report to regulators where we have concerns about going concern.</p> <p>We applied the principles of the new standard to our 2019/20 audit of the Pension Fund, and will continue to liaise with finance staff during 2020/21 to confirm the work that we will be required to undertake in 2020/21.</p>



03

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £7.28 million. This represents 1% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. We have provided supplemental information about audit materiality in Appendix C. The same rate was used in determining the prior year's materiality.

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.46 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold (£0.36 million) are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

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



04

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

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

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland) as well as on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of London Borough of Havering.

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

Procedures required by standards

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

Procedures required by the Code

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2020/21, we plan to adopt a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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



05

Audit team



Audit team and the use of specialists

Audit team

The core audit team is led by Debbie Hanson as Associate Partner and Lorenz Cayetano as Manager.

Use of specialists

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

Area	Specialists
Pension fund valuation and disclosures	Hymans Robertson (Havering Pension Fund actuary) PwC (Consulting Actuary to the National Audit Office) EY Pensions Advisory Team
Investment valuation	The Pension Fund's custodian and fund managers EY Pensions or Valuation experts (if required) to assess the valuation of complex investments

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

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

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



06 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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

Audit phase	Timetable	Audit Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems	April	Pension Fund Committee	Indicative Audit Planning Report
	May		
	July	Audit Committee (TBC)	Updated Audit Planning Report (if needed)
Execution: audit of 20/21 draft financial statements	September/ October		
Conclusion: Audit completion procedures	November	Audit Committee (TBC)	Audit Results Report Audit Report and Consistency Opinion
Final reporting	December		Auditor's Annual Report (timing to be confirmed) - this will cover the audit of the Council and Pension Fund

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07

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standard or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

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

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

Self review threats

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

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

Management threats

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

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

Other communications

Other threats

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

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

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



09

Appendices



Fees

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

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As noted in slide 8, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. A combination of pressures is impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a result, we have had to revisit the basis on which the scale fee was set. We previously shared with the Council our proposal for increasing the scale fee and details of the main drivers. As a result of these factors, we are proposing an increase in the scale fee from £18,325 to £55,000. We will submit our fee estimate to PSAA for them to determine. This updated scale fee is not currently reflected in the table below.

Page 55	Planned fee 2020/21 (Note 2)	Final Fee 2019/20 (Note 1)
	£'s	£'s
Scale fee - Code work	18,325	16,170
IAS 19 Assurance Approach	5,000	5,000
Triennial Review Procedures	0	3,000-4,000
Going Concern and PBSE disclosure consultation	TBC	4,000-8,000
Total fees	TBC	28,170 - 33,170

All fees exclude VAT

Note 1 - We are still finalising the 2019/20 audit and, as communicated in our Audit Results Report, we are proposing a variation in relation to the work performed to provide IAS 19 assurances, as well as additional work in relation to the triennial valuation and going concern and PBSE disclosures consultation. We will update the Audit Committee on the final fee once we have completed the audit. The proposed additional fee related to going concern and PBSE will also need to be approved by PSAA.

Note 2 - We anticipate charging an additional fee of £5,000 in 2020/21 in relation to the additional work required to provide the IAS19 assurance for the London Borough of Havering. This is consistent with the additional fee proposed in 2019/20.

We also expect to charge an additional fee for the additional work which will again be required in relation to the going concern assessment as an area of focus identified for the audit. Until we have completed this work we are not able to provide an estimate of the level of additional fee.

The planned fee presented is based on the following assumptions:

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





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

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





Appendix B

Required communications with the Audit Committee




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

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Indicative Audit planning report – April 2021
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report – November 2021
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report - November 2021
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report - November 2021

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report - November 2021
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report - November 2021
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Indicative Audit planning report – April 2021</p> <p>Audit results report - November 2021</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report - November 2021

Required communications with the Audit Committee (continued)

Required communications	 What is reported?	  When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report - November 2021
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report - November 2021
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - November 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - November 2021
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - November 2021
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the Audit Plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report – April 2021 Audit results report - November 2021

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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