



# Havering

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Tuesday 8 July 2025</b>	<b>Town Hall, Main Road, Romford</b>
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Members 6: Quorum 3

**COUNCILLORS:**

**Conservative Group  
( 2 )**

Keith Prince  
David Taylor

**Havering Residents' Group  
( 3 )**

Julie Wilkes (Chairman)  
Jacqueline Williams (Vice-  
Chair)  
John Crowder

**Residents' Association  
Independent Group  
( 1 )**

Philip Ruck

**For information about the meeting please contact:**

**Luke Phimister 01708 434619  
luke.phimister@OneSource.co.uk**

**Please would all Members and officers attending ensure they sit in their allocated seats  
as this will enable correct identification of participants on the meeting webcast.**

***Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.***

***Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.***

### **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**



**Principles of conduct in public office**

In accordance with the provisions of the Localism Act 2011, when acting in the capacity of a Member, they are committed to behaving in a manner that is consistent with the following principles to achieve best value for the Borough's residents and to maintain public confidence in the Council.

**SELFLESSNESS:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

**INTEGRITY:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

**OBJECTIVITY:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

**ACCOUNTABILITY:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

**OPENNESS:** Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

**HONESTY:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

**LEADERSHIP:** Holders of public office should promote and support these principles by leadership and example.



## 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 7 - 8)

To approve as correct the minutes of the meeting held on 17<sup>th</sup> April 2025 and authorise the Chairman to sign them.

### 5 EXTERNAL AUDITOR'S ANNUAL REPORT 2023/24 (Pages 9 - 42)

### 6 EXTERNAL AUDIT PLAN 2024/25 (Pages 43 - 138)

### 7 ANNUAL TREASURY MANAGEMENT REPORT 2024/25 (Pages 139 - 156)

### 8 HEAD OF ASSURANCE ANNUAL REPORT 2024/25 (Pages 157 - 188)

### 9 AUDIT COMMITTEE ANNUAL REPORT 24-25 (Pages 189 - 202)

**Zena Smith**  
**Head of Committee and**  
**Election Services**

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# Public Document Pack Agenda Item 4

## MINUTES OF A MEETING OF THE AUDIT COMMITTEE

Appointment Centre Room 10 & 11, Town Hall, Romford  
17 April 2025 (7.00 - 7.30 pm)

Present:

### COUNCILLORS:

**Conservative Group** Keith Prince and David Taylor

**Residents' Group** Julie Wilkes, Jacqueline Williams (Vice-Chair) and  
Christine Smith (In place of John Crowder)

**Residents Association  
Independent Group** Philip Ruck

Apologies were received for Councillor John Crowder.

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

### 18 MINUTES OF THE MEETING

The minutes of the previous meeting held on 30 January 2025 were agreed as a correct record and signed by the Chairman.

### 19 DRAFT INTERNAL AUDIT PLAN

The Committee received the Draft Internal Audit Plan Report for 2025/26, presented by Jeremy Welburn.

#### The Committee:

1. **Approved** the 2025/26 audit plan, ensuring that this reflects the Council's strategic risks, with officers within the Assurance Service involved in discussions with the Section 151 Officer, Directors and senior management to review risks in their areas.
2. **Approved** the draft plan has been developed using the Council's Vision and objectives for 2025/26. The plan is continuous and flexible to allow for changes in the risk and operational environment in which the Council operates.
3. **Approved** the draft Internal Audit Plan 2025/26, included as Appendix 1. The Plan is exclusive of Counter Fraud investigations, but there is a provision for Internal Audit staff to support Counter Fraud work on system-related work.
4. **Approved** the Internal Audit Charter, which has been reviewed and updated to reflect the Global Internal Audit Standards and is included as Appendix 2.

20 **ANTI-FRAUD AND CORRUPTION STRATEGY**

The Committee received the Anti-fraud & Corruption Strategy Report, presented by Jeremy Welburn.

Members noted the contents of the report and were given the chance to raise any issues of concern and ask specific questions of officers where required.

Members asked how the delivery of the strategy will be monitored. Members noted that a progress report is made public quarterly.

Members then asked for confirmation that the report was achievable given the financial situation of the council. Members appreciated that a proactive approach to Tenancy Fraud was ongoing. They were also reminded of the rapid increase in Right to Buy applicants over recent months, due to changes to discounts. An overall proactive not reactive approach was emphasised. This proactive approach continually aims to become embedded in the organisation's culture.

Flexibility and internal adjustment of resources across the entire Anti-fraud & Corruption Strategy plan is supported.

Members noted that there were no significant changes at this 4-year review of the strategy. The Committee noted that the report would be put on the Intranet once approved.

21 **DRAFT ANNUAL GOVERNANCE STATEMENT**

The Committee received the Draft Annual Governance Statement 2024/25 Report, presented by Jeremy Welburn.

Members noted and discussed the report.

Members were informed that Newham is slightly behind Havering in the OneSource split, with Havering on track to separate by 31 December. Any delays will be reported. If Havering meets the deadline, Newham will bear costs for remaining in the shared tenancy.

Members noted that Newham is currently slightly behind Havering's timeline in the OneSource shared split. Members were informed that Havering is on track for a 31 December separation. An update will be given if a delay is expected. If Havering's end-of-December separation is successful, Newham will pick up any costs associated with keeping their service if they haven't left the shared service arrangement.

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**Chairman**



## AUDIT COMMITTEE

8<sup>th</sup> July 2025

**Subject Heading:**

External Auditor's Annual Report 2023/24

**SLT Lead:**

Kathy Freeman, Strategic Director of Resources

**Report Author and contact details:**

Heather Salmon, Head of Finance  
Telephone: 01708 432151  
E-mail: [heather.salmon@havering.gov.uk](mailto:heather.salmon@havering.gov.uk)

**Policy context:**

Audit Committee to consider the External Auditor's Annual Report for the year ended 31 March 2024.

**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

People - Supporting our residents to stay safe and well  
Place - A great place to live, work and enjoy  
Resources - Enabling a resident-focused and resilient Council - X

### SUMMARY

The Council's external auditor, Ernst and Young (EY), are presenting their 2023/24 Annual Report for information and discussion.

### RECOMMENDATIONS

The Committee is asked to:

1. Note the external auditor's annual report (appendix A), including its findings and any recommendations.

**REPORT DETAIL**

**1. Introduction**

The auditor's Annual Report forms part of the statutory external audit of the Council.

The external auditor's Annual Report looks back over the financial year and summarises all of the reports and work that the external auditor has undertaken. It includes the auditor's commentary on the Council's value for money arrangements and confirmation of the opinion given on the financial statements.

The Annual Report is attached at Appendix A.

**2. Annual Audit Report 2023/24**

The National Audit Office Code of Audit Practice requires the external auditor to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

The Annual Report covers EY's findings on the risks to the Council's financial standing and on the arrangements which are in place to mitigate and manage those risks.

The External Auditor is required to report under three specific criteria, being:

- Financial Sustainability
- Governance
- Improving Economy, Efficiency and Effectiveness

No significant weaknesses were identified in relation to the first two criteria but the auditor concluded there is a weakness in respect of improving economy, efficiency and effectiveness criteria as a result of the Ofsted Inspection Report findings.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

There are no financial implications arising from the report itself however, there may be resource implications from implementing specific recommendations. If these cannot be contained within approved budgets, then a decision will be presented for approval.

**Legal implications and risks:**

There are no legal implications arising from this report.

**Human Resources implications and risks:**

There are no direct Human Resources implications in this report.

**Equalities implications and risks:**

There are no direct equalities implications in this report.

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, and 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.

**Environmental and Climate Change implications and risks:**

None arising directly from this report.

**Appendices:**

Appendix A – London Borough of Havering, Auditor's Annual Report Year ended 31 March 2024

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# London Borough of Havering **Auditor's Annual Report**

Year ended 31 March 2024

16 April 2025



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

16 April 2025

Dear Audit Committee Members

## 2023/24 Auditor's Annual Report

We are pleased to attach our Auditor's Annual Report including the commentary on the Value for Money (VFM) arrangements for London Borough of Havering. This report and commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2023/24.

This report is intended to draw to the attention of the Audit Committee and Council's Management any relevant issues arising from our work. It is not intended for, and should not be used for, any other purpose.

We welcome the opportunity to discuss the contents of this report with you at the next Audit Committee meeting.

Yours faithfully

A handwritten signature in blue ink that reads "MARK HODGSON". The signature is written in a cursive style.

Mark Hodgson

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website ([Statement of responsibilities of auditors and audited bodies \(from 2023/24 audits\) - PSAA](#)). 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 and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and Management of London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Audit Committee and Management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Audit Committee and Management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





BOARDROOM



# 01 Executive Summary

# Executive Summary

Appendix A

## Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year and the value for money commentary, including confirmation of the opinion given on the financial statements; and, by exception, reference to any reporting by the auditor using their powers under the Local Audit and Accountability Act 2014. In doing so, we comply with the requirements of the 2024 Code of Audit Practice (the Code) published in November 2024 and the supporting guidance of the National Audit Office (NAO) published within their Auditor Guidance Note 3 (AGN 03). This commentary aims to draw to the attention of the Council and the wider public relevant issues from our work including recommendations arising in the current year and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

The 2024 Code paragraph 4.10 has suspended the requirement to issue an Auditor's Annual Report by 30 November. It states that auditors may exercise judgement to determine when to issue their Annual Report including their commentary on arrangements to secure value for money.

## Responsibilities of the appointed auditor

We have undertaken our 2023/24 audit work in accordance with the Audit Plan that we issued on 14 May 2024. We have complied with the NAO's 2024 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- the 2023/24 financial statements;
- conclusions relation to going concern; and
- the consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- if the Annual Governance Statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- any significant matters or written recommendations that are in the public interest; and
- if we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



# Executive Summary (continued)

## 2023/24 Conclusions

<p>Financial statements</p>	<p>Disclaimed - Due to delays in receiving audit evidence in some areas of the audit of the Council's financial statements, as set out below, in sufficient time before the backstop date, we did not have the required resource available and have been unable to complete our audit. Those area were: Short-Term Creditors, Property Plant and Equipment, Cash and Cash Equivalents, Long-Term Debtors, and Short-Term Debtors.</p> <p>In addition:</p> <ul style="list-style-type: none"> <li>• due to delays in receiving assurances from the component auditors of the subsidiaries, we were also unable to complete our audit procedures in respect of the Group elements of the financial statements.</li> <li>• the Council has processed prior year adjustments relating to the Group and Council Balance Sheet and Movement in Reserves Statements. Due to the imposed backstop date, we were unable to perform sufficient further audit work to determine the completeness and accuracy of the adjustments made and recorded in the 2023/24 financial statements.</li> </ul> <p>As a result of the disclaimer of opinion in the prior year and the scope of our audit work, which was impacted by the backstop date, we did not have sufficient appropriate audit evidence over the following:</p> <ul style="list-style-type: none"> <li>• in the Balance Sheet and accompanying notes: the opening balances, closing reserves position and the valuation of property assets held at valuation included in 'Other Land and Buildings' and 'Heritage Assets' that were not revalued in year.</li> <li>• in the Comprehensive Income and Expenditure Statement and accompanying notes: comparatives and income and expenditure transactions that are impacted by the opening balances shown in the prior year balance sheet</li> <li>• in the Cash Flow Statement and accompanying note(s): opening balances, comparatives and in-year cash flow movements that are calculated as a movement between the opening and closing balance sheet.</li> </ul> <p>We therefore issued a disclaimed audit opinion on 26 February 2025 on the Council's 2023/24 financial statements. On the same date, we issued an unqualified opinion in respect of the Council's Pension Fund accounts.</p>
<p>Consistency of the other information published with the financial statements</p>	<p>Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.</p>

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# Executive Summary (continued)

## 2023/24 Conclusions

Value for Money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the Annual Governance Statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of Government Accounts	We have not yet concluded the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the NAO have not yet confirmed the final reporting position and whether any questions will be raised on individual returns. We cannot issue our Audit Certificate until these procedures are complete.

# Executive Summary (continued)

## Value for Money

### Scope

We are required to be satisfied that London Borough of Havering has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report.

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Management and Key Officers;
- information from external sources; and
  - evaluation of associated documentation through our regular engagement with Council Management and the Finance team.



# Executive Summary (continued)

## Appendix A

### Value for Money (continued)

### Reporting

Our commentary for 2023/24 is in Section 03. The commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2023/24.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2022/23 Interim Value for Money Report and have been updated in respect of 2023/24.

In accordance with the NAO's 2024 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures and whether we have concluded that there is a significant weakness in the body's arrangements.

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Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	One significant risk identified	No significant weakness identified
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	One significant risk identified	Significant weakness identified

# Executive Summary (continued)

## Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## EY Transparency Report 2024

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 end 30 June 2024:

[EY UK 2024 Transparency Report | EY - UK](#)





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# 02 Audit of the financial statements

# Audit of the financial statements – London Borough of Havering

## Key findings

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

On 26 February 2025, we issued a disclaimed audit opinion on the financial statements as detailed on page 6 of this report.

We reported our audit scope, risks identified and detailed findings to the Audit Committee meeting on the 24 February 2025 in our Audit Results Report. We outline below the key issues identified as part of our audit in relation to the significant risk areas. The findings for each of the account's areas are set out in the Audit Results Report in Appendix A.

Significant risk	Conclusion
<b>Management Override: Misstatements due to fraud or error</b>	<p>We completed our work in this area and did not identify any audit differences, except for our detailed testing in respect of additions to Property, Plant and Equipment and Investment Property, where we have been unable to complete our procedures.</p> <p>In the areas we could complete, we did not identify any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.</p> <p>We had no other matters to report</p>
<b>Risk of incorrect capitalisation of revenue expenditure (including Revenue Expenditure Funded from Capital Under Statute)</b>	<p>We were unable to complete our procedures over the incorrect capitalisation of revenue expenditure (including Revenue Expenditure Funded from Capital Under Statute) due to delays in the provision of sufficient supporting evidences for our selected sample items.</p>
<b>Accounting adjustments made in the 'Movement in Reserves Statement'</b>	<p>We completed our work in this area and did not identify any audit differences.</p>
<b>Valuation of Investment Property</b>	<p>We completed our work in this area and did not identify any audit differences.</p>
<b>Going Concern</b>	<p>We completed our work in this area. The Council updated their disclosure in respect of Going Concern. We referred to this disclosure within our Audit Report.</p>



# Audit of the financial statements - London Borough of Havering Pension Fund

## Key findings

The financial statements are an important tool for the Pension Fund to show the value of its underlying assets and how it can demonstrate its financial management and financial health.

On 26 February 2025, we issued an unqualified audit opinion on the financial statements as detailed on page 6 of this report.

We reported our audit scope, risks identified and detailed findings to the 24 February 2025 Audit Committee meeting in our Audit Results Report. We outline below the key issues identified as part of our audit in relation to the significant risk areas. The findings for each of the account's areas are set out in the Audit Results Report in Appendix A.

Significant risk	Conclusion
<b>Management Override: Misstatements due to fraud or error</b>	We completed our work in this area and did not identify any audit differences.
<b>Incorrect posting of investment income journals</b>	We completed our work in this area and did not identify any audit differences.
<b>Valuation of Complex Investments (Unquoted investments)</b>	We identified a difference of £1.414 million in the value of Level 3 Investments, which would increase total net assets from £969.498 million to £970.912 million. This difference occurred as a result of timing differences, where final year-end figures for the 31 March 2024 became available during the audit process. Management have elected not to adjust the Pension Fund financial statements for this difference on the basis of materiality.



# 03 Value for Money Commentary

# Value for Money Commentary

**Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services**

**No significant weakness identified**

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the Annual Governance Statement, rests with Management. In accordance with the NAO's Code of Audit Practice, the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2024. We identified a risk around the Council's budget setting and budget monitoring process as of a result of overspends in 2023/24.

The Council has a robust process to set the budget and Medium-Term Financial Strategy. The process is detailed and developing the budget considers factors such as the ongoing impact of the 2023/24 overspend, inflation rates, demographic assumptions, current year pressures, implications of future capital programme and the need to establish prudent levels of balances and reserves. Putting all this together gives a balanced budget for 2023/24 but a medium-term financial gap to 2027 of £31.1 million.

The final outturn in 2023/24 shows an overspend of £18.1 million because of additional demand in Social Care and Homelessness services. Action plans were formed and actioned to help contain these overspends and any ongoing implications are being fully built into the 2024-2028 Medium Term Financial Strategy.

February 2024, an updated 2024-2028 Medium Term Financial Strategy was approved by the Cabinet. The Council is facing a budget gap of £32.5 million based on a worst-case scenario which rises to £89.1 million over the next four financial years. The Council met with Departmental officials and ministers (Department of Levelling Up and Communities initially, which then became the Ministry for Housing, Communities and Local Government (MHCLG)) on number of occasions to discuss their position and seek exceptional financial support.

In March 2024, the Government confirmed that it would approve a Capitalisation Direction for almost £54 million that the Council required. This would cover the £18.1 million overspend in 2023/24 and the projected £32.5 million budget overspend in 2024/25.

The Council report regularly on the delivery against budget and the Period 6 Revenue Monitoring Report sets out the projected second quarter revenue position for 2024/25. The Council has projected a £33.2 million overspend which is in excess of the Capitalisation Direction requested for 2024/25 (as above). The Council is expecting this overspend to be £2.0 million by the of the financial year. This overspend will be funded from a reduction in the planned contribution to Reserves (budgeted as a £5.0 million contribution). This means contribution to Reserves will be lower than planned, though will still be an £3 million increase to Reserve balances the 31 March 2025.

(continued to next page)

# Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

For 2025/26, the Council is forecasting a budget gap of £89.0 million based on worst case scenario. The Council has sought further Exceptional Financial Support from MHCLG in order to balance the budget, which has recently been approved.

Based on the latest budget monitoring information available to us, the latest outturn projections are materially in line with the set budget, which was developed on a prudent, 'worst case scenario', basis. The Council have also received confirmation on 20 February 2025 that they will be able to access further exception financial support (agreed in principle) funding for 2025/26.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2023/24 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



# Value for Money Commentary (continued)

**Governance: How the Council ensures that it makes informed decisions and properly manages its risks**

**No significant weakness identified**

The Council is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the Annual Governance Statement, rests with Management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2024. Our risk assessment did not identify any risk of significant weakness in governance arrangements.

The Council has an established risk management process including a Risk Management Strategy that is reviewed bi-annually at Governance and Assurance Board and presented to Audit Committee. A Governance and Assurance Board is chaired by the S151 Officer and oversees the Risk Management process, reporting to the Executive Leadership Group (ELG) who have wider oversight. The Council maintains a Strategic Risk Register that is reported regularly to Audit Committee, who hold deep dive sessions into higher risk areas to understand the issues and the actions planned to mitigate the risk. Also, a new risk management system, JCAD, has been implemented in 2023/24 to ensure that risk management activity can be monitored more efficiently.

The Council has an Internal Audit team who develops an Internal Audit Plan with inputs from Governance and Assurance Board. Audit work considers the risk of fraud during each review and reports quarterly on its findings, recommendation status and progress of the audit plan delivery are reported to Audit Committee. An overall opinion is provided to the Audit Committee on the control environment within the Council, based on the work undertaken during the financial year.

The annual budget setting process in effect runs throughout the year culminating in Council Tax setting in either February or March depending on the date of the Full Council meeting. The budget report to Full Council contains a 'Medium-Term Financial Plan' which sets out the pressures expected for the following year. In the spring, these assumptions are refreshed, and Councillors are presented with an updated position and expected gap for the following year. The Council then reviews its services using the Council's main four themes to identify efficiencies and savings. The Council has a regular revenue monitoring report which sets out Council performance against budget. This includes the HRA Capital as well as revenue. This is reported to Cabinet quarterly although members also receive monthly updates.

The Council produces an Annual Governance Statements (AGS) each year and this includes an annual review of the effectiveness of the system of internal controls included in the Council's published Financial Statements. The preparation and publication of the AGS is in accordance with CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016) thereby fulfilling the statutory requirement for the annual review of the effectiveness of internal control and meets the requirement for preparation in accordance with proper practice.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2023/24 to make informed decisions and properly manage its risks.**

# Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Significant weakness identified

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the Annual Governance Statement, rests with Management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2024. In 2023/24, we identified a risk of significant weakness around the delivery of key services, as a result of an OFSTED inspection, where the overall effectiveness in respect of the local authority children's services has been rated as inadequate.

The Leadership Team reviews monthly the financial and performance information of the Council. Included periodically is benchmarking reports completed internally and externally which we use as a line of enquiry to identify where improvements can be made to operational performance or financial performance. The Council has an array of ways of measuring its own performance across all aspects of its operations. Each of these varies depending on the services being provided but are typically overseen by the overview and scrutiny committee applicable to the service line. Through this work performance indicators for subsequent years are developed and enhanced to continually improve.

Where the Council delivers services via partnerships it would ensure it is represented on the relevant partnership board. Reports would be presented to the boards which would review the costs and benefits and measure performance against KPIs. The Council has two fully-owned subsidiaries. Mercury Land Holdings facilitates construction and investment in private rental properties within the borough whilst Bridge Close Regeneration LLP together with other two joint ventures, Havering and Wates Regeneration LLP and Rainham and Beam Park Regeneration LLP are responsible for development and selling of properties within the Borough. The Council have worked closely with London Borough of Newham & London Borough of Bexley under the 'oneSource' arrangement, however the need for bespoke and unique services for each Council has meant that the scope of this arrangement has reduced with the Council taking certain shared services back in-house. Each borough's Cabinets agreed that HR, Pensions & Treasury, Procurement and Asset Management were to return to their sovereign Council's over the course of 2023/24 with ICT due to return by the end of 2025.

The Council was subject to an OFSTED inspection during December 2023, which resulted in an overall grade of 'Inadequate'. As a result of this review, we concluded that arrangements to manage and deliver services were inadequate and we reported this as an 'Other Matter' within our audit report. In response, the Council developed and submitted an Improvement Plan detailing the steps they will undertake to improve services and outcomes for children to OFSTED and the Department for Education. The Council received a letter from OFSTED acknowledging the Council's Action Plan and noting that the plan appropriately targets the findings and areas for improvement.

**Conclusion:** Based on the work performed, we have concluded that there is a significant weakness in respect of improving economy, efficiency and effectiveness criteria as a result of the Ofsted Inspection Report findings..





# 04 Appendices



# Appendix A - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2024/25.

### Reporting criteria considerations

### Arrangements in place

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

One of the main objectives of a robust plan is to minimise unexpected demand and significant changes in assumptions. The Council has and continues to develop models to predict changes in demand particularly in social care which is the area of greatest pressure. This client and unit cost data is regularly updated and is used to allow the Council to monitor and project future demand. The Council now has over two years of post pandemic data and is able once again to use the robust data available to project future demand and allow medium term planning. There is a balance to be struck between creating an artificial gap through cautious projections and being too optimistic resulting in a last-minute requirement for lasted savings.

The Council has baselined all its budget so each budget is measurable in terms of the projected numbers of users, volumes of income and unit costs. This will enable monitoring against that position and clear understanding of changing demographics to enable future planning and forecasting.

How the body plans to bridge its funding gaps and identifies achievable savings

It is not unusual for a Council to have a funding gap for future years when the budget is set. The medium-term planning process is a cyclical process that is ongoing and the Council will continually identify efficiency opportunities and savings measures. These proposals are formulated generally over the summer and presented to the members in the autumn in order to close the budget gap. Any savings proposal which results in a change in service to the public is also subject to a full consultation process. The 2024/25 process was no different in this respect and proposals were developed to close the budget gap. In-year action was also taken to reduce the 2023/24 emerging overspend including spending controls and recruitment freezes. The savings planned for 2024/25 have all been through a rigorous process to ensure that they are deliverable. It is recognised however, that demographic demand may mean some proposals are either delayed or not achievable so the Council has prudently included a provision to offset this risk in the budget.

It is well documented the Council has struggled to balance the 2024/25 budget. The Council has over £15 million of robust savings proposals in the budget but has still been forced to request and receive a capitalisation direction to balance the budget. The Council continues to seek efficiencies and to contain demand to mitigate the position. The Council also continues to lobby the Government for a fairer funding outcome as whilst the Social Care pressures are a national issue experienced by many upper tier authorities, Havering is experiencing a number of critical factors which impact its funding formula allocation.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2024/25.

### Reporting criteria considerations

### Arrangements in place

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council has a strategic plan setting out its vision, aims and ambitions moving forward. The Council's MTFS process takes account of these aims and objectives and where possible looks to include finance to support these aims. The Council has key aims and values which underpin every report and decision taken and these values are at the heart of decision making and prioritisation of spend in the budget. Much of the Council's costs relate to statutory requirements particularly in relation to social care and the Council is fully committed to both this area and to delivering new Housing alternatives to mitigate the current homelessness pressure.

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How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's financial plan links with all the other Council strategies and the financial implications of those strategies are fully built into the MTFS. Any decision on workforce such as pay, minimum wages or projects such as spans and layers are evaluated from a financial perspective and the implications are built into the MTFS. The financial implications of the capital programme and strategy are fully built into the MTFS and there is a reciprocal piece of work whereby the MTFS helps dictate the affordability of the capital programme and investment strategy. The financial plan connects with other public bodies such as the NHS ensuring that the cost implications of clients from discharges are built into the Council's financial strategy and indeed that costs that should be met by the NHS are fully charged. The Financial Plan is also shared with other councils particularly in London to allow collective lobbying on similar issues such as adult social care. There are regular financial co-ordination meetings with ICB colleagues across the partnership, and for commissioning. This collaborative work also allows comparative work to help identify best practice and efficiency opportunities.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2024/25.

### Reporting criteria considerations

### Arrangements in place

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

One of the main objectives of a robust plan is to minimise unexpected demand and significant changes in assumptions. The Council has and continues to develop models to predict changes in demand particularly in social care which is the area of greatest pressure. This client and unit cost data is regularly updated and is used to allow the Council to monitor and project future demands. The Council now has over 2 years of post pandemic data and is able once again to use the robust data available to project future demand and allow medium term planning. There is a balance to be struck between creating an artificial gap through cautious projections and being too optimistic resulting in a last-minute requirement for lasted savings. The Council has baselined all its budgets so each budget is measurable in terms of the projected numbers of users, volumes of income and unit costs. This will enable monitoring against that position and clear understanding of changing demographics to enable future planning and forecasting

The Council has always and will continue to be fairly prudent in its planning which, in the event of better news on the government financial settlement for example, allows councillors some flexibility in decision making. The level of general balances underpins the Councils approach to financial resilience and with the planned contributions in 2024/25 the council still is aiming to reach its target level of £20m general balances in the next few years.

The Council will continue to set a balanced budget without any reserves requirement every year although in 24/25 this has been with the capitalisation direction to underpin the budget. There are in-year overspends as a result of additional demand in social care and homelessness. Action plans were formed and actioned to help contain these overspends in year and any ongoing implications are being fully built into the medium-term financial strategy.

# Appendix A - Summary of arrangements

## Governance

We set out below the arrangements for the governance criteria covering the year 2023/24.

### Reporting criteria considerations

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

### Arrangements in place

The Council has an established risk management process including a Risk Management Strategy that is reviewed bi-annually at Governance and Assurance Board and also presented to Audit Committee. Governance and Assurance Board is chaired by the S151 Officer and oversees the Risk Management process, reporting to ELG who have wider oversight. The Strategic Risk Register is reviewed quarterly or more frequently as required e.g. Covid response. Risk specialists in the Internal Audit team offer training and support at Directorate level with risk workshops and challenge sessions where needed. The Strategic Risk Register is reported regularly to Audit Committee with deep dive risk sessions also held. The Strategic Risk Register will next be presented to the Audit Committee on the 25 July 2024, with the revised strategy.

A new risk management system, JCAD has been implemented during 2023/24 to ensure that risk management activity can be monitored more efficiently. The Directorate and Strategic risk registers have also been aligned with the Council's Target Operating Model.

The Internal Audit plan is developed with input from Governance and Assurance Board, Directors, arising risks noted by the Internal Audit team during the year and key information from Horizon Scanning reports. Audit work considers the risk of fraud during each review and quarterly reports on findings, recommendation status and progress towards the audit plan are reported to Audit Committee. An overall opinion is provided to the Audit Committee on the control environment within the Council, based on the work undertaken during the financial year.

There is an established Counter Fraud team that works proactively and reactively to identify and investigate fraud.



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2023/24.

### Reporting criteria considerations

### Arrangements in place

How the body approaches and carries out its annual budget setting process

The annual budget setting process in effect runs throughout the year culminating in tax setting in either February or March depending on the council date. The budget report to full Council contains a medium-term financial plan which sets out the pressures expected for the following year. In the spring, these assumptions are refreshed and Councillors are presented with an updated position and expected gap for the following year. The Council then reviews its services using the Council's main four themes to identify efficiencies and savings. These proposals are considered by Councillors and if accepted then full business cases are developed to support the ideas. In the autumn, these proposals are included in a Cabinet report which will also set out the latest expected pressures and inflationary and demographic demand. The budget is then subject to a public consultation period to allow all stakeholders to add their views. The budget is then updated for the local government finance settlement and other corporate matters such as the taxbase, levy determination, collection fund and the cost of the freedom passes for the next year.

The outcomes of the budget consultation are taken to overview and scrutiny committee to allow councillors to make any changes following that process. Finally, Councillors will decide at Cabinet the level of council tax for the following year in order to balance the budget and cabinet in February will make a recommendation on the budget and tax level to full council.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council has a regular revenue monitoring report which sets out Council performance against budget. This includes the HRA Capital as well as revenue. This is reported to Cabinet quarterly although members also receive monthly updates. The report includes a full commentary on any pressures and reserves. The Council continues to develop metrics to accompany this report which will set out the performance data behind the figures. These reports are presented in a timely fashion to members to enable financial decisions to be taken. Where appropriate corrective management action is taken to contain any overspends.



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2023/24.

### Reporting criteria considerations

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

### Arrangements in place

Havering has a Leader/Cabinet model of governance. A Scheme of Delegation for executive decision making was subsequently adopted. All Executive Decisions taken by Members and Key Decisions taken by officers, are subject to the call-in procedure. This means if councillors believe a decision made by the Executive or officers is contrary to the policy of the Council, they can 'call in' that decision. The decision is then effectively 'frozen' until the Overview and Scrutiny Committee, or Full Council has considered it further.

Generally, day to day operational decisions are not executive decision, although certain decisions made under the Council's Contracts Procedure Rules must be treated as being Executive Decisions.

The decision-making process may be reviewed in audits where relevant by the Head of Internal Audit. Quarterly progress reports on delivery of the audit plan, findings and recommendation status are reported to Audit Committee.

The Audit Committee meets four times per year. Membership of the Audit Committee is in line with the political proportionality of the Council as a whole. Agendas and minutes of all meetings are available on the Council's website, other than any information classified as exempt from publication under Schedule 12A of the Local Government Act 1972. Training is arranged for Members on a regular basis. Meetings of the Audit Committee are also currently webcast and recordings are available for viewing on the Council's website.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Internal Audit plan considers risk regarding legislative requirements, and this is included where it forms a key part of reviews; such as procurement and housing. Periodic reviews of gifts and hospitality/declarations of interest are factored into our risk-based audit planning. There is also a Whistleblowing policy in place which is communicated to officers so concerns can be raised.

Member Services ensure both the Member and Officer codes of conduct are published in the Council's Constitution and can be viewed on the Council's website. All disclosures of interests are recorded in the minutes of the meeting and can also be accessed on the Council's website. The register of gifts and hospitality is held by the Monitoring Officer and can also be searched on the Council's website. Any specific queries on this area should be referred to [monitoringofficer@havering.gov.uk](mailto:monitoringofficer@havering.gov.uk).

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2023/24.

Reporting criteria considerations	Arrangements in place
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The Leadership Team reviews monthly the financial and performance information of the Council. Included periodically is benchmarking reports completed internally and externally which we use as a line of enquiry to identify where improvements can be made to operational performance or financial performance, ideally a financial saving but sometimes this identifies growth assumptions.</p> <p>Through this work performance indicators for subsequent years are developed and enhanced to continually improve.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council has an array of ways of measuring its own performance across all aspects of its operations. Each of these varies depending on the services being provided but are typically overseen by the overview and scrutiny committee applicable to the service line.</p> <p>Some key performance areas, such as schools or social care are also reviewed by external agencies such as OFSTED or the Care Quality Commission and provide detailed reporting on the performance of the Council's arrangements and performance in relevant areas. These external inspections are considered seriously and include recommendations for improvements and details of failings which the Councils review and prepare action plans to respond to.</p>

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2023/24.

### Reporting criteria considerations

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

### Arrangements in place

Where the Council delivers services via partnerships it would ensure it is represented on the relevant partnership board. Reports would be presented to the boards which would review the costs and benefits and measure performance against KPIs. Risk, Assumptions, Issues and Dependencies (RAID) logs are held and are checked and maintained. Partnership or collaboration agreements outline key aspects including the governance arrangements, responsibilities of each party, decision making, data sharing arrangements, dispute resolution and termination agreements. Commissioning and project managers hold meetings with providers to review performance against the contract specifications. Stakeholder engagement happens at various levels.

The Council's fully owned subsidiary, Mercury Land Holdings, facilitates construction and investment in private rental properties within the Borough. The Council also owns three Joint Ventures (JVs), Havering and Wates Regeneration LLP, Bridge Close Regeneration LLP and Rainham & Beam Park LLP for the development and selling of properties. The governance of these entities includes JV boards (50% council representatives and 50% private sector partner), client board (officer group consisting of S151 Officer, Monitoring Officer, Director of Neighbourhoods, Director of Asset Management and Communications Officer), regeneration board (has strategic oversight and reporting and to ensure a level of scrutiny before Cabinet) and the Cabinet (holds decision-making powers). Meetings are held regularly where information is presented including risks and challenges of the project to enable informed decisions. The Client Board and the Regeneration Board were created to monitor performance and to ensure the right level of scrutiny of JV matters. The performance reviews are in the form of regular dashboard presentations and detailed update reports.

The Council is also operating with OneSource. This is a shared back-office support arrangement which is supported by Members through a Joint Committee. The Joint Committee receive key reports and make strategic decisions about OneSource's operations.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2023/24.

### Reporting criteria considerations

### Arrangements in place

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council has established the Gateway Review Group to manage and govern the procurement programmes. The Havering sovereign procurement service is now in place and a new Head of Service has been recruited.

The Gateway reviews check that procurements are run in accordance with CPRs and PCRs. The meetings can be observed by officers as a learning and development opportunity.

The Council's constitution has been reviewed and changes accepted in March 2024, the implementation of these changes is a pre-cursor to updating the Contract Procedure Rules (CPRs).

During the Governance Committee's meeting on 5 June 2024, the Constitution was reviewed, and minor changes were tidied up. In the current year, the contract procurement and planning procedure rules would be reviewed.



# Appendix B - 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 part of our reporting on our independence, we set out here a summary of the expected fees for the year ended 31 March 2024.

The agreed fee presented is based on the following assumptions:

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

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

	Actual Fee	Planned Fee	Prior Year
	£'s	£'s	£'s
Total Fee - Scale Fee for Code Work	421,745	421,745	157,827
Scale Fee Variation	Note 2	-	Note 1
<b>Total fees</b>	<b>TBC</b>	<b>421,745</b>	<b>0</b>

*All fees exclude VAT*

*Notes:*

- (1) PSAA Ltd is responsible for the determination of the final audit fee in respect of 2022/23. In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.
- (2) Once we conclude the 2023/24 audit, we will review whether a Scale Fee Variations is required. If one is, we will inform Management and make the necessary submission and follow the PSAA Ltd process. Any Scale Fee variation is determined by PSAA Ltd.

# Appendix A

## EY | Building a better working world

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ED None

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## AUDIT COMMITTEE

8<sup>th</sup> July 2025

**Subject Heading:**

External Audit Plan 2024/25

**SLT Lead:**

Kathy Freeman, Strategic Director of Resources

**Report Author and contact details:**

Heather Salmon, Head of Finance  
Telephone: 01708 432151  
E-mail: [heather.salmon@havering.gov.uk](mailto:heather.salmon@havering.gov.uk)

**Policy context:**

Audit Committee to consider the External Audit Plans for the London Borough of Havering and for the Pension Fund.

**Financial summary:**

The cost of the audit is contained in the audit plans.

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

People - Supporting our residents to stay safe and well  
Place - A great place to live, work and enjoy  
Resources - Enabling a resident-focused and resilient Council - X

### SUMMARY

The Council's external auditor, Ernst and Young (EY), are presenting their 2024/25 audit plans for both the Council and the Pension Fund to the Committee.

### RECOMMENDATIONS

The Committee is asked to:

1. Note the contents of the audit plans (Appendices A and B), in particular the significant risks, materiality and reporting levels.
2. Note that EY plan to issue the 2024/25 audit opinions by December 2025, two months prior to the Government's backstop date of 27 February 2026.

**REPORT DETAIL**

**1. Introduction**

Each year the council's external auditor presents their audit plan for the financial accounts to the Audit Committee.

The audit plan outlines the scope of the audit, any significant risks inherent in the audit, materiality and value for money arrangements.

For 2024/25, the EY Audit Partner for the Pension Fund audit has changed from Mark Hodgson to Hassan Rohimun.

**2. Background**

At its meeting on Wednesday 22 March 2022 the Council approved the decision of Audit Committee to procure an external audit contract through Public Sector Audit Appointments Ltd (PSAA) for both the London Borough of Havering and the Havering Pension Fund.

Under the Local Audit (Appointing Person) Regulations, the 2024/25 fee scale must be published before 1 December 2024. Following a period of consultation, the PSAA published the scale fees for 2024/25 for each audited body in November 2024.

The scale fees for 2024/25 accounts are:

- LB Havering Council           £452,308
- Pension Fund                   £ 96,974

Any subsequent changes that may affect audit fees, such as in national requirements or local circumstances, will be the subject of fee variations.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Public Sector Audit Appointments Ltd (PSAA) appoints auditors for a 5-year period. This contract was retendered for 2023/24 and Ernst and Young was reappointed as the Council's auditors up to 2027/28. The PSAA sets and publishes the scale fee for each individual audited body.

The scale fees for the 2024/25 audit will be £452,308 (prior year £421,745) for the Council and £96,974 (prior year £85,945) for the Pension Fund, subject to the



Council and Pension Fund delivering a good set of financial statements and working papers.

If the auditor considers that additional work is required that is not provided for in the scale fee, the regulations allow for a fee variation proposal to be submitted to PSAA.

**Legal implications and risks:**

There are no legal implications arising from this report.

**Human Resources implications and risks:**

There are no direct Human Resources implications in this report.

**Equalities implications and risks:**

There are no direct equalities implications in this report.

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, and 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.

**Environmental and Climate Change implications and risks:**

None arising directly from this report.

**Appendices:**

- Appendix A – London Borough of Havering Audit Plan, Year ended 31 March 2025
- Appendix B – Havering Pension Fund Audit Plan, Year ended 31 March 2025

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# London Borough of Havering

Provisional Audit Plan

Year ended 31 March 2025

28 April 2025



The better the question. The better the answer. The better the world works.



Shape the future  
with confidence

28 April 2025



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

Dear Audit Committee Members

**Provisional Audit Plan - 2024/25**

Attached is the provisional Audit Plan for the upcoming meeting of the Audit Committee. This report aims to provide the Audit Committee of the London Borough of Havering (the Council) with a basis to review the proposed audit approach and scope for the 2024/25 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements. This report summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

As the Council's body charged with governance, the Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft Statement of Accounts prepared by management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the Audit Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. We will also consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements if deemed necessary. We direct Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing Statement of Accounts (see Appendix A).

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

We welcome the opportunity to discuss this report with you at the next Audit Committee meeting on the 15 July 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in blue ink that reads "MARK HODGSON". The signature is written in a cursive, slightly slanted style.

Mark Hodgson

For and on behalf of Ernst & Young LLP

Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). 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 and further guidance (updated July 2021)' issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough of Havering. Our work has been undertaken so that we might state to the Audit Committee and management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





# 01 2024/25 audit strategy overview

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# 2024/25 audit strategy overview

## Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited Statement of Accounts by local bodies reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government's strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

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- **Phase 1: Reset;** clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is largely complete.
- **Phase 2: Recovery from Phase 1;** from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 Statement of Accounts is 27 February 2026. Auditors are waiting for guidance from the system leader to effectively, efficiently and consistently build back assurance over disclaimed audit periods.
- **Phase 3: Reform;** involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As proposed in our Audit Results Report presented to the Audit Committee on 30 January 2025, we issued our audit opinion on the Council's 2023/24 Statement of Accounts by the 28 February 2025, and that audit report was modified by way of a disclaimed audit opinion.

We have obtained assurance over some of the closing balances in 2023/24. However, we do not have assurance over all brought-forward balances in 2024/25. Consequently, we lack assurance over all in-year movements and some closing balances for 2024/25. Although we will continue to consider rebuilding assurance ahead of the 2024/25 backstop date (subject to timely guidance and resource capacity), we will not be able to obtain sufficient evidence to have reasonable assurance over all closing balances. We therefore expect to issue a disclaimer of opinion in 2024/25.

# 2024/25 audit strategy overview (cont'd)

## Rebuild of assurance – current position

The National Audit Office issued Local Audit Reset and Recovery Implementation Guidance (LARRIG) 05 on 10 September 2024, detailing the principle of returning to a state where auditors can issue audit opinions on local authority Statement of with sufficient audit evidence. This process will take several years to achieve. Restoring assurance will need local authorities and auditors to work together. We are waiting for guidance from the National Audit Office and Financial Reporting Council to ensure a consistent approach for restoring assurance for disclaimed periods. Until then, we are unable to commence the rebuilding work programme.

We will audit the 2024/25 closing balance sheet and in-year transactions, similar to our approach for 2023/24, as well as performing additional risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position for 2024/25 . Updates on rebuilding assurance for the historical position will be provided as guidance is issued and its implications for the Council are evaluated taking into consideration the outcome of our risk assessment procedures. As the Council's Statement of Accounts for 2021/22, 2022/23 and 2023/24 were subject to a disclaimer of opinion, it is highly probable that our risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position will conclude that an elevated risk of material misstatement is associated with the reserve balances, because of the way in which they accumulate over successive years.

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## Responsibilities of management and those charged with governance

The Council's Section 151 Officer is responsible for preparing the Statement of Accounts in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the Statement of Accounts are supported by high-quality working papers and audit evidence, and that Council resources are available to support the audit process within agreed deadlines. The Audit Committee has an essential role in ensuring that it has assurance over both the quality of the Statement of Accounts and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, we will:

- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements, where deemed necessary.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their Statement of Accounts.

# 2024/25 audit strategy overview (cont'd)

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
Council and Group Statement of Accounts: Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the Statement of Accounts as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. We have identified below two specific areas where management override could manifest itself.
Council and Group Statement of Accounts: Risk of incorrect capitalisation of revenue expenditure (including Revenue Expenditure Funded from Capital Under Statute)	Fraud Risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.  Linking to our fraud risk identified above, we have determined that a way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the Statement of Accounts, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.
Council and Group Statement of Accounts: Accounting adjustments made in the 'Movement in Reserves Statement	Fraud Risk	Change in risk focus	One further area where the risk due to fraud and error manifests is in respect of the accounting adjustments made in the Movement in Reserves Statement and in particular adjustments made for the Minimum Revenue Provision. Given the financial pressure the Council is under, these adjustments could be used to manipulate the closing General Fund position. The Council have secured a Capitalisation Direction in £88.0 million in 2025/26, which could put additional pressure on the Council to demonstrate financial improvements during 2024/25.

# 2024/25 audit strategy overview (cont'd)

## Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council and Group Statement of Accounts:  Valuation of Investment Property	Significant risk	No change in risk or focus	Investment Property represents a significant balance in the Council and Group Statement of Accounts (2023/24: £102.69 million). Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income-based measures, given difficulties in estimating future income.
Group Statement of Accounts:  The accounting treatment and valuation of Inventory held in the group subsidiaries.	Significant risk	Change in risk focus	The Group subsidiaries have material inventory (£32.6 million in 2023/24) held as a current asset in the Balance Sheet in the subsidiaries Statement of Accounts. The Group Statement of Accounts classifies this balance as a non-current asset within Property, Plant & Equipment. Given the difference in accounting treatment there is a risk that these balances maybe incorrectly accounted for in the Group Statement of Accounts.  Should these assets be inventory in nature they should be measured at lower of cost and net realisable value which requires the use of assumptions, judgements and estimates regarding the expected returns from the project and total costs to complete the development. The variances between these assumptions and actual events could have a material impact on the ultimate net realisable value.
Group Statement of Accounts:  Consolidation procedures in the Group Statement of Accounts	Significant risk	No change in risk or focus	The Council prepares Group Accounts to consolidate Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering & Wates Regeneration LLP and Rainham & Beam Park Regeneration LLP. In 2020/21, we identified a number of misstatements with the intercompany elimination adjustments.  In 2023/24 we prepared and sent group instructions to the subsidiary auditors. We did not receive all responses to these instructions and were therefore unable to obtain assurance that the level of errors identified in 2020/21 have been rectified and reduced in subsequent years.  Given the nature and extent of the errors found in prior years, we consider this to be significant risk as the balances consolidated into the Group Accounts may be materially misstated. Management will also need to consider the timing of the subsidiary audits to ensure that subsidiary auditors are able to complete their procedures to allow reporting to us as a group auditor during our audit.



# 2024/25 audit strategy overview (cont'd)

## Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council Statement of Accounts: IFRS 16 Implementation	Inherent risk	New risk	<p>IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. Where the Council are the lessee, these will now be recognised on the Balance Sheet as a 'right of use' asset and a lease liability reflecting the obligation to make lease payments.</p> <p>Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have been had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts need to be updated annually based on prevailing indices.</p>
Council Statement of Accounts: Valuation of land and buildings and Council dwellings	Inherent risk	No change in risk or focus	<p>The valuation of land and buildings and Council dwellings represent significant balance in the Council's Statement of Accounts (2023/24: £1.30 billion). These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the balance sheet, Management are required to make material judgements and apply estimation techniques. We consider that the judgments and estimates made by management are likely to have a material impact on the valuation of these assets.</p>
Council Statement of Accounts: Pension Liability valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its Statement of Accounts regarding its membership of the Local Government Pension Scheme.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>

# 2024/25 audit strategy overview (cont'd)

## Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council Statement of Accounts: Accounting for the impairment of Receivables (Bad debt provision)	Inherent risk	No change in risk or focus	The bad debt provision is a material estimate in the Council's Statement of Accounts (£56.7 million in 2023/24). The estimate is made up of several separate complex calculations which requires Management to make a number of accounting judgements as to the recoverability of those debts. In 2023/24 we identified several immaterial misstatements and there therefore remains an inherent risk of misstatement over this balance.
Council and Group Statement of Accounts: Going Concern disclosure	Inherent Risk	Change in risk focus	The Council's updated Medium Term Financial Strategy, estimates a budget gap of £72.1 million in 2025/26 which rises to £183.4 million over the next four years. In February 2025, the Secretary of State approved a capitalisation direction of £88.0 million for the financial year 2025/26 following approved support of £32.5 million in 2024/25 and £18.1 million in 2023/24.  Given the continuing financial support from the Secretary of State to enable the provision of core services, it is unlikely that the Council will be unable to continue operating as a going concern, but there is a risk that the Council and Group's Going Concern disclosure note does not adequately reflect the Council and Group's financial position and requirement for exceptional financial support.

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We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk.

# 2024/25 audit strategy overview (cont'd)

## Group Materiality

**£7.53m**

**Planning materiality**

Materiality has been set at £7.53 million, which represents 1% of the Group's 2023/24 gross expenditure on provision of services. We have set this at the lower end of our range, as we believe there will be additional focus by key external stakeholders on the Council's Statement of Accounts together with a higher expectation of our consideration of audit differences impacting those statements.

A lower materiality level provides a greater level of assurance but requires a higher level of audit testing to achieve that level, which will have implications for the Scale Fee and variations to that fee.

**£5.65m**

**Performance materiality**

Performance materiality has been set at £5.65 million, which represents 75% of materiality.

**£0.38m**

**Audit differences**

We will report all uncorrected misstatements relating to the primary statements (Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, Cash Flow Statement, Housing Revenue Account and Collection Fund) greater than £0.38 million.

We also consider materiality qualitatively. In areas where inaccuracy or omission is particularly sensitive to users, we may treat misstatements as material even below the audit differences threshold and will be communicated to the extent that they merit the attention of the Audit Committee.

These areas include:

- ▶ Officer's remuneration and exit packages disclosures;
- ▶ related party transaction disclosures; and
- ▶ prior year figures (or comparatives).

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

# 2024/25 audit strategy overview (cont'd)

## Council Materiality

**£7.51m**

**Planning materiality**

Materiality has been set at £7.51 million, which represents 1% of the Council's 2023/24 gross expenditure on provision of services. We have set this at the lower end of our range, as we believe there will be additional focus by external stakeholders on the Statement of Accounts together with a higher expectation of our consideration of audit differences impacting those statements. A lower materiality level provides a greater level of assurance but requires a higher level of audit testing to achieve that level, which will have implications for the Scale Fee and variations to that fee.

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- ▶ Officer's remuneration and exit packages disclosures;
- ▶ related party transaction disclosures; and
- ▶ prior year figures (or comparatives).

We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

# 2024/25 audit strategy overview (cont'd)

## Audit scope

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

- our audit opinion on whether the Statement of Accounts give a true and fair view of the financial position as at 31 March 2025 and of the income and expenditure for the year then ended; and
- our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on the value for money arrangements in Section 3.

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

Our audit will also include the required mandatory procedures in accordance with applicable laws and auditing standards.

When planning the audit we consider several key inputs:

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- strategic, operational and financial risks relevant to the Statement of Accounts;
  - 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 the above.

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

Considering the above, our professional duties require us to independently assess audit risks and take appropriate actions. The Terms of Appointment with the PSAA permit fee adjustments based on 'the auditor's assessment of risk and the work needed to meet their professional responsibilities'. Therefore, we outline these risks in this Audit Plan and will discuss any impact on the proposed scale fee with management.



# 2024/25 audit strategy overview (cont'd)

## Audit scope (cont'd)

### Effects of climate-related matters on Statement of Accounts

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current Statement of Accounts may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the Statement of Accounts and in assessing value-for-money arrangements.

We inquire about climate-related risks during every audit as part of our understanding of the entity and its environment. As we continually re-evaluate our risk assessments throughout the audit, we consider the information obtained to help us assess the level of inherent risk.

### Audit scope and approach

We plan to adopt a substantive audit approach.

## Value for Money

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

The value for money planning and related risk assessment aims to collect enough evidence to document our evaluation of the Council's arrangements, allowing us to prepare a commentary based on three reporting criteria. This process includes identifying and reporting any significant weaknesses in those arrangements and making suitable recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- Financial sustainability – How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance – How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness – How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Commentary on Value for Money arrangements will be included in the 2024/25 Auditor's Annual Report. This will need to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

## Timeline

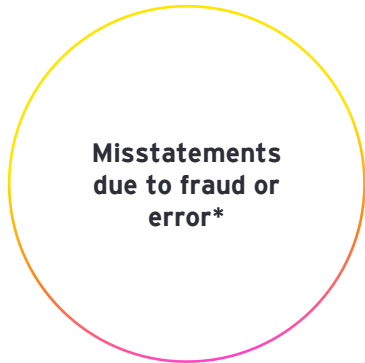
An audit timetable has been agreed with Management. In Section 7, we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.



# 02 Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) 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?

The Council and Group Statement of Accounts as a whole are not free of material misstatements whether caused by fraud or error.

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

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

## What will we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud
- ▶ Discuss with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determine an appropriate strategy to address those identified risks of fraud
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the Statement of Accounts
- ▶ Undertake procedures to identify significant unusual transactions
- ▶ Consider whether management bias was present in the key accounting estimates and judgments in the Statement of Accounts

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure', and Accounting adjustments made in the 'Movement in Reserves Statement' are required.

# Our response to significant risks (cont'd)

We have set out the significant risks (including fraud risks denoted by\*) 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?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

For the Council and Group Statement of Accounts we have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

### What will we do?

- ▶ Test Property, Plant and Equipment (PPE) / Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assess whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

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### Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the Statement of Accounts is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- ▶ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) / Investment Property (IP) additions and/or REFCUS in the Statement of Accounts.

# Our response to significant risks (cont'd)

We have set out the significant risks (including fraud risks denoted by\*) 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?

The Council is under financial pressure to achieve its revenue budget. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the Movement in Reserves Statement.

The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the Minimum Revenue Provision.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Reconciling entries for consistency to other audited accounts within the Statement of Accounts, for example our work on Property, Plant and Equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- ▶ Reviewing the Council's policy and application of the 'Minimum Revenue Provision' (MRP) and testing the accuracy of the adjustments made for MRP; and
- ▶ Using our data analytics tool to identify and test journal entries adjustments made in the movement in reserves statement.

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### Financial statement impact

We have identified specific risk of misstatement due to fraud and error that could affect the Income and Expenditure accounts.

We consider the risk applies to accounting adjustments made in the Movements in Reserves Statement for the Minimum Revenue Provision that could result in the General Fund balance being misstated.



# Our response to significant risks (cont'd)

We have set out the significant risks (including fraud risks denoted by\*) 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.



**Valuation of Investment Property**

**What is the risk?**

Investment Property represents a significant balance in Council and Group Statement of Accounts (2023/24: £102.69 million).

Management is required to make material judgments and apply estimation to calculate the year-end balances recorded in the Balance Sheet.

**What will we do?**

- ▶ Consider the work performed by the Council’s valuer, including the adequacy of the scope of the work performed, their professional capabilities and results of their work.
- ▶ Sample test key asset information used by the valuer in performing their valuation (e.g. market rent)
- ▶ When needed, engage EY Real Estate as our internal specialist to review the valuations, assumptions and conclusions reached by the external valuers in regard to investment properties valued using market information.
- ▶ Consider the annual cycle of valuations to ensure that investment properties have been valued annually as required by the Code.
- ▶ Test accounting entries have been correctly processed in the Statement of Accounts.

**Financial statement impact**

The value of Investment Property represents a significant balance in the Council’s Statement of Accounts and is subject to valuation based on market information. Given potential impacts of market uncertainty, this may limit the valuer’s scope in determining reasonable estimates within the valuation model of investment properties at 31 March 2025. This leads to a risk of material uncertainty in the valuations of Investment Property within the Council’s Statement of Accounts.

# Our response to significant risks (cont'd)

We have set out the significant risks (including fraud risks denoted by\*) 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.



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## Financial statement impact

Inventory balances are being held as a non-current asset in the Group Statement of Accounts but are held as a current asset in the subsidiary accounts and therefore these may be incorrectly classified in the Group Statement of Accounts.

Inventories are measured at lower of cost and net realisable value where various assumptions are adopted. These assumptions could be impacted by the prevailing economic conditions and could have a material impact on the ultimate net realisable value.

## What is the risk?

The group subsidiaries have material inventory (£32.6 million in 2023/24) held as a current asset in the balance sheet in the subsidiaries Statement of Accounts. The Group Statement of Accounts records this balance as a non-current asset within Property, Plant & Equipment. Given the difference in accounting treatment there is a risk that these balances maybe incorrectly accounted for in the Group Statement of Accounts.

Should these assets be inventory in nature they should be measured at lower of cost and net realisable value which requires the use of assumptions, judgements and estimates regarding the expected returns from the project and total costs to complete the development. The variances between these assumptions and actual events could have a material impact on the ultimate net realisable value.

## What will we do?

- ▶ Request Management to prepare an assessment as to the accounting treatment of these 'inventory' balances against the requirements of the CIPFA Code of Practice considering the nature of these balances.
- ▶ Test Managements assessment to confirm the appropriate accounting treatment in the Group Statement of Accounts.
- ▶ Preparing Group Instructions for the component auditors of the Council's subsidiaries; and,
- ▶ Reviewing the work undertaken by component auditors and determine whether we can place reliance on their work to obtain assurance over the Inventory balances consolidated into the group accounts.

# Our response to significant risks (cont'd)

We have set out the significant risks (including fraud risks denoted by\*) 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.



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## Financial statement impact

The Local Authority Accounting Code of Practice requires the Council to prepare group accounts and supporting disclosures within its Statement of Accounts when the group operations become material to the Council.

The Council has consolidated four entities and is required to prepared group accounts. The Council will need to undertake its annual assessment of the group boundary to determine the procedures its needs to consolidate the relevant component entities.

## What is the risk?

The Council prepares group accounts to consolidate Mercury Land Holdings Limited, Bridge Close Regeneration LLP, Havering & Wates Regeneration LLP and Rainham & Beam Park Regeneration LLP. In 20/21, we identified a number of misstatements with the intercompany elimination adjustments.

In 2023/24 we prepared and sent group instructions to the subsidiary auditors. We did not receive all responses to these instructions and therefore were unable to obtain assurance that the level of errors identified in 2020/21 have been rectified and reduced in subsequent years.

Given the nature and extent of the errors found in prior years, we consider this to be significant risk as the balances consolidated into the group accounts may be materially misstated. Management will also need to consider the timing of the subsidiary audits to ensure that subsidiary auditors are able to complete their procedures to allow reporting to us as a group auditor during our audit.

## What will we do?

- ▶ Review the Council's assessment of its group boundary and the significance of the components in the group Statement of Accounts;
- ▶ Prepare group instructions for the component auditors of the Council's subsidiaries;
- ▶ Review the work undertaken by component auditors and determine whether we can place reliance on their work to obtain assurance over the balances consolidated into the group accounts;
- ▶ Ensure that appropriate consolidation procedures are applied in line with the Code of Practice when consolidating subsidiaries into the Council's group Statement of Accounts:
  - ▶ Understand the process for consolidation;
  - ▶ Understand transactions between group subsidiaries and test that the appropriate accounting entries have been made to eliminate inter-group transactions;
  - ▶ Understand and test the differences in accounting policies, ensuring that the appropriate adjustments are made on consolidation to align accounting policies set for the group; and
  - ▶ Review the disclosures in the group Statement of Accounts to ensure that they are materially accurate and complete.

# 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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### IFRS 16 Implementation (Inherent risk)

IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. It has been adopted, interpreted and adapted in the 2024/24 CIPFA Code of Practice on Local Authority Accounting which sets out the financial reporting framework for the Council and Group's 2024/25 Statement of Accounts.

IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short-term leases. Where the Council is lessee these will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g., RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

The Council performed an initial impact assessment in 2023/24 and expected to recognise a right of use asset of £11.5 million.

## Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- ▶ Gain an understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16. We will pay particular attention to the Council's arrangements to ensure lease and lease-type arrangements considered are complete.
- ▶ Review the discount rate that is used to calculate the right of use asset and assess its reasonableness.
- ▶ Review management policies, including whether to use a portfolio approach, low value threshold, and asset classes where management is adopting as the practical expedient to non-lease components.
- ▶ Gain assurance over the right of use asset included in the 2024/25 Statement of Accounts
- ▶ Sample test leases to ensure that transition arrangements have been correctly applied.
- ▶ Consider the accounting for leases provided at below market rate, including peppercorn and nil consideration, and the need to make adjustments to cost in the valuation of right of use assets at the balance sheet date.

# 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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### Valuation of land and buildings and Council dwellings (inherent risk)

The valuation of land and buildings and Council dwellings represent significant balance in the Council's Statement of Accounts (2023/24: £1.30 billion). These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the balances sheet, management are required to make material judgements and apply estimation techniques. We consider that the judgments and estimates made by management are likely to have a material impact on the valuation of these assets.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

## Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- ▶ Consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2024/25 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the Statement of Accounts.



# 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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### Pension liability valuation (Inherent risk)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its Statement of Accounts regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund asset is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024 this totalled £92.84 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

## Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- ▶ Liaise with the auditors of London Borough of Havering Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the London Borough of Havering;
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and
- ▶ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- ▶ Review and test the accounting entries and disclosures made within the Council's Statement of Accounts in relation to IAS19.

# 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 Statement of Accounts and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### Accounting for impairments of Receivables (Inherent risk)

The impairment of Receivables (Bad debt provision) is a material estimate in the Council's Statement of Accounts (£56.7 million in 2023/24). The estimate is made up of several separate complex calculations which require management to make a number of accounting judgements as to the recoverability of debt. In 2023/24 we identified a number of immaterial misstatements and there therefore remains an inherent risk of misstatement over this balance.

## Our response: Key areas of challenge and professional judgement

In order to address this risk we will:

- ▶ Review the calculation of the bad debt provision for reasonableness and accuracy; and
- ▶ Reperform the bad debt calculation and test managements judgements regarding the recoverability of debt by testing a sample of trade receivables.

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### Going Concern Disclosure (Inherent risk)

The Council's updated Medium Term Financial Strategy, estimates a budget gap of £72.1 million in 2025/26 which rises to £183.4 million over the next four years. In February 2025, the Secretary of State approved a capitalisation direction of £88.0 million for the financial year 2025/26 following approved support of £32.5 million in 2024/25 and £18.1 million in 2023/24.

Given the continuing financial support from the Secretary of State to enable the provision of core services, it is unlikely that the Council will be unable to continue operating as a going concern, but there is a risk that the Council and Group's Going Concern disclosure note does not adequately reflect the Council and Group's financial position and requirement for exceptional financial support.

In order to address this risk we will:

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosures in the Statement of Accounts by:

- ▶ Testing the appropriateness of the Council's going concern disclosure to corroborating evidence, including
  - ▶ the Council's cashflow forecast and the Council's consideration of whether it has sufficient liquidity to continue to operate as going concern.
  - ▶ The Council's latest medium term financial plan and budget monitoring reports to confirm the position of its reserves and projected budget gaps.
- ▶ Undertaking a 'stand back' review to consider all of the evidences obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.



# 03 Value for Money risks

# Value for Money

## Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the Statement of Accounts, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

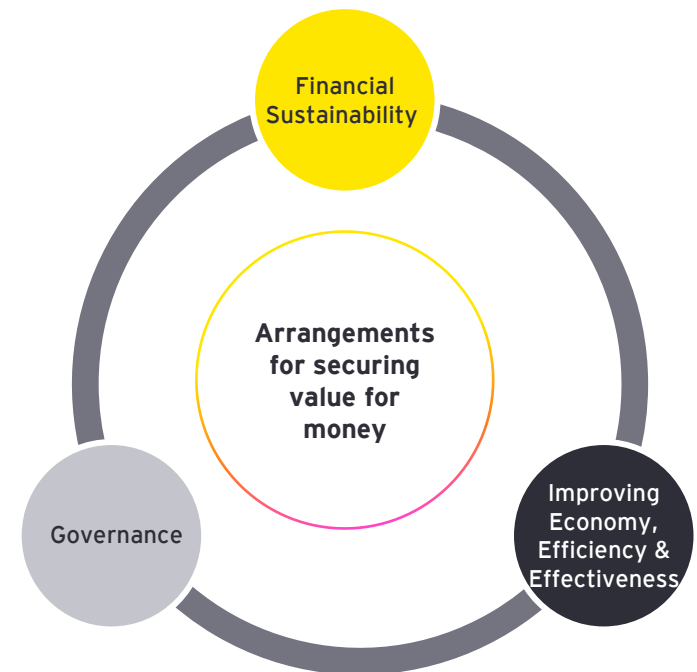
## Auditor Responsibilities

Under the NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

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# Value for Money (cont'd)

## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the Statement of Accounts;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem as necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered significant if it:

- Exposes, or could reasonably be expected to expose, the council to significant financial loss or risk;
- Leads to, or could reasonably be expected to lead to, significant impact on the quality or effectiveness of service or on the council's reputation or unlawful actions;
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

## Responding to identified risks of significant weakness

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the Audit Committee.



# Value for Money (cont'd)

## Reporting on VFM

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the Statement of Accounts.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's awareness. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2024/25 Auditor's Annual Report requires to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

## Status of our 2024/25 VFM planning

We have commenced our detailed Value for Money planning. To date we have identified two risks of weakness in the Council's value for money arrangements as detailed on the next page and one area of focus relating to the arrangements that the Council has in place in relation to financial sustainability and the Council's progress against its budget and savings plans.

Upon completion of our planning procedures, we will update the next Audit Committee meeting on the outcome of our Value for Money planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

# Value for Money (cont'd)

## Value for Money Risks

The table summarises the risk of significant weaknesses identified during our planning. We will review arrangements and risks regularly, updating our work if new risks arise and inform you of any additional significant weaknesses.

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What is the risk of significant weakness?	What arrangements does this impact	Change from PY	Details and what we will do
<p>In 2023/24 we reported a significant weakness relating to the outcome of an Ofsted inspection report, where the overall effectiveness in respect of the Council's Children's Service has been rated as 'inadequate'. Without an appropriate and timely response to the report findings, and how effective those responses have been, constitutes a risk of weakness in 2024/25.</p>	<p><b>Improving economy, efficiency and effectiveness:</b></p> <p>How the body uses information about its costs and performance to improve the way it manages and delivers services.</p>	<p>Change in risk focus</p>	<ul style="list-style-type: none"> <li>Assess the arrangements the Council has put in place to address the issues raised in the Ofsted inspection report.</li> <li>Assess the progress the Council has made against actions plans to address the issues raised in the Ofsted inspection report.</li> <li>Enquire of and consider the impact of any additional reporting in respect to children's services</li> </ul>
<p>The Council consolidates four subsidiaries into the Group Statement of Accounts. These subsidiaries are audited by three different auditors and in 2023/24 the group subsidiary auditors did not fully respond to our group instructions prior to the 2023/24 backstop date. The lack of timely assurance from the subsidiary auditors, over which the Council has responsibility, could give rise to a risk within any of the subsidiary bodies of which Members are not aware.</p> <p>We have therefore identified a risk of weakness relating to the governance of these subsidiaries and timely financial reporting.</p>	<p><b>Governance:</b></p> <p>How the body ensures that it makes informed decisions and properly manages its risks.</p>	<p>New risk for 2024/25</p>	<ul style="list-style-type: none"> <li>Review the governance arrangements for the Group and the ability for those charged with governance to have appropriate oversight to enable the Council to make informed decisions.</li> <li>Consider Management's plans to ensure subsidiaries report to the group in a timely basis.</li> </ul>



# 04 Audit materiality

# Materiality

## Group materiality

For planning purposes, Group materiality for 2024/25 has been set at £7.53 million. This represents 1% of the Group's 2023/24 Gross Expenditure on the Provision of Services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of utmost interest to the users of the Group's Statement of Accounts. We have provided supplemental information about audit materiality in Appendix F.

Group gross expenditure on provision of services

**£753.27 million**

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We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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 Statement of Accounts.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.65 million which represents 75% of group materiality.

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

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee.

We also consider materiality qualitatively. In areas where inaccuracy or omission is particularly sensitive to users, we may treat misstatements as material even below the audit differences threshold and will be communicated to the extent that they merit the attention of the Audit Committee.

These areas include:

- ▶ Officer's remuneration and exit packages disclosures;
- ▶ related party transaction disclosures; and
- ▶ prior year figures (or comparatives).

# Materiality

## Council materiality

For planning purposes, Council materiality for 2024/25 has been set at £7.51 million. This represents 1% of the Council's 2023/24 gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of utmost interest to the users of the Council's Statement of Accounts. We have provided supplemental information about audit materiality in Appendix F.

Council gross expenditure on provision of services

**£751.08 million**

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We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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 Statement of Accounts.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.63 million which represents 75% of group materiality.

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We also consider materiality qualitatively. In areas where inaccuracy or omission is particularly sensitive to users, we may treat misstatements as material even below the audit differences threshold and will be communicated to the extent that they merit the attention of the Audit Committee.

These areas include:

- ▶ Officer's remuneration and exit packages disclosures;
- ▶ related party transaction disclosures; and
- ▶ prior year figures (or comparatives).





# 05 Scope of our audit

# Audit process and strategy

## Objective and Scope of our Audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code.

We issue an audit report that covers:

### 1. Financial statement audit

Our opinion on the Statement of Accounts:

- Whether the Statement of Accounts give a true and fair view of the financial position of the Group and its expenditure and income for the period in question; and
- Whether the Statement of Accounts have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited Statement of Accounts is consistent with the Statement of Accounts.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited Statement of Accounts for the relevant reporting period in line with the instructions issued by the National Audit Office.

### 2. Arrangements for securing economy, efficiency and effectiveness (Value for Money)

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

# Audit process and strategy (cont'd)

## Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of other auditors where appropriate;
- Reliance on the work of experts in relation to areas, such as pensions and property valuations.

Our initial assessment of the key processes across the Council has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the Statement of Accounts rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the Statement of Accounts are not materially misstated.

### Analytics

We will use a data driven approach to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

### Internal Audit

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

## Scope of our audit

### Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group Statement of Accounts.

We identify individually relevant components based on various risk characteristics and apply professional judgement to determine which accounts were to be included in the work performed at these components. We then consider the balance of group accounts not yet subject to planned audit procedures and determine whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the risks of material misstatement of the group Statement of Accounts. Having identified the components

for which work will be performed, we then determine the scope to assign to each component. For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations.

### Scoping by Entity

Our preliminary audit scopes as per the 2023/24 Statement of Accounts by number of locations we have adopted are set out below.

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1 **A** Full scope audits (London Borough of Havering)

4 **B** Specific scope audits

0 **D** Specified procedures

0 **E** Other procedures

### Scope definitions

**Full scope:** locations involving the design and performance of audit procedures on a significant proportion of the financial information of the component. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory Statement of Accounts because of the scope of work, materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** locations involving the design and performance of audit procedures on one or more classes of transactions, account balances, or disclosures of the financial information of the group. The accounts included in the scope are not a significant proportion of the financial information of the component.

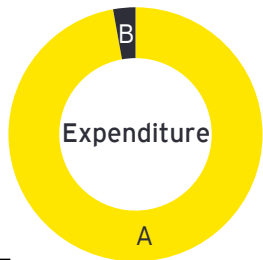
**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team to obtain audit evidence for one or more elements of the group Statement of Accounts and/or to respond to identified risks of material misstatement.

**Remaining components:** Based on our planned audit scope, there may exist residual amounts of balances and accounts of the group Statement of Accounts which are not included in the group scope. These amounts have been evaluated as not presenting a risk of material misstatement to the group Statement of Accounts and may comprise balances at multiple location where the balances may be material in aggregate. Components/locations that are not assigned a scope of work nor subject to centralised procedures, and comprise amounts solely contributing the residual amounts are described as 'remaining components'. We update and perform further risk assessment procedures as necessary to conclude our assessment that there is no risk of material misstatement in those amounts.

# Scoping the group audit

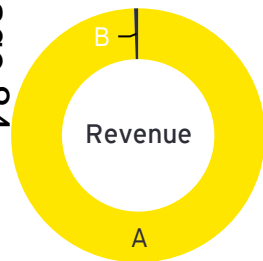
## Coverage of Revenue/Profit before tax/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of Gross Expenditure, group's revenue and total assets.



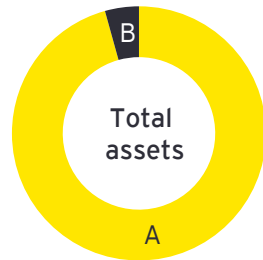
100%

of the group's gross expenditure will be covered by full and specific scope audits



100%

of the group's revenue will be covered by full and specific scope audits



100%

of the group's total assets will be covered by full and specific scope audits

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

## Key changes in scope from last year

We have not completed our full audit scope procedures, there are currently no changes to the group scope in 2024/25.

Throughout the audit, we will determine whether the group audit strategy needs to be updated to reflect new information. The group audit strategy is an iterative process, and we will continuously consider information throughout the group audit and reassess the group audit strategy, which includes re-assessing group scoping, and updating it as necessary.

We will keep the Audit Committee updated on any changes to group scoping as the audit progresses.

## Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

The group audit team's involvement in the work of the component teams is not uniform. The involvement is affected by the assessed risks of material misstatement, their effect on different locations, the nature and extent of work and scope assigned to component teams and the group audit team's experience and understanding of the component teams.

The group audit team's involvement takes different forms and will include: site visits; involvement in key decision discussions, such as: component team's involvement in discussions of the group audit team or the group team's involvement in component team discussions; other discussions and sharing of information, such as: regular team discussions/touch points, risk assessment discussions, discussions with component management and/or those charged with governance of components, or other ad hoc discussions; review of component team workpapers, such as: audit deliverables and the underlying workpapers.



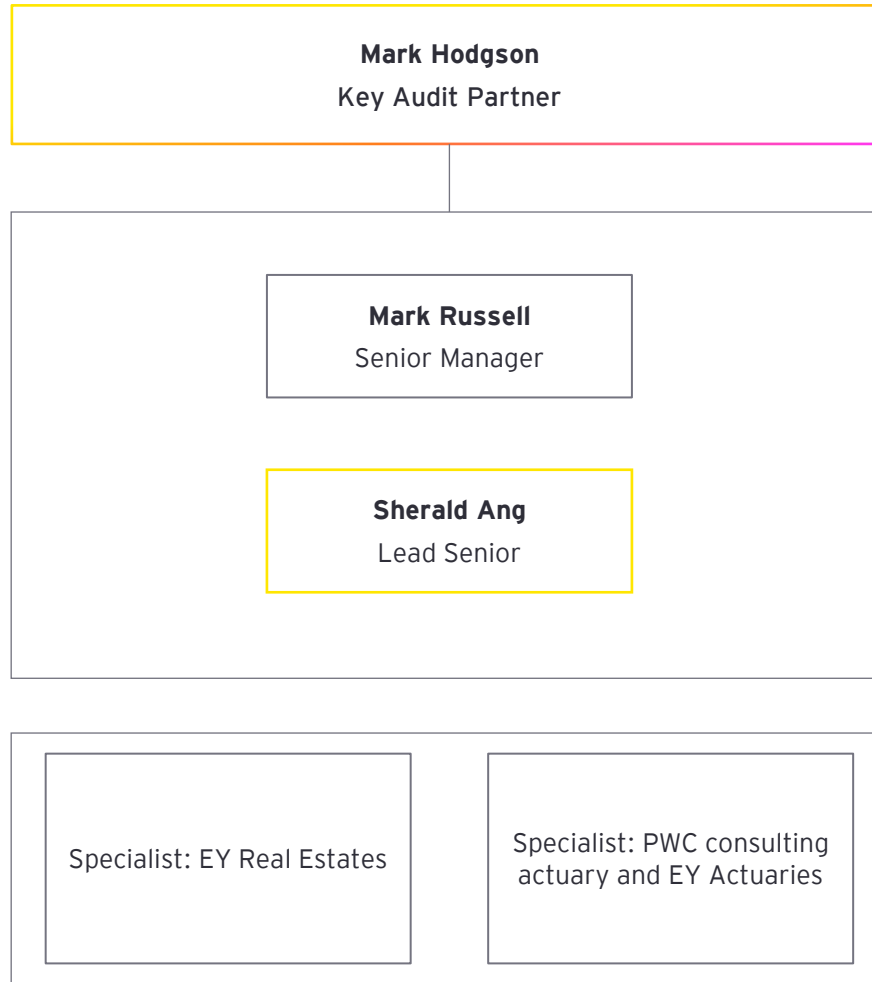
# 06 Audit team

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# Audit team

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# Use of specialists

Our approach to the involvement of specialists, and the use of their work:

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

Area	Specialists
Valuation of Land and Buildings & Investment Properties	Wilkes Head & Eve (Management specialist) EY Real Estates ( if required)
Pensions disclosure	EY Actuaries Hymans Robertson (Management specialist)
NDR Appeals Provision	Analyse Local (Management specialist)
Financial Instruments	Link Assets Services (Management specialist)

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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 Group’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
- Assess whether the substance of the specialist’s findings are properly reflected in the Statement of Accounts

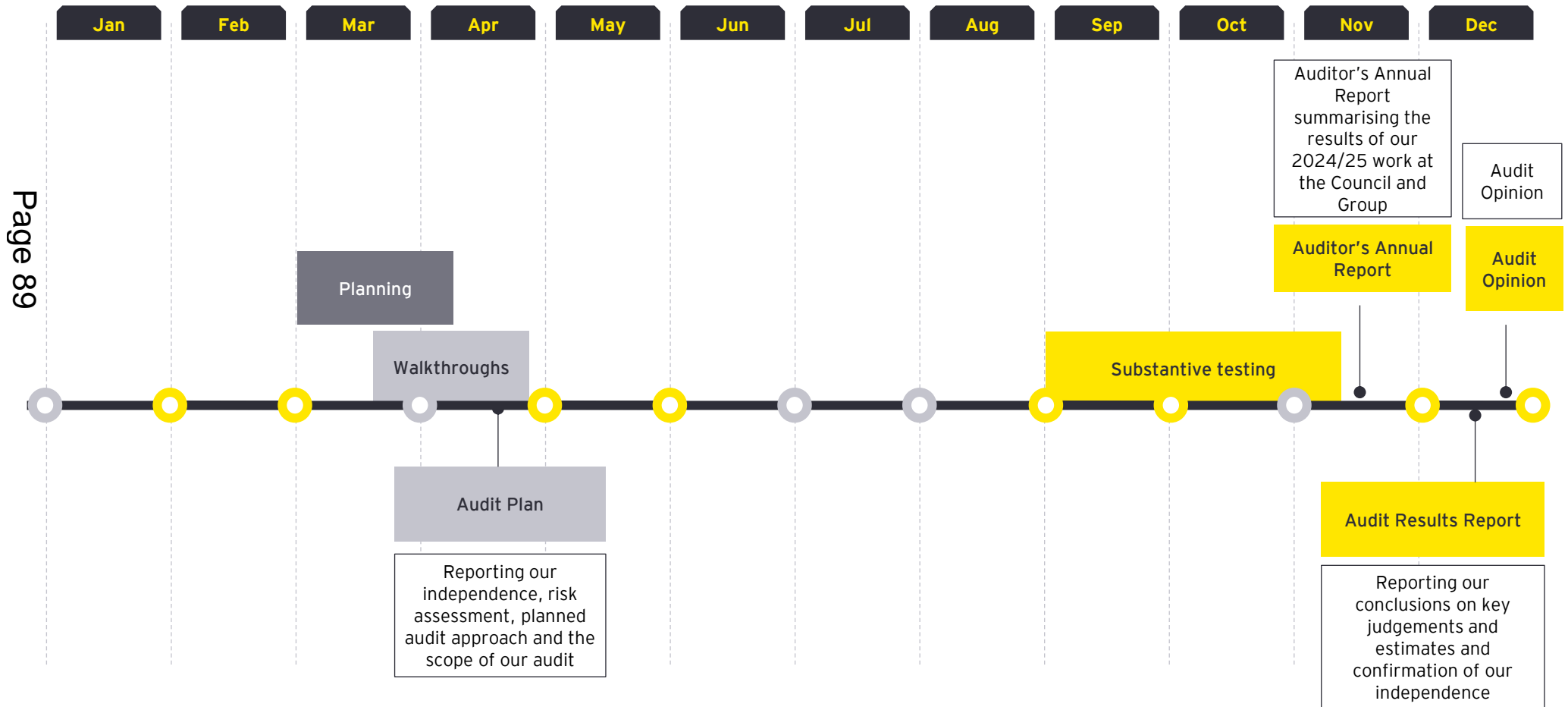


# 07 Audit timeline

# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the 2024/25 audit cycle. 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.





# 08 Independence

The FRC Ethical Standard 2024 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 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
- The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).
- All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

#### 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 (for breaches of the FRC Ethical Standard include details of its significance); 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. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, 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 Council. Examples include where we have an investment in the Council; 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.

At the time of writing, the current ratio of non-audit fees to audit fees is nil as there are no non-audit services. No additional safeguards are required.

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

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

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

# Other communications

## EY Transparency Report 2024

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 period ended 30 June 2024 and can be found here: **[EY UK 2024 Transparency Report](#)**.



# 09 Appendices

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# Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their Statement of Accounts. We set out these paragraphs in full below:

## Preparation of the Statement of Accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and Statement of Accounts.

27. In preparing their Statement of Accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the Statement of Accounts;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.

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- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the Statement of Accounts and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those Statement of Accounts including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the Statement of Accounts before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft Statement of Accounts and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

# Appendix B – 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.

The agreed fee presented is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ our financial statement opinion and value for money conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council;
- ▶ an effective control environment; and
- ▶ compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their Statement of Accounts. These are set out in full on the previous page.

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

	2024/25	2024/25 Scale fee	2023/24
	£000's	£000's	£000's
Total Fee – Code Work	452,308 Note 2	452,308	421,745 Note 1
Scale fee variation	TBC		TBC
<b>Total audit</b>	<b>TBC</b>	<b>452,308</b>	<b>TBC</b>

Other non-audit services not covered above (Housing benefits) (see Note 3)

### All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DLUHC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 and 2023/24 audits. The 2023/24 work has been completed and a final fee will be determined in due course. For 2023/24 the planned fee represents the base fee, i.e., not including any extended testing.
2. The 2024/25 the planned fee represents the base fee, i.e. not including any extended testing.  
The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the Statement of Accounts. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:
  - Lower materiality level based on expectation of users of the Council's Statement of Accounts
  - Consideration of correspondence from the public and formal objections.
  - New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16 and other significant and inherent risks identified.
  - Non-compliance with law and regulation with an impact on the Statement of Accounts.
  - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
  - The need to exercise auditor statutory powers.
  - Prior period adjustments.
  - Modified financial statement opinions
3. The 2020/21 and 2021/22 Housing Benefits work has been completed and signed off. The final fee for 2020/21 is £12,000 and 2021/22 £17,200. The 2022/23 audit has commenced and the fee for this year is yet to be determined. We have not commenced work on 2023/24 or 2024/25.

# Appendix C – 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	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▪ The planned scope and timing of the audit</li> <li>▪ Any limitations on the planned work to be undertaken</li> <li>▪ The planned use of internal audit</li> <li>▪ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Provisional Audit Plan - June 2025 - Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> <li>▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▪ Significant difficulties, if any, encountered during the audit</li> <li>▪ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▪ Written representations that we are seeking</li> <li>▪ Expected modifications to the audit report</li> <li>▪ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▪ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)</li> </ul>	Audit Results Report - December 2025 - Audit Committee



# Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you
		When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▪ Whether the events or conditions constitute a material uncertainty</li> <li>▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the Statement of Accounts</li> <li>▪ The adequacy of related disclosures in the Statement of Accounts</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Misstatements	<ul style="list-style-type: none"> <li>▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▪ The effect of uncorrected misstatements related to prior periods</li> <li>▪ A request that any uncorrected misstatement be corrected</li> <li>▪ Material misstatements corrected by management</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Fraud	<ul style="list-style-type: none"> <li>▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▪ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the Statement of Accounts</li> </ol> </li> <li>▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▪ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit Results Report - December 2025 - Audit Committee

# Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you
		When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▪ Non-disclosure by management</li> <li>▪ Inappropriate authorisation and approval of transactions</li> <li>▪ Disagreement over disclosures</li> <li>▪ Non-compliance with laws and regulations</li> <li>▪ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:               <ul style="list-style-type: none"> <li>▪ The principal threats</li> <li>▪ Safeguards adopted and their effectiveness</li> <li>▪ An overall assessment of threats and safeguards</li> <li>▪ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> <li>▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▪ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Provisional Audit Plan - June 2025 - Audit Committee</p> <p>Audit Results Report - December 2025 - Audit Committee</p>

# Appendix C – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▪ Management's refusal for us to request confirmations</li> <li>▪ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▪ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▪ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the Statement of Accounts and that the audit committee may be aware of</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Internal controls	<ul style="list-style-type: none"> <li>▪ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Group audits	<ul style="list-style-type: none"> <li>▪ An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams</li> <li>▪ Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern</li> <li>▪ Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted</li> <li>▪ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group Statement of Accounts</li> <li>▪ Significant deficiencies identified in the group's system of internal control</li> </ul>	Audit Results Report - December 2025 - Audit Committee

# Appendix C – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - TBC - Audit Committee
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - TBC - Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - TBC - Audit Committee
Auditors report	<ul style="list-style-type: none"> <li>▪ Key audit matters that we will include in our auditor's report</li> <li>▪ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - TBC - Audit Committee
Value for Money	<ul style="list-style-type: none"> <li>▶ Risks of significant weakness identified in planning work</li> <li>▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.</li> </ul>	Provisional Audit Plan - June 2025 - Audit Committee
		Audit Results Report - TBC - Audit Committee
		Auditors Annual Report - TBC - Audit Committee

# Appendix A

## EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

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# Havering Pension Fund

Audit Plan

Year end 31 March 2025

**18 June 2025**



The better the question. The better the answer. The better the world works.



Shape the future  
with confidence



18 June 2025



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

Dear Audit Committee Members

### **Havering Pension Fund Audit Plan**

Attached is the Audit Plan for the upcoming meeting of the Audit Committee. This report aims to provide the Audit Committee of Havering Pension Fund (the Fund) with a basis to review the proposed audit approach and scope for the 2024/25 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements. This report summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

As the Fund's body charged with governance, the Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Fund's wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will report on any issues identified in the Fund's external financial reporting arrangements as part of our Audit Results Reports and communications with those charged with governance. We direct Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

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

We welcome the opportunity to discuss this report with you at the next Audit Committee on the 15 July 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

**Hassan Rohimun**

For and on behalf of Ernst & Young LLP

Enc

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- 1 Overview of our 2024/25 audit strategy
- 2 Audit risks
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- 4 Scope of our audit
- 5 Audit team
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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). 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 and further guidance (updated July 2021)” issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO 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. 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 2024/25 audit strategy overview

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# 2024/25 audit strategy overview

## Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited financial statements by local bodies has reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government's strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

- **Phase 1:** Reset; clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is largely complete.
- **Phase 2:** Recovery from Phase 1; from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 financial statements is 27 February 2026. Auditors are waiting for guidance from the system leader to effectively, efficiently and consistently build back assurance over disclaimed audit periods.
- **Phase 3:** Reform; involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

# 2024/25 audit strategy overview (cont'd)

## Responsibilities of management and those charged with governance

The Administrating Body's Section 151 Officer is responsible for preparing the financial statements of the Fund in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the financial statements are supported by high-quality working papers and audit evidence, and that Council resources are available to support the audit process within agreed deadlines. The Audit Committee has an essential role in ensuring that it has assurance over both the quality of the financial statements and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, we will:

- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our Audit Results Report and other communications with those charged with governance.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.

# 2024/25 audit strategy overview (cont'd)

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
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Valuation of complex investments (unquoted investments)	Significant risk	No change in risk or focus	<p>The Fund's Investments includes a significant balance of Level 3 investments such as unquoted pooled investment vehicles, property and private equity. The Pension Fund held £276 million Level 3 investments as at 31 March 2024. Judgements are taken by Investment Managers to value those investments whose prices are not publicly available.</p> <p>There is a risk that these are materially misstated given the complexity of the measurement and degree of estimation involved.</p>
IAS26 Disclosure - Actuarial Present Value of Promised Retirement Benefits	Inherent risk	No change in risk or focus	<p>Every three years, a formal valuation of the whole Fund is carried out under the Local Government Pension Scheme Regulations 2013 to assess and examine the ongoing financial position of the Fund. The last fund valuation was 31 March 2022 as the fund's liability was recalculated by the actuary and was used to set employer contribution rates and underpin investment management strategy.</p> <p>IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions.</p> <p>The estimate is based on a roll-forward of data from the previous triennial valuation in 2022, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the fund.</p> <p>We consider there is a risk around the estimation process, data used and assumptions used by the actuary when valuing the fund which is reflected in the IAS26 disclosures.</p>

# 2024/25 audit strategy overview (cont'd)

## Materiality

### Planning materiality

£9.7m

Materiality has been set at £9.7 million, which represents 1% of the Net Assets of the scheme as disclosed in the 2023/24 audited accounts. The Pension Fund is a major local audit based on its size and as such, we have determined that planning materiality of 1% is an appropriate level.

### Performance materiality

£7.3m

Performance materiality has been set at £7.3 million, which represents 75% of materiality. This is the upper end of our range based on the low level of errors identified in previous years and is consistent with the level we applied in the prior year.

### Audit differences

£0.49m

We will report all uncorrected misstatements relating to the primary statements (Fund Account and Net Asset Statement) greater than £0.49 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk.



# 2024/25 audit strategy overview (cont'd)

## Audit scope

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

- Our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give a true and fair view of the financial transactions during the year ended 31 March 2025 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2025; and
- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering.

Our audit will also include the required mandatory procedures in accordance with applicable laws and auditing standards.

When planning the audit we consider 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 the above.

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

Considering the above, our professional duties require us to independently assess audit risks and take appropriate actions. The Terms of Appointment with the PSAA permit fee adjustments based on 'the auditor's assessment of risk and the work needed to meet their professional responsibilities'. Therefore, we outline these risks in this Audit Plan and will discuss any impact on the proposed scale fee with management.

# 2024/25 audit strategy overview (cont'd)

## Audit scope (cont'd)

### Effects of climate-related matters on financial statements

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current financial statements may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the financial statements.

We inquire about climate-related risks during every audit as part of our understanding of the entity and its environment. As we continually re-evaluate our risk assessments throughout the audit, we consider the information obtained to help us assess the level of inherent risk.

### Audit scope and approach

We plan to adopt a substantive audit approach.

## Page 112 Timeline

An audit timetable has been agreed with management. In Section 6 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

## Key Audit Partner and senior audit team



### Partner - Hassan Rohimun

The Engagement Partner has overall responsibility for:

- The audit and its performance
- The auditor's report that is issued on behalf of EY
- The overall quality of the audit



### Senior Manager - Mark Russell

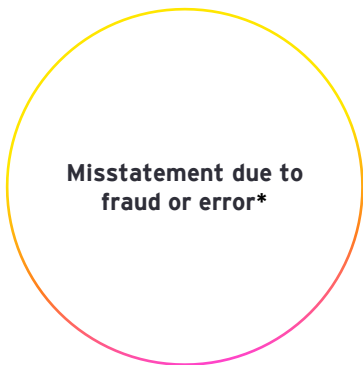
The Manager has responsibility for management of the audit and ensuring that it is adequately resourced to meet both its time and budget constraints. Mark will also support the individual engagement team members to complete timely high quality audit fieldwork.



# 02 Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) 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.



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## What is the risk?

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

As identified in ISA (UK) 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.

## What will we do?

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management’s processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity’s business sector (those that may arise from economic industry and operating conditions).
- Consideration of the effectiveness of management’s controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Evaluating the business rationale for significant unusual transactions outside the normal course of business.
- Assessing accounting estimates for evidence of management bias

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that no other procedures are required.

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) 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?

The Fund's investments include unquoted pooled investment vehicles such as private equity, infrastructure and property investments. Judgements are made by the investment managers to value these investments whose prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.

## What will we do?

We will:

- ▶ Analyse a schedule of investments to ensure correct classification, presentation and disclosure of items in the Statement of Accounts and corresponding notes.
- ▶ Understand and evaluate of the work of management's experts.
- ▶ Evaluate the ISAE 3402 report for Custodian and/or Fund Managers where applicable.
- ▶ Review the latest audited accounts for the relevant Fund Managers to ensure there are no matters arising that highlight weaknesses in the funds valuation.
- ▶ Review the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used.
- ▶ Review investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 Investments have been appropriately made in the Statement of Accounts.
- ▶ Perform triangulation work to agree amount per the Statement of Accounts to Fund Manager and to Custodian.
- ▶ Testing accounting entries have been correctly processed in the Statement of Accounts.
- ▶ Assessing topside adjustments and/or journal entries for evidence of management bias and evaluate for business rationale.
- ▶ We will review the year end investment balance in the draft Statement of Accounts and in year investment additions to determine whether there are any new individually complex investments that would pose a significant in risk in risk and if necessary, employ our internal valuation specialists to support our work in gaining assurance over these investments.

## Financial statement impact

Misstatements that occur in relation to complex investments valued at Level 3 fair value hierarchy such as unquoted equities, property and pooled investment could affect the valuation of the Net Assets.

Total of Level 3 investments held by the Fund at 31 March 2024 was £276 million, over 29% of the overall Fund.

# Other areas of audit focus example area 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, and the key judgements and estimates?**

IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits

IAS26 requires post-employment benefits plans to disclose annually the basis used to determine the actuarial present value of promised retirement benefits, including demographic and financial key assumptions.

The estimate is based on a roll-forward of data from the previous triennial valuation in 2022, updated where necessary, and takes into account various factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the fund.

We consider there is a risk around the estimation process, data used and assumptions used by the actuary when valuating the fund which is reflected in the IAS26 disclosures.

**Our response: Key areas of challenge and professional judgement**

We will:

- Assess the work of the pension fund actuary including the assumptions they have used by relying on the work of the Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Evaluate the reasonableness of the Pension Fund actuary’s calculations by comparing them to the outputs of our own auditor’s specialist’s model

**What else will we do?**

We will also ensure that the IAS 26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.



# 03 Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2024/25 has been set at £9.7 million. This represents 1% of the Pension Fund’s net assets as at 31/03/2024. 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 scheme’s ability to meet obligations rising from the pension liabilities.

## Key definitions

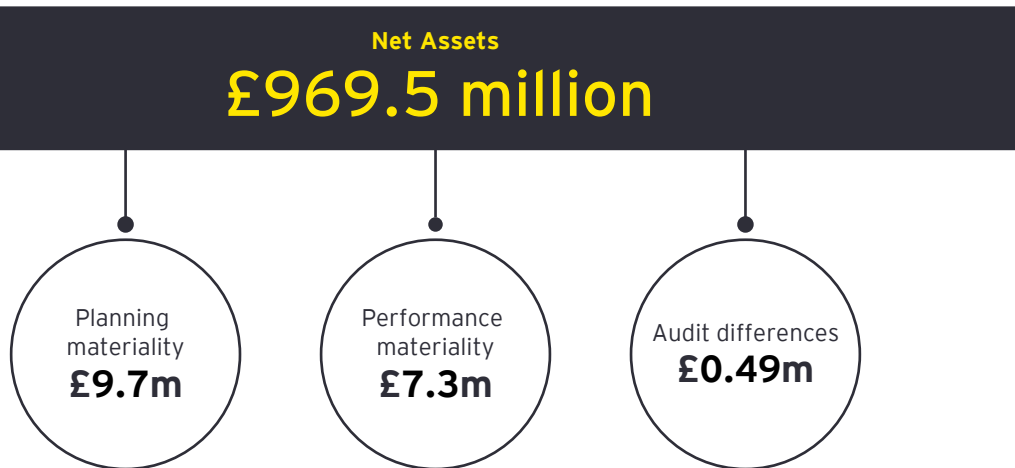
**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.3 million which represents 75% of materiality. We have considered factors such as the number of errors in the prior year, the adequacy of the control environment, and any significant changes in 2024/25 when determining the percentage of performance materiality.

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

Other uncorrected misstatements, such as reclassifications and 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.

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We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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



# 04 Scope of our audit

# Audit process and strategy

## Objective and Scope of our Audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. We issue an audit report that covers:

### 1. Financial statement audit

Our opinion on the financial statements:

- Whether the financial statements give a true and fair view of the Revenue and Fund Account and Net Asset Statement for the Pension Fund for the period in question, including on the consistency of the Pension Fund financial statements within the Pension Fund Annual Report with the published financial statements of the Council; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

Whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

- Reviewing and reporting on matters on which we report by exception as required.

# Audit process and strategy (cont'd)

## Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of other auditors where appropriate;
- Reliance on the work of experts in relation to areas, such as valuation of the Pension Fund.

Our initial assessment of the key processes across the Fund has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

### **Analytics**

We will use a data driven approach to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

### **Internal Audit**

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



# 05 Audit team

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# Audit team and Use of specialists

## Audit team

The engagement team is led by Hassan Rohimun (Partner In Charge), who has significant experience on Local Government Pension Fund audits. Hassan is supported by Mark Russell (Engagement Manager), who is responsible for the day-to-day direction of audit work and are the key points of contact for the finance team. The audit team will be led by Meenu Scaria (Lead Senior).

## Our approach to the involvement of specialists, and the use of their work

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

Planning stage	Final stage
Pension Fund Valuation and Disclosures	Hymans Robertson (Havering Pension Fund Actuary)
	PwC (Consulting Actuary to the NAO on behalf of audit providers)
	EY Pension Advisory Team
Add more where relevant	The Pension Fund’s Custodian and Fund Managers

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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 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
- Assess whether the substance of the specialist’s findings are properly reflected in the financial statements



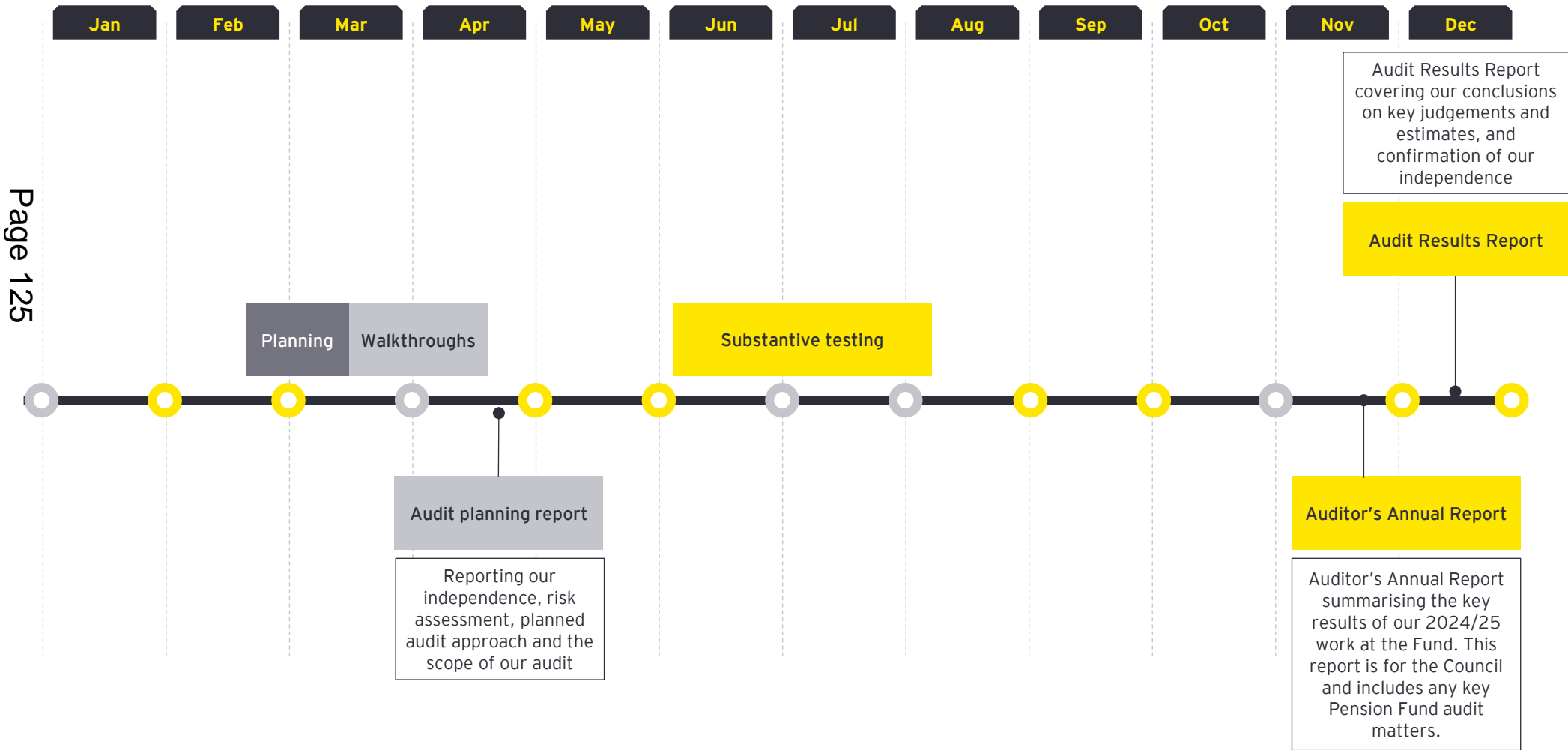
# 06 Audit timeline



# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the 2024/25 audit cycle. 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.



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# 07 Independence

The FRC Ethical Standard 2024 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 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
- The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).
- All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

#### 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 (for breaches of the FRC Ethical Standard include details of its significance); 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. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, 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 Council. Examples include where we have an investment in the Council; 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.

At the time of writing, the current ratio of non-audit fees to audit fees is nil as there are no non-audit services. No additional safeguards are required.

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

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

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

# Other communications

## EY Transparency Report 2024

EY has policies and procedures that instill 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 period ended 30 June 2024 and can be found here: [EY UK 2024 Transparency Report](#).



# 08 Appendices

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# Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- Prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- Ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- Assign responsibilities clearly to staff with the appropriate expertise and experience;
- Provide necessary resources to enable delivery of the plan;
- Maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- Ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- Ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- During the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.



## Appendix B – 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.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statement opinion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- An effective control environment; and
- Compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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

	2024/25 Current Year	2023/24 Prior Year
	£000's	£000's
Code Work – scale fee	96,974	85,945
Additional work required for specific additional procedures (Note 1)	TBC	34,872
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>

All fees exclude VAT

Note 1:

For 2023/24 we have proposed an additional fee of £34,872 for the following area of audit work which are not included in the 2023/24 scale fee. This fee is with the PSAA for final determination.

- The revision to ISA (UK) 315 has impacted our scope and approach since implementation in 2022/23. This requires us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements.
- Audit procedures relating the inherent risk IAS 26 disclosure.
- Audit procedures performed by our own pension specialist to undertake roll forward procedures on the pension liability and the estimates implicit within.
- Additional audit procedures required due to the time elapsed between our initial audit work and the timing of our audit report in relation to review of additional fund manager control report, review of annual report and versions of the financial statements.

For 2024/25 we will consider the need for any additional fee based on risk factors to the audit as outlined within this Audit Plan, for example relating to the IAS 26 disclosure and use of pension specialists to undertake roll forward procedures. The impact of ISA(UK) 315 is now included in the PSAA's 2024/25 scale fee.

Scale fees for 2024/25 have been increased by PSAA to cover additional work under revised standards and contractual inflationary increase payable to audit firms. The new work relates to revised auditing standards ISA (UK) 315 (risk of material misstatement) and linked work on ISA (UK) 240 (fraud). Further information on the scale fee can be found on PSAA's website at [2024/25 auditor appointments and audit fee scale - PSAA](#)

The final fee will be subject to determination by PSAA Ltd.

# Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Required communications	What is reported?	Our Reporting to you
		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	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▪ The planned scope and timing of the audit</li> <li>▪ Any limitations on the planned work to be undertaken</li> <li>▪ The planned use of internal audit</li> <li>▪ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Plan - June 2025 - Audit Committee
Significant findings from the audit	<ul style="list-style-type: none"> <li>▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▪ Significant difficulties, if any, encountered during the audit</li> <li>▪ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▪ Written representations that we are seeking</li> <li>▪ Expected modifications to the audit report</li> <li>▪ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▪ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)</li> </ul>	Audit Results Report - December 2025 - Audit Committee

# Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you
		When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▪ Whether the events or conditions constitute a material uncertainty</li> <li>▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▪ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Misstatements	<ul style="list-style-type: none"> <li>▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▪ The effect of uncorrected misstatements related to prior periods</li> <li>▪ A request that any uncorrected misstatement be corrected</li> <li>▪ Material misstatements corrected by management</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Fraud	<ul style="list-style-type: none"> <li>▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▪ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▪ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit Results Report - December 2025 - Audit Committee

# Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you
		When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▪ Non-disclosure by management</li> <li>▪ Inappropriate authorisation and approval of transactions</li> <li>▪ Disagreement over disclosures</li> <li>▪ Non-compliance with laws and regulations</li> <li>▪ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▪ The principal threats</li> <li>▪ Safeguards adopted and their effectiveness</li> <li>▪ An overall assessment of threats and safeguards</li> <li>▪ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> <li>▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▪ Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Plan - June 2025 - Audit Committee</p> <p>Audit Results Report - December 2025 - Audit Committee</p>

# Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you
		When and where
	<ul style="list-style-type: none"> <li>A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>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</li> </ul>	Audit Results Report - December 2025 - Audit Committee
Internal controls	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report - December 2025 - Audit Committee

# Appendix C – Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you
		When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - December 2025 - Audit Committee
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - December 2025 - Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - December 2025 - Audit Committee
Auditors report	<ul style="list-style-type: none"> <li>▪ Key audit matters that we will include in our auditor's report</li> <li>▪ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - December 2025 - Audit Committee

# Appendix B

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ED None

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## AUDIT COMMITTEE

8 JULY 2025

Subject Heading:

Annual Treasury Management Report  
2024/25

SLT Lead:

Kathy Freeman  
Strategic Director of Resources and  
S151 Officer

Report Author and contact details:

Tony Piggott Treasury Manager  
01708 434 368  
Tony.piggott@havering.gov.uk

Policy context:

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the prudential and treasury indicators for 2024/25. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, ("the CIPFA TM code") and the CIPFA Prudential Code for Capital Finance in Local Authorities, ("the Prudential Code")

Financial summary:

The Treasury Strategy supports the Authority's Budget strategy.

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

People – Supporting our residents to stay safe and well	x
Place – A great place to Live, Work and Enjoy	x
Resources – Enabling a resident-focused and resilient Council	x

## SUMMARY

The CIPFA TM Code requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end).

The Authority's Treasury Management Strategy Statement (TMSS) 2024/25 was approved by Full Council in March 2024. This backward looking report covers the delivery of the TMSS for 2024/25.

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

## RECOMMENDATIONS

- To note the content of treasury management activities and performance against targets for the financial year 2024-25 as detailed in the report.

## KEY HIGHLIGHTS

- Investment income from treasury investments received for 2024/25 was £4.2m
- Interest payable as a result of debt for 2024/25 was £16.6m
- The Authority's long term debt is fixed at an average rate of 3.70%.
- During the period December 2024 through to March 2025 new 1 year PWLB loans were taken totalling £293m at an average rate of 4.55% to refinance maturing debt of £118m and to finance historic capital spend.
- During the year treasury exceeded its Investment benchmark of 3 month SONIA @4.82% delivering a yield of 5.26%, (+0.44%)
- During 2024/25 this Authority's treasury activities remained within the treasury limits and prudential indicators set out in the TMSS.

## REPORT DETAIL

### 1. Background

#### 1.1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2024/25 the minimum reporting requirements were that the Authority should receive the following reports:

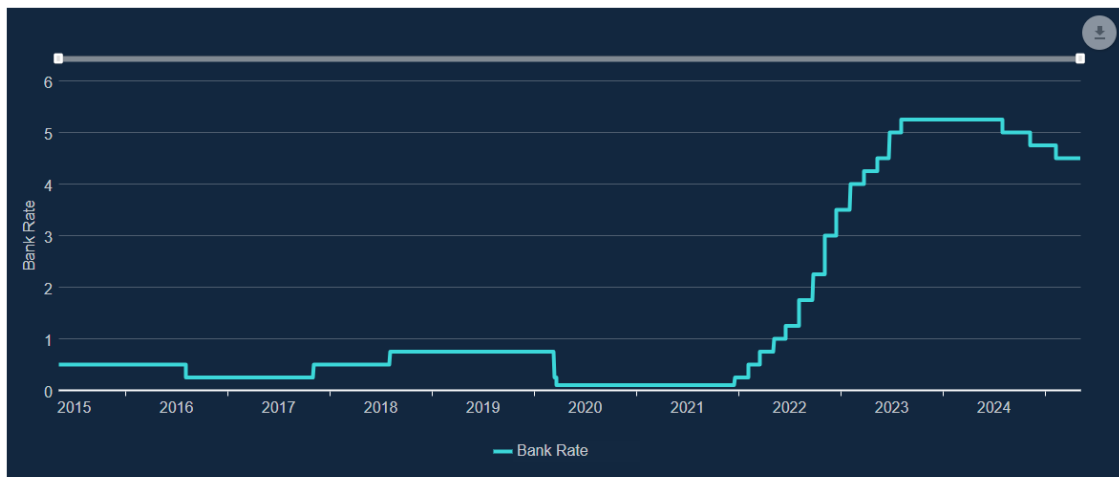
- An annual treasury strategy in advance of the year (Council in March 2025)
- A mid-year, (minimum), treasury update report (Audit Committee 3 December 2024)
- An annual review following the end of the year describing the activity compared to the strategy, (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

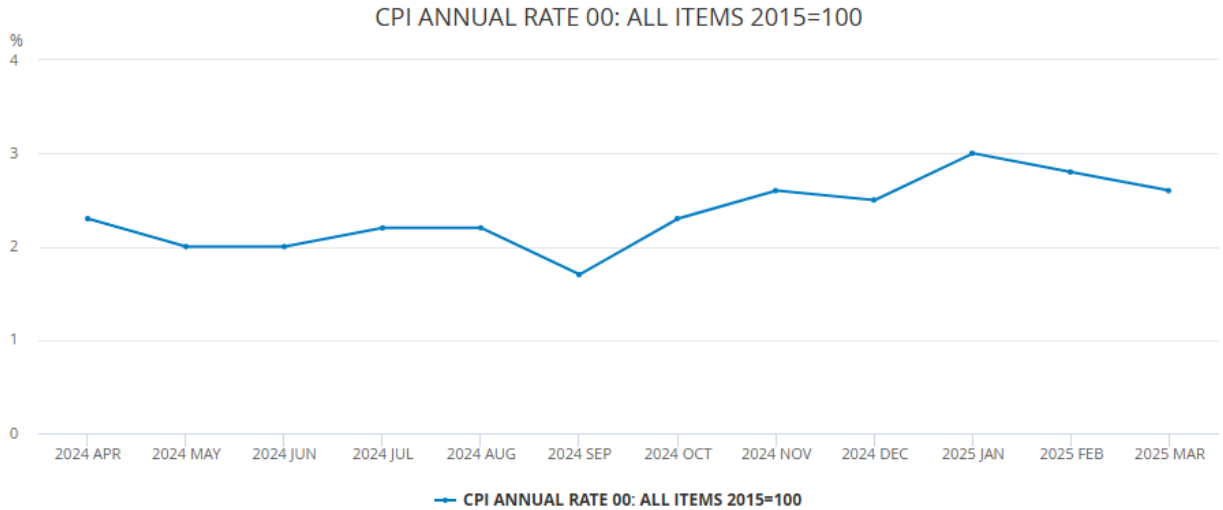
#### 1.2. Economic

The Bank of England (BoE) Monetary Policy Committee (MPC) Started easing monetary policy, cutting the Bank Rate in stepped reductions of 0.25% from 5.25% in April 2024 to 4.50% by the end of the financial year, see chart below.

Official Bank Rate

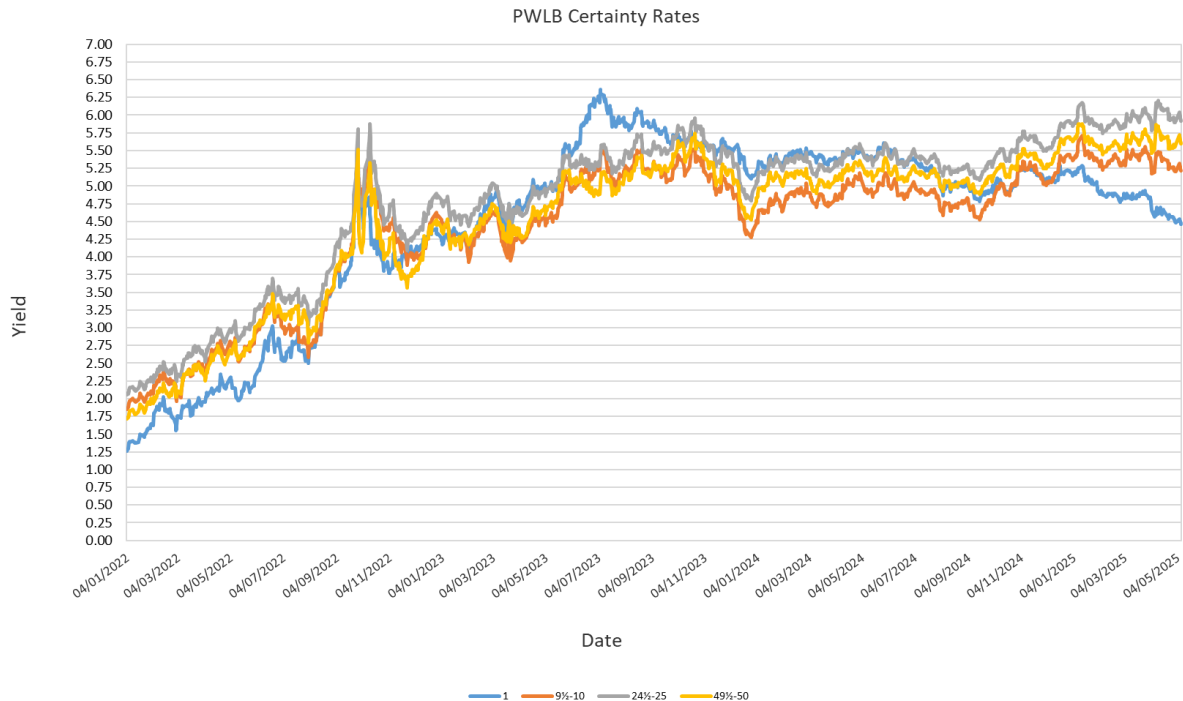


UK Inflation as measured by the CPI was range bound during the year starting at 2.3% and reaching a low of 1.7% in September 2024 before moving higher ending the financial year at 2.6%, slight above the (BoE) target rate of 2%, see chart below.



UK Gilt yields (which drive PWLB interest rates) were mixed during the year, with short term yields falling as the bank rate was reduced, whilst longer term rates increased due to global uncertainties, tariffs geopolitics and the deterioration in government finances, see chart below.

**Graph 1: PWLB Rates 2022/25**



## Treasury Management Summary

1.3 The treasury management activity in year is shown in table 1 below:

**Table 1: Treasury management summary as at 31 March 2025**

	01.04.24		31.03.25	2024-25	2024-25	2024-25
	Opening Balance	Movement	Closing Balance	Interest	Average Balance	Weighted Average Rate
	£m	£m	£m	£m	£m	%
<b>LONG-TERM BORROWING</b>						
PWLB	425.124	175.000	600.124	15.793	448.516	3.52%
LOBO	7.000	0.000	7.000	0.252	7.000	3.60%
Short-term borrowing	20.264	-19.792	0.472	0.568	11.532	4.92%
<b>Total borrowing</b>	<b>452.388</b>	<b>155.208</b>	<b>607.596</b>	<b>16.613</b>	<b>467.048</b>	<b>3.56%</b>
<b>INVESTMENTS</b>						
Short-term investments	71.000	46.000	117.000	4.253	80.841	5.26%
<b>Total investments</b>	<b>71.000</b>	<b>46.000</b>	<b>117.000</b>	<b>4.253</b>	<b>80.841</b>	<b>5.26%</b>
<b>Net position</b>	<b>381.388</b>	<b>109.208</b>	<b>490.596</b>	<b>12.360</b>		

## 2. Borrowing strategy

2.1 Table 2 sets out the change in the Authority's Capital Financing Requirement (CFR) in 2024/25 – this measures how the Authority's underlying borrowing need has changed in year as a result of activity on its approved capital programme and how it has been financed. The Authority's capital finance budget includes provision to fund the capital programme's expected borrowing requirement from new long term fixed rate debt.

**Table 2: CFR and its financing 2024/25**

	01/04/24 Actual £m	31/03/25 Budget £m	31/03/25 Actual £m
GF CFR	221	320	286
HRA CFR	397	529	431
<b>Total CFR</b>	<b>618</b>	<b>849</b>	<b>717</b>
<b>Financed by:</b>			
External Long Term Debt	433	617	607
External Short Term Debt	20	0	0
<b>Internally Borrowed Cash Position</b>	<b>165</b>	<b>232</b>	<b>110</b>

- 2.2 The short term strategy involved using the Authority's cash balances to fund the 2024/25 borrowing requirement in the capital programme. In addition 1 year borrowing for the HRA was entered into between December 2024 & March 2025 totalling £293m.
- 2.3 The Authority's debt portfolio as at 31<sup>st</sup> March 2025 is fixed at an average rate of 3.70% with an average duration of 12.6 years.
- 2.4 The S151 officer balanced the need to minimise the costs from funding the CFR by using internal cash balances and defer the drawdown of more expensive long term debt against the protection it offers in reducing interest rate risk and stabilising capital finance costs in the budget strategy. Slippage on the capital programme in 2024/25 has meant the Authority's cash balances have remained higher than planned. This strategy of deferring long term borrowing resulted in significant savings in the 2024/25 capital finance budget as detailed in table 3 below. This strategy may need to be reviewed should interest rates remain higher for longer.

**Table 3: Capital finance outturn 2024/25**

	<b>GF £m</b>	<b>HRA £m</b>	<b>Total £m</b>
<b>Interest Payable</b>			
Budget	6.6	8.3	14.9
Outturn	2.8	13.8	16.6
<b>(Underspend) / Overspend</b>	<b>(3.8)</b>	<b>5.5</b>	<b>1.7</b>
<b>Interest Receivable</b>			
Budget	(1.3)	(0.2)	(1.5)
Outturn	(4.2)	(0.0)	(4.2)
<b>(Underspend) / Overspend</b>	<b>(2.9)</b>	<b>0.2</b>	<b>(2.7)</b>
<b>Net Interest (Underspend) / Overspend</b>	<b>(6.7)</b>	<b>5.7</b>	<b>(1.0)</b>

- 2.5 **Debt Rescheduling**  
The possibility of debt rescheduling was regularly discussed with our treasury adviser. The current PWLB rules on redemption remain prohibitive and costly.
- 2.6 **LOBO Loan**  
The Authority holds a £7m LOBO (Lender Option, Buyer Option) loan with Danske Bank at a rate of 3.6%. Danske Bank has the option to propose an increase in the interest rate at set dates, while the Authority then has the option to either accept the new rate or to repay the loan at no additional cost. Danske Bank have indicated there is a very low probability they will alter the rate in the foreseeable

future, Officers will continue to monitor and liaise with Danske Bank going forward.

### 3. Investment strategy

- 3.1 The Authority’s cash investments increased during the year as proceeds from PWLB issuance (£293m) were received to refinancing maturing debt of £118m and reduce the internal borrowing position as a result of historical capital spend. Investments increased from £71.0m to end the year at £117.0m, as shown in Table 4 below.
- 3.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and yield in that order. Officers kept treasury investments in short-term instruments in 2024/25 less than 1 year so they could be used to fund the capital programme whilst maintaining a liquidity buffer of £40m as a contingency against any future credit crisis.

**Table 4: Treasury investment activity 2024/25**

	01.04.24		31.03.25	
	Opening Balance	Movement	Closing Balance	Closing Interest rate %
	£m	£m	£m	£m
<b>Investments</b>				
Local Authorities	55.000	25.000	80.000	5.54%
Debt Management Office (DMO)	16.000	21.000	37.000	4.45%
<b>Total Investments</b>	<b>71.000</b>	<b>46.000</b>	<b>117.000</b>	<b>5.20%</b>

### 4.0 Outstanding Investment position 31/3/25

Table 1.2 within Appendix A, details the authorities Investments brokendown by counterparty, amount and the percentage each investment represents as a part of the total investment portfolio.

### 5. Budgeted Income and Return

- 5.1 The authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below:



**Table 6: Treasury investment performance 2024-25**

	<b>Benchmark Average 3 Month Sonia</b>	<b>Actual Weighted Rate of Return achieved</b>	<b>Over / (Under) Performance against benchmark</b>
2024/2025	4.82%	5.26%	0.44%
2023/2024 (for comparison)	4.64%	5.04%	0.40%

## **6. Regulatory Changes**

**6.1** There were no regulatory changes in 2024-25.

## **7. Compliance with Treasury and Prudential Limits**

**7.1** During the year, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in Appendix A of this report.

**7.2** The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

The Authority uses MUFG corporate markets,(previously known as Link Asset Services), Treasury Solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely our treasury adviser.

Risk is inherent in all treasury activity. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

Treasury operations are undertaken by nominated officers as prescribed by the Treasury Management Policy Statement as approved by the Council.

**Legal implications and risks:**

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

**Human Resources implications and risks:**

There are no HR implications from this report

**Equalities implications and risks:**

There are no Equalities implications arising from this report.

The report has no direct equalities implications.

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, and 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.

**Health and Wellbeing implications and risks:**

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report.

**BACKGROUND PAPERS**

None

**Compliance Report**

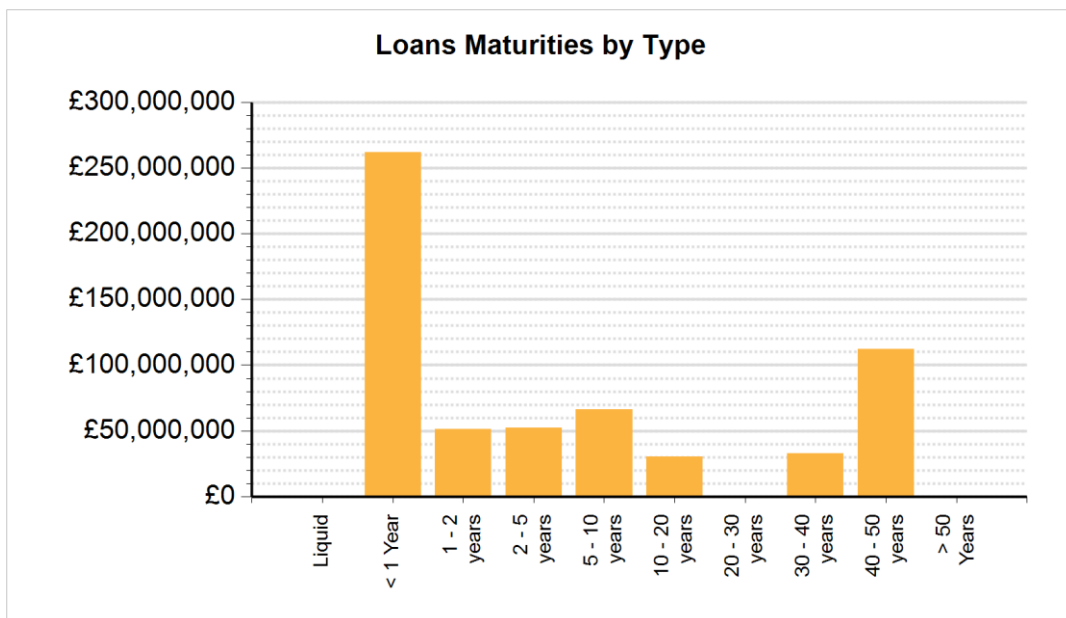
All treasury management activities undertaken during the financial year complied fully with the CIPFA Code of Practice and the authority’s approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

**1.1 Maturity Structure of Borrowing**

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

Table 1: Loan maturity structure

	Upper	Lower	Actual
Under 12 months	50%	0%	43.14%
Above 12 months and within 24 months	60%	0%	8.48%
Above 24 months and within 5 years	80%	0%	8.64%
Above 5 years and within 10 years	100%	0%	10.88%
10 years and above	100%	0%	28.86%



Total			
Amount	% of Total	Rate	Duration
	0.00%		
£262,128,706	43.14%	4.50%	0.88 years
£51,524,800	8.48%	4.28%	1.32 years
£52,511,718	8.64%	3.26%	3.93 years
£66,099,200	10.88%	3.32%	7.50 years
£30,172,009	4.97%	3.51%	17.01 years
£200,444	0.03%	4.92%	21.02 years
£32,959,855	5.42%	5.03%	31.63 years
£112,000,000	18.43%	1.66%	45.42 years
	0.00%		
£607,596,731	100.00%	3.70%	12.59 years

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The average duration of the debt portfolio is 12.6 years.

## 1.2 Investment portfolio position as at 31/3/25

Class	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Deposit	31/03/25	01/04/25	DMADF (Debt Management Account Deposit Facility)	4.4500%	37,000,000.00
Deposit	28/03/25	08/04/25	West Mercia Police and Crime Commissioner	6.0000%	37,000,000.00
Deposit	31/01/25	30/04/25	Blackpool Council	5.7000%	37,000,000.00
Deposit	20/01/25	20/05/25	Reading Borough Council	5.3500%	37,000,000.00
Deposit	22/11/24	22/05/25	Central Bedfordshire Council	5.2500%	37,000,000.00
Deposit	27/02/25	27/05/25	Uttlesford District Council	5.8500%	37,000,000.00
Deposit	21/11/24	02/06/25	Uttlesford District Council	5.2000%	37,000,000.00
Deposit	07/02/25	09/06/25	South Yorkshire Fire and Rescue Authority	5.8000%	37,000,000.00
Deposit	29/11/24	27/06/25	Hertfordshire Police and Crime Commissioner	5.2500%	37,000,000.00
Deposit	29/11/24	27/06/25	Suffolk County Council	5.3500%	37,000,000.00
Deposit	06/01/25	07/07/25	Broxbourne Borough Council	5.3000%	37,000,000.00
Deposit	27/12/24	07/07/25	Warwickshire Police and Crime Commissioner	5.6500%	37,000,000.00
Deposit	20/01/25	21/07/25	London Borough of Hillingdon	5.5000%	37,000,000.00
Deposit	29/01/25	29/07/25	Leicestershire Police and Crime Commissioner	5.8000%	37,000,000.00
Deposit	10/02/25	11/08/25	Isle of Wight Council	5.8000%	37,000,000.00
Deposit	14/02/25	14/08/25	Bradford Metropolitan Borough Council	5.8000%	37,000,000.00
Deposit	06/01/25	29/08/25	Eastleigh Borough Council	5.2000%	37,000,000.00
Deposit	24/12/24	24/09/25	Fife Council	5.7000%	37,000,000.00
<b>Deposit Total</b>					<b>117,000,000.00</b>

Counterparty Name	Amount	%
DMADF (Debt Management Account Deposit Facility)	£37,000,000	31.62%
South Yorkshire Fire and Rescue Authority	£5,000,000	4.27%
Reading Borough Council	£5,000,000	4.27%
Isle of Wight Council	£5,000,000	4.27%
Warwickshire Police and Crime Commissioner	£5,000,000	4.27%
Bradford Metropolitan Borough Council	£5,000,000	4.27%
Central Bedfordshire Council	£5,000,000	4.27%
Eastleigh Borough Council	£5,000,000	4.27%
Hertfordshire Police and Crime Commissioner	£5,000,000	4.27%
Fife Council	£5,000,000	4.27%
West Mercia Police and Crime Commissioner	£5,000,000	4.27%
Blackpool Council	£5,000,000	4.27%
Leicestershire Police and Crime Commissioner	£5,000,000	4.27%
Suffolk County Council	£5,000,000	4.27%
Broxbourne Borough Council	£5,000,000	4.27%
London Borough of Hillingdon	£5,000,000	4.27%
Uttlesford District Council	£5,000,000	4.27%

Country	Deal Ref	Amount	%
UK		£117,000,000	100.00%
	Total	£117,000,000	

### 1.3 Principal Sums Invested for Periods Longer than 364 days

- 1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.
- 1.3.2 The limits set in the 2024/25 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify investments with maturities exceeding one year as Long term investments.

Table 2: Investments for periods longer than 364 days

	2024/25 Limit	2024/25 Actual
Limit on principal invested beyond year end	£50m	£0m

## 1.4 Security Treasury Indicator

1.4.1 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. The Credit rating agency Standard & Poor is used to determine credit ratings and deposits with local authorities and other similar organisations are deemed to be equivalent to deposits with the UK government.

Table 3: Security Treasury Indicator

	2024/25 Target	31/3/25 Actual
Portfolio average credit rating	A+	AA

## 1.5 Gross Debt and the Capital Financing Requirement (CFR)

1.5.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence. The estimates below are based on those set out in the approved TMSS 2024/25.

Table 4: Gross debt and the CFR at 31<sup>st</sup> March 2025

	31/3/25 Actual £m	31/03/26 Estimate £m	31/03/27 Estimate £m	31/03/28 Estimate £m
Long-term External Debt	607	885	1,235	1,527
Short-term External Debt	0	0	0	0
<b>Total Debt</b>	<b>607</b>	<b>885</b>	<b>1,235</b>	<b>1,527</b>
Capital Financing Requirement	717	992	1,323	1,586
<b>Internal Borrowing</b>	<b>110</b>	<b>107</b>	<b>88</b>	<b>59</b>

1.5.2 Total debt is expected to remain below the CFR. Officers will draw down long term debt when conditions merit it. Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt as below.

## 1.6 Operational Boundary for External Debt

- 1.6.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. These limits may be reviewed as part of mid-year TMSS report in the event of a change in the interest rate outlook and the decision is made to fund the increase in CFR from external debt.

Table 5: Operational Boundary

<b>Operational Boundary</b>	<b>2024/25 Limit £m</b>	<b>31/3/25 Actual £m</b>
Borrowing	900	607
Other Long-Term Liabilities	10	9
<b>Total</b>	<b>910</b>	<b>616</b>

## 1.7 Authorised Limit for External Debt

- 1.7.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally borrow. The authorised limit provides headroom over and above the operational boundary for unusual cash movements

Table 6: Authorised limit for external debt

<b>Authorised Limit</b>	<b>2024/25 Limit £m</b>	<b>31/3/25 Actual £m</b>
Borrowing	950	607
Other Long-Term Liabilities	10	9
<b>Total</b>	<b>960</b>	<b>616</b>



**A bond** is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

**A floating rate note (FRN)** is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

**Bail in** is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail-in** is the opposite of a **bail-out**, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

**Borrowing Requirements** The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

**Capital Financing Requirement (CFR)** Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

**Certificates of deposit (CDs)** are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

**Coupon** is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi-annually or annually and an FRN will most likely pay every 3 months.

**Covered bond** Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

**Counterparties** Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

**CPIH (Consumer Prices Index including owner occupiers' housing costs)** The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH). CPI inflation measure excludes housing costs.

**CPI (Consumer Prices Index)** this measure excludes housing costs.

**Credit Default Swap (CDS)** A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

**Credit rating** A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

**Credit Watch** A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

**DMO (Debt Management Office)** a department in the treasury where deposits can be placed with the government.

**Interest Rate Exposures** A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

**LOBO Loan (Lender Option, Buyer Option)** loan, the lender who has the option to propose an increase in the interest rate at set dates, while the borrower has the option to either accept the new rate or to repay the loan at no additional cost.

**Market Loans** Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

**MIFID** is the Markets in Financial Instruments Directive. A European Union Directive.

**Minimum Revenue Provision (MRP)** This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

**Money Market Fund (MMF)** A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

**Monetary Policy Committee (MPC)** is a committee of the [Bank of England](#), which meets for three and a half days, eight times a year, to decide the official [interest rate](#) in the [United Kingdom](#) (the [Bank of England Base Rate](#)).

**Principal** is the total amount being borrowed or lent.

**PWLB Loan**, ( Public Works Loan Board ),The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury.

**SONIA** sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

**Spread** is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

**Treasury bills (T-bills)** are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration

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## AUDIT COMMITTEE

### 08 07 2025

<b>Subject Heading:</b>	Head of Assurance Annual Report 2024/25
<b>SLT Lead:</b>	Kathy Freeman, Strategic Director Resources
<b>Report Author and contact details:</b>	Jeremy Welburn, Head of Assurance Tel: 01708 432610 / 07976539248 Email: <a href="mailto:jeremy.welburn@onesource.co.uk">jeremy.welburn@onesource.co.uk</a>
<b>Policy context:</b>	To present a summary of the outcomes of Internal Audit and Counter Fraud work completed during 2024/25 and the Head of Assurance’s annual opinion.
<b>Financial summary:</b>	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

People making Havering	[X]
Places making Havering	[X]
Resources making Havering	[X]

## SUMMARY

This report brings together all aspects of audit, assurance and counter fraud work undertaken in the 2024/25 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 2024/25.

The 2024/25 Outturn report is included in Appendix 1.

Limited assurance reports issued since the last Audit Committee are included in Appendix 2

The updated Internal Audit Plan 2025/26 is provided in Appendix 3.

**RECOMMENDATIONS**

Members are asked to consider the Assurance End of Year Report 2024/25 incorporating Head of Assurance Opinion and to make any appropriate recommendations.

**REPORT DETAIL**

**Introduction**

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.

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.

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.

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 organisations practices.

This report summarises the cumulative outcomes of audit and counter fraud work for 2024/25.

**Head of Assurance Opinion 2024/25**

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 audit plan is fluid and amended during the year to reflect changes within the Council's risk profile.

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. It should be noted that the PSIAS are superseded for all work conducted from the 1<sup>st</sup> April 2025, and next year's audit opinion will be based on the new Global Internal Audit Standards GIAS.

Last year's (2023/24) annual opinion concluded that reasonable assurance could be provided that there was generally a sound system of internal control across the Council. However, it noted that procurement processes and contract management arrangements continues to be an area of significant risk to the Council. Significant work has been undertaken by the Council to mitigate this risk during 2024/25 and continue into 2025/26. This opinion concludes that continued efforts will increasingly manage this risk effectively.

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. The opinion also takes account of counter fraud undertaken and any external reviews that are relevant to the control environment and management of risks. Outlined below are the definitions of the assurance levels provided by Internal Audit:

**Key to Assurance Levels**

- **Reasonable Assurance** - The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
- **Limited Assurance** - There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

The internal audit programme of work for 2024/25 identified the following areas where only limited assurance could be provided on the control environment:

- Court of Protection: Deputyship and Appointeeships
- Engagement of Consultants via Matrix
- Procurement Processes



- Tenant management Organisations.

As these issues were identified in specific and contained areas of the Council's operations, they do not give rise to thematic concerns about the overall control environment in place and do not significantly affect the overall opinion provided in this report. Management actions have been agreed to address the high risk findings and implementation is monitored by the Audit Committee. Therefore, based on the work undertaken and finalised reports at the end of the 2024/25 financial year, reasonable assurance could be provided that there is generally a sound system of internal control across the Council.

However, instances of potentially fraudulent activity identified in the final quarter of 2024/25 and a control failure in the Temporary Accommodation service do highlight a weakness in the management of budgets across the Council, that covers the 2024/25 period and, in some cases, prior to this year. Although the fraud cases are still being investigated and details cannot be provided in this report, these incidents highlight common issues regarding the robustness of management oversight of expenditure in each of the respective services. Given that these fraud cases have all occurred in distinct business areas, this gives rise to concern that budgets are not being monitored effectively and increases the risk that the Council is incurring unnecessary expenditure.

The financial challenges faced by Havering Council at the current time are well documented and the challenges of setting a balanced budget for 2025/26 are highlighted in the Annual Governance Statement for 2024/25, as below:

*"The Council was only able to set a balanced budget for 25/26 with exceptional financial support, through the form of a capitalisation direction. MHCLG approved a capitalisation direction of a maximum of £88m, which was on a worst-case basis. On a mid-case basis, the Council will need to spend an additional £70.2m in addition to the net budget requirement of £205m. This represents borrowing of c35% on our annual revenue expenditure. The position includes over £10m of savings agreed for 25/26. Heads of service, assistant directors and directors will be asked to sign off a budget assurance statement, confirming they will do everything in their control to manage their budgets within the existing financial envelope allocated to them. It has been made clear that budgets will be allocated within the mid-case scenario, so not to increase the Council's structural budget deficit. Managers will also be asked to develop their commissioning/procurement pipeline on the Corporate Contracts register, seeking better value in re-procurement exercises.*

*The Council's unit costs have increased compared to where we were in previous years to bring our costs more in line with other boroughs, however, compared to the national average, Havering's unit costs are still lower.*

*More work is needed to embed the financial management culture throughout the Council. Managers will be asked to continually deep dive into overspending areas and Finance recovery boards will continue to hold directors to account on delivery of savings, actions and actions being taken to reduce their expenditure and increase income."*

Given the requirement highlighted above to embed a strong financial management culture and the expectation of managers to be scrutinising their expenditure, the issues already identified around budgetary control and oversight functions raise concerns around this process. If managers do not prioritise their responsibilities regarding budget management, there is a greater risk of fraud and error.

Given the issues identified, but not yet reported to Audit Committee fully, in the latter half of 2024/25, the Head of Audit can only provide **limited assurance** on the overall effectiveness on the control environment, specifically the management and oversight of departmental budgets and expenditure. This opinion is also based on the impact that such losses and errors will have on the limited resources the Council has available to discharge its duties.

It should be noted that Senior Management has responded swiftly and robustly to the issues raised by internal audit in the cases referred to above. Further work is being undertaken by the Finance Team and Internal Audit to identify all budgets at risk across the Council and it is the opinion of the author of this report that these weaknesses will be addressed during the course of 2025/26. The audit plan is being revised to ensure assurance is given on the specific risks identified and that the control environment continues to improve during 2025/26.

This issue has been highlighted as a Significant Governance Issue in the Annual Governance Statement for 2024/25 and the details of this, including the action plan, are included below:

<p><b>5.</b> A number of control failures have been identified towards the end of 2024/25 across three service areas. Reviews undertaken of these incidences have highlighted a combination of inconsistent application of the financial framework and poor management oversight in a limited number of areas. These issues have led to financial inefficiencies, potentially resulting in a misallocation of resources, which may have impacted on service delivery within the areas affected, ultimately resulting in financial loss to the Council.</p> <p>In all incidences, both the first (service delivery and day-to-day management of risks) and second (support, advisory and monitoring responsibilities) line of defence were ineffective.</p>
<p><b>Actions taken during 2024/25</b></p> <ul style="list-style-type: none"><li>- Initial internal audit reviews have taken place and, where applicable, fraud investigations remain underway.</li><li>- A summary of the issues, causes and actions provided to Audit Committee with members requesting a follow up within 6 weeks.</li><li>- Work underway by finance</li></ul>
<p><b>Planned actions for 2025/26</b></p> <ul style="list-style-type: none"><li>- Follow up to be provided to Audit Committee in June 2025</li><li>- Additional reviews added to the Internal Audit Plan 2025/26</li></ul>

## **Other Arrangements**

### **Risk Management Arrangements**

The strategic risks to the achievement of the Authority's objectives are captured within a strategic risk register which is overseen by ELT and ELG and progress reported to the Audit Committee. Work continued during 2024/25 to ensure the risk register reflects the risks facing the Council.

Work will continue during 2025/26 to support the general risk management processes, particularly at Directorate level.

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.

### **Governance Arrangements**

The Annual Governance Statement is regularly reviewed and updated by ELT and ELG. The work of Internal Audit informs the issues brought to the leadership team and identified in the Annual Governance Statement (AGS). Governance arrangements are routinely considered as part of all internal audit reviews.

### **Audit Committee**

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

## **Other Matters**

### **Peer Review**

An external quality assessment peer review of Internal Audit took place in early 2025. The outcome of this review was positive with a small number of recommendations. We will report on the progress of these recommendations at the next audit committee.

### **Standards**

New Global Internal Audit Standards have been released which replaced the current Public Sector Internal Audit Standards from 1<sup>st</sup> April 2025.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

This report asks Members to consider the Assurance End of Year Report 2024/25 incorporating Head of Assurance Opinion.

The report makes reference to risks to the control environment which have resulted in a limited assurance opinion from the Head of Assurance. The report also identifies planned actions due to be undertaken in order to address current weaknesses; this activity will be funded from existing budgets.

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

### **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.

### **Climate Change implications and risks:**

None arising directly from this report. Risks around this are reflected in the Corporate Risk Register, added into the Internal Audit Plan and incorporated into the scope of audits where relevant.

### **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:

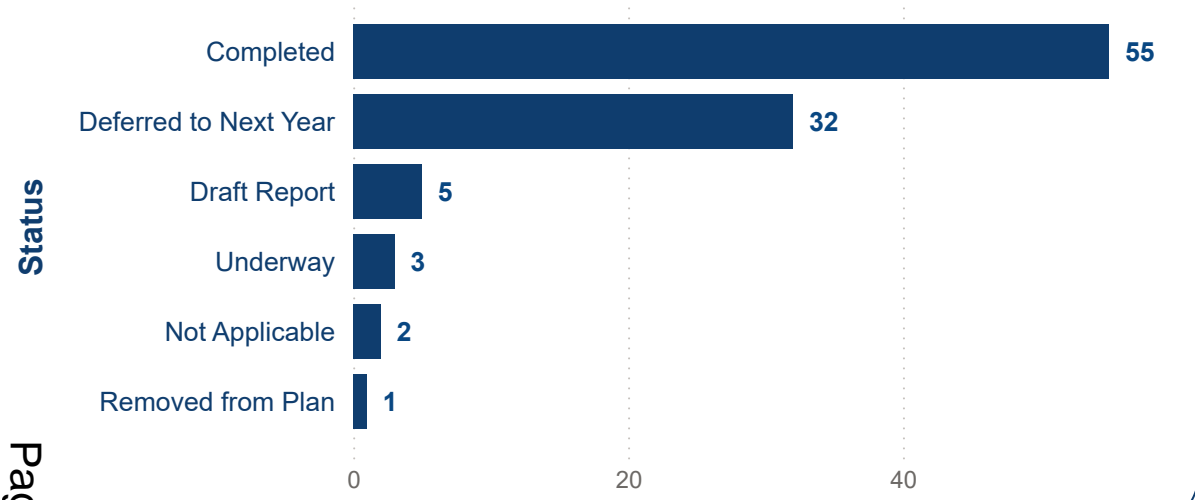
- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations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

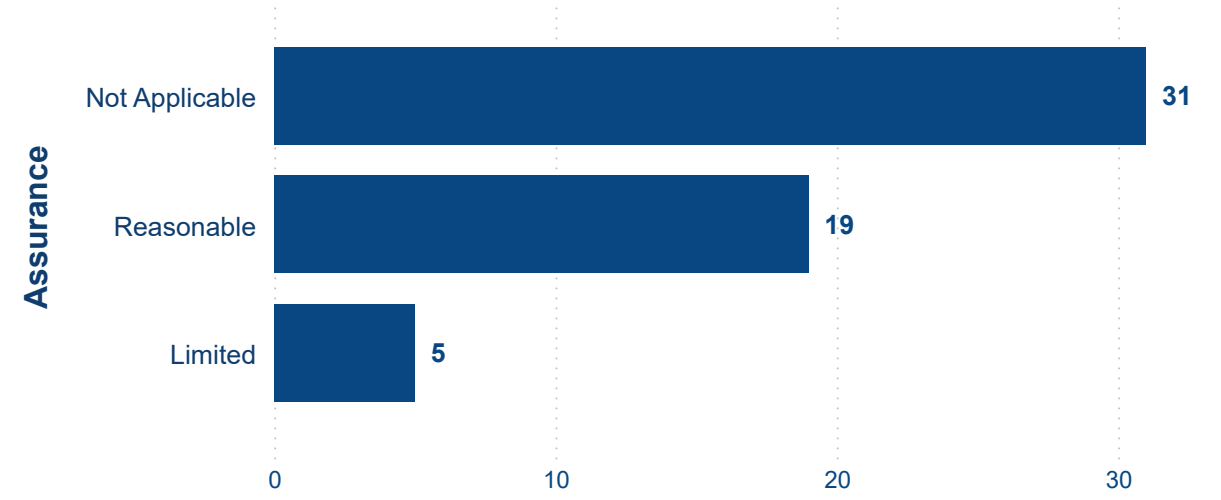
The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health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

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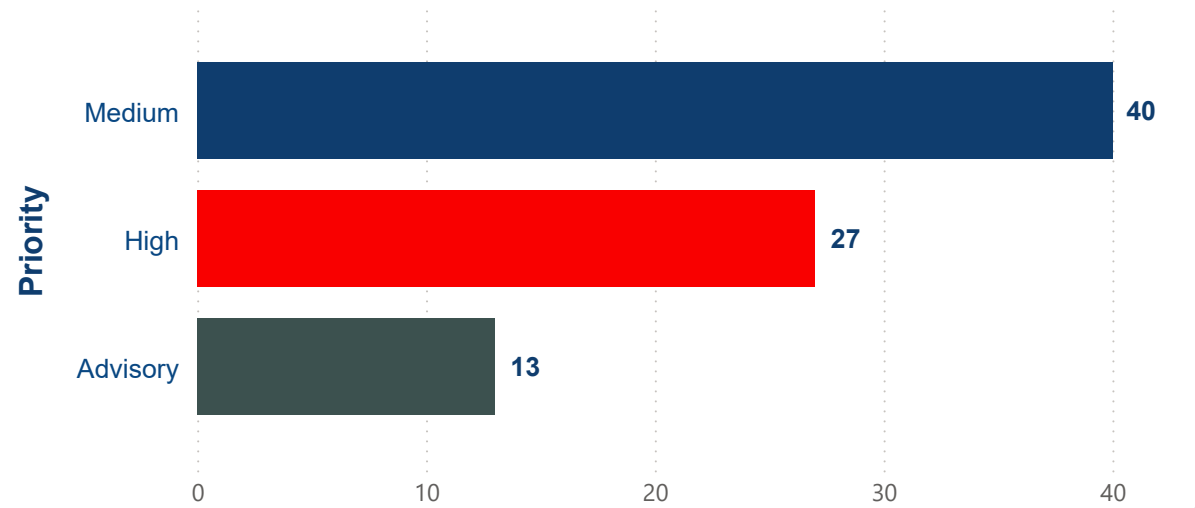
### Audits by Status



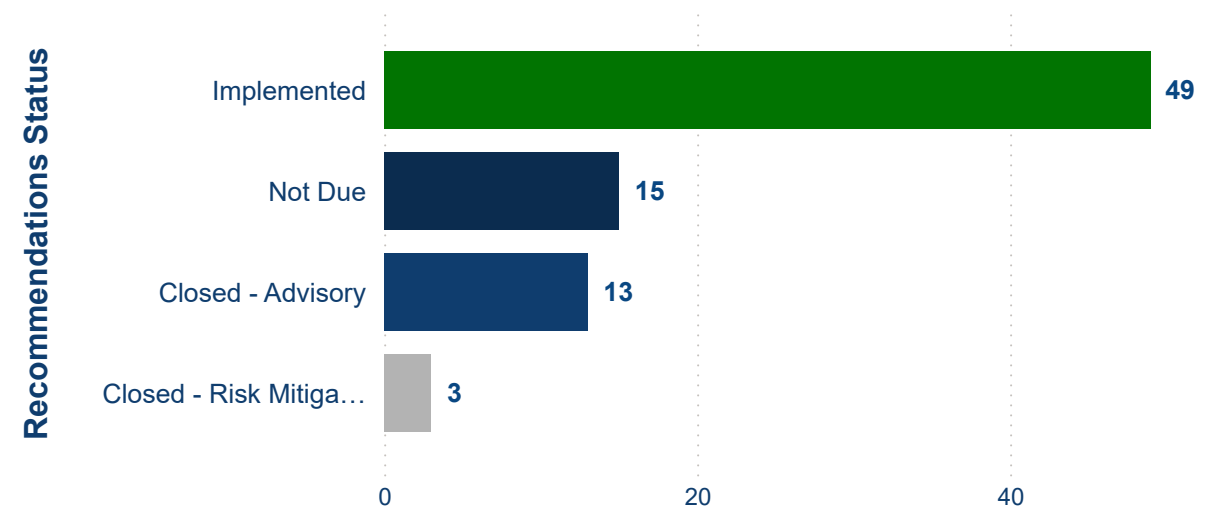
### Audits by Assurance



### Recommendations by Priority



### Recommendations by Status



# 2024/25 Audit Plan Outturn Report - Systems, Schools & Early Years

## Status of Recommendations by Priority

### High Recommendations

Status	Number
Not Due	11
Implemented	14
Closed - Risk Mitigated	2
<b>Total</b>	<b>27</b>

### Medium Recommendations

Status	Number
Not Due	4
Implemented	35
Closed - Risk Mitigated	1
<b>Total</b>	<b>40</b>

### Advisory Recommendations

Status	Number
Closed - Advisory	13
<b>Total</b>	<b>13</b>

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### Assurance by Audit Type

Type	Assurance	Number of Audits
Triennial	Limited	1
Systems	Reasonable	3
Systems	Limited	4
Systems	Not Applicable	7
Triennial	Reasonable	8
Health Check	Reasonable	9
EY Audit	Not Applicable	25
<b>Total</b>		<b>57</b>

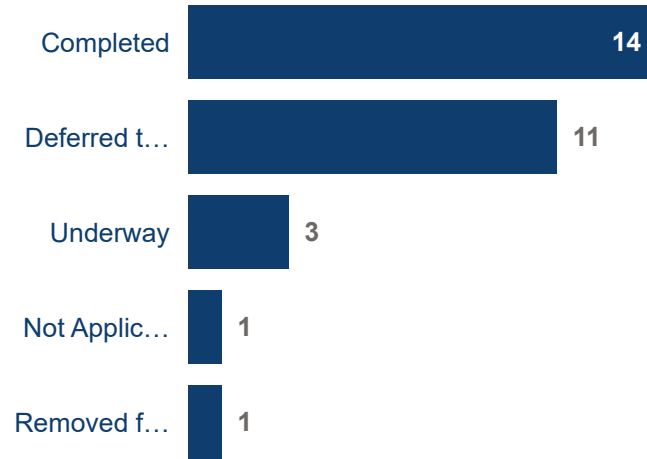
### Status of Recommendations by Audit

Type	Closed - Advisory	Implemented	Not Due	Total
Triennial	7	8		15
Systems		22	14	36
Health Check	6	19	1	26
<b>Total</b>	<b>13</b>	<b>49</b>	<b>15</b>	<b>77</b>

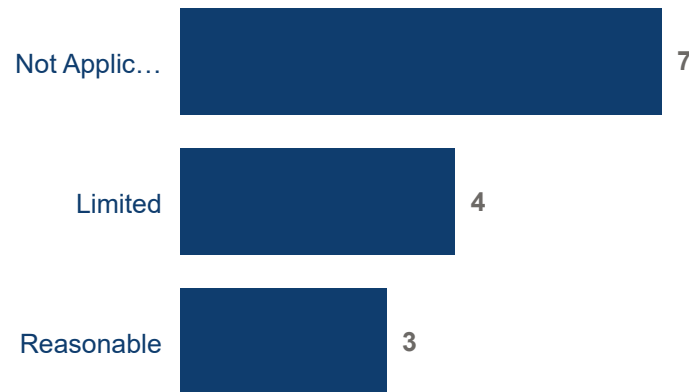


# 2024/2025 Audit Plan Monitoring - Systems

## Audits by Status



## Audits by Assurance



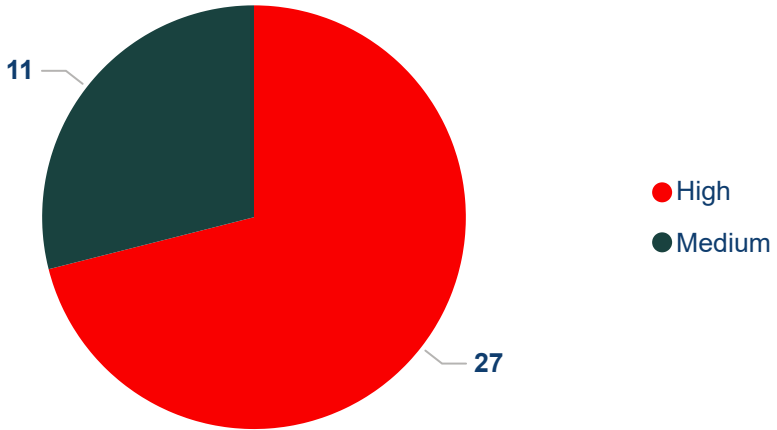
Title	Status	Assurance
Court of Protection: Deputyship and Appointeeships	Completed	Limited
Engagement of Consultants via Matrix - Governance & Compliance Culture (Phase 1)	Completed	Limited
Engagement of Consultants via Matrix Follow Up	Completed	Reasonable
Highways - Phase 1 Advisory	Completed	Not Applicable
Mayors Appeal Fund	Completed	Not Applicable
Procurement Processes	Completed	Limited
Supported Families	Completed	Reasonable
Supported Families (Q1)	Completed	Not Applicable
Supported Families (Q2)	Completed	Not Applicable
Supported Families (Q3)	Completed	Not Applicable
Supported Families (Q4) inc End of Year Report	Completed	Not Applicable
Temporary Accommodation - Phase 1 Advisory	Completed	Not Applicable
Tenant Management Organisations	Completed	Limited
Waivers Follow Up	Completed	Reasonable
Asset Management - Corporate Landlord	Deferred to Next Year	
Complaints	Deferred to Next Year	
Contract Management - Waste	Deferred to Next Year	
Contracts	Deferred to Next Year	
Council Tax (Empty Property Charges)	Deferred to Next Year	
Governance and Compliance Culture	Deferred to Next Year	
High Income Areas	Deferred to Next Year	
Highways	Deferred to Next Year	
Learning Disabilities and Supported Living Payments	Deferred to Next Year	
Starting Well	Deferred to Next Year	
Voids (Tenant Rechargeable Repairs)	Deferred to Next Year	
Data Protection - legacy contracts	Removed from Plan	
Community Leasing	Underway	
Financial Assessment and Benefits	Underway	
Procurement Processes Follow Up	Underway	

# 2024/2025 Audit Recommendations Progress - Systems

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. 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.

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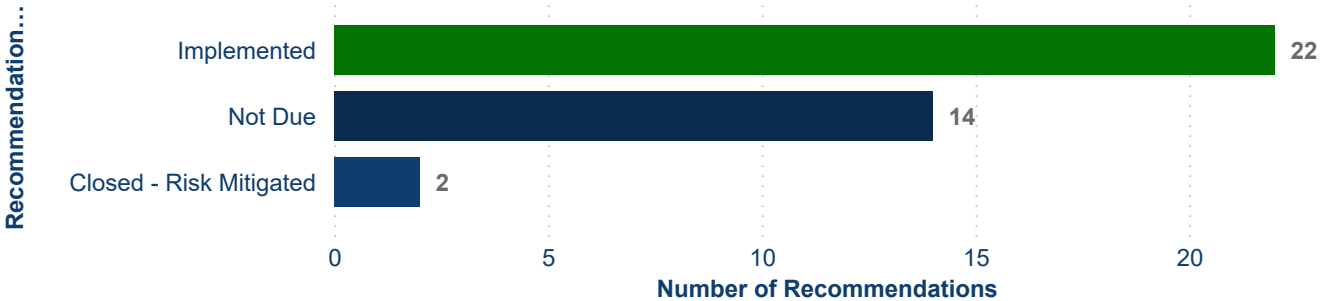
**Recommendations Raised in 2024/25 by Priority**



**There are currently no high priority recommendations that are overdue**

Audit Title	Number of Open Recommendations	Medium	High
Tenant Management Organisations	10	2	8
Court of Protection: Deputyship and Appointeeships	3	1	2
Procurement Processes	1	0	1
<b>Total</b>	<b>14</b>	<b>3</b>	<b>11</b>

**Recommendations by Status**



## 2024/2025 Recommendations - Systems (High Only)

Audit Title	Recommendation	Rec Status	Rec Priority	Due Date	Progress Update
Engagement of Consultants via Matrix - Governance & Compliance Culture (Phase 1)	Clarification should be sought as to when vetting checks are applied, how checks are measured and how the outcome of these checks will be reported / notified to Council Officers. Guidance should be updated to ensure officers are aware of the outcome of these discussions and where necessary training should be provided.	Closed - Risk Mitigated	High	01 February 2025	<p>The Pan London Collaborative procurement has been completed. There was a specific Lot allocated to Statement of Works and a Cabinet Paper is being drafted to Award to an alternative provider. The paper is due to go to January 2025 meeting and will bolster the current process and mitigate risk as the terms and specification is specific to statement of works with a central oversight model being recommended.</p> <p>No further work will be undertaken to address the issues highlighted in relation to the contract, as the risks will be mitigated by the upcoming changes.</p>
Engagement of Consultants via Matrix - Governance & Compliance Culture (Phase 1)	Clarification should be sought should be sought that any content / process within the contract that currently only refers to agencies or candidates (SCM) will also be applied to consultants / providers (MMM), going forward, and where necessary, any distinctions between these two areas are clearly established. This should include appropriate contract management arrangements and the establishment of Key Performance Indicators.	Closed - Risk Mitigated	High	01 February 2025	<p>The Pan London Collaborative procurement has been completed. There was a specific Lot allocated to Statement of Works and a Cabinet Paper is being drafted to Award to an alternative provider. The paper is due to go to January 2025 meeting and will bolster the current process and mitigate risk as the terms and specification is specific to statement of works with a central oversight model being recommended.</p> <p>No further work will be undertaken to address the issues highlighted in relation to the contract, as the risks will be mitigated by the upcoming changes.</p>

## 2024/2025 Recommendations - Systems

Audit Title	Recommendation	Rec Status ▲	Rec Priority	Due Date	Progress Update
Engagement of Consultants via Matrix - Governance & Compliance Culture (Phase 1)  Page 172	In order to ensure that MMM is being used in a compliant manner, the current Contract Procedures Rules' reference to consultancy and professional services should be expanded to clearly define these terms.	Implemented	High	01 February 2025	February Update: A paper was approved at January 2025 Cabinet to award the contingent labour contract to Adecco from the end of July 2025. Statement of Works was not covered by this and a separate paper is going to Cabinet in April 2025 to award to Constellia and replace Matrix MM from July 2025 or before if implementation allows. This will be reflected in the CPR redraft and will set out ALL requirements are to be conducted through competition, and direct awards will only be allowed with the approval by the Head of Procurement  June Update: This recommendation has now been closed. Whilst the draft CPRs are still to be approved, sufficient clarification has been made to the definition of a consultant to support implementation of this recommendation.
Engagement of Consultants via Matrix - Governance & Compliance Culture (Phase 1)	It should be established whether the Council's internal procurement rules, set out in the Councils Constitution and associated documents, should be applied, such as the requirement for a competitive process above a specified value.	Implemented	High	01 February 2025	A decision was made by the Director of Resources that all engagements via MMM were subject to the Executive Decision process. Additionally, the Council implemented an expenditure panel, so all engagements via MMM are required to be presented to the panel.

## 2024/2025 Recommendations - Systems

Audit Title	Recommendation	Rec Status	Rec Priority	Due Date	Progress Update
Court of Protection: Deputyship and Appointeeships ▲	Accounts are managed in accordance with OPG standards.	Implemented	High		
Court of Protection: Deputyship and Appointeeships	Compliance with legislative and local requirements, including procurement; with robust audit trails.	Not Due	High	01 October 2025	A follow up review is currently underway.
Court of Protection: Deputyship and Appointeeships	Management oversight and scrutiny of accounts, ensuring transparency and a clear separation of duties.	Not Due	High	01 October 2025	A follow up review is currently underway.
Procurement Processes 31/03/2025	<p>A control process should be established to ensure that all procurements are subject to appropriate governance (sufficient control, transparency, scrutiny, visibility and challenge) and that there are sufficient mechanisms in place to prevent and detect non-compliance with these expectations.</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>• Introduce a golden thread (similar to that provided by the original introduction of i-Decision) to streamline the process, reduce administrative / resources costs, ensure compliance with legal &amp; local requirements and support delivery of the Councils statutory obligations.</li> <li>• Ensure that any processes capturing information (such as i-Decision) is visible to all interested parties.</li> <li>• That the composition of any groups includes all relevant stakeholders (such as the representation of IT at GRG).</li> </ul>	Not Due	High	01 October 2025	

## 2024/2025 Recommendations - Systems

Audit Title	Recommendation	Rec Status ▲	Rec Priority	Due Date	Progress Update
Procurement Processes	A decision should be made as to whether non-compliance with any of the governance processes referred to in this report, would be deemed unacceptable and if so, how will non-compliance be reported and addressed. This should also include consideration as to whether the Council can meet its statutory obligations through the current processes.	Implemented	High	01 October 2024	Significant cases of non compliance will be reported by Procurement to the Executive Leadership Team.
Procurement Processes	The Council's intranet, oneSource intranet and any other applicable sources of information / documents should be updated to incorporate any changes or additional information gathered and documented as part of this review. This should include any supporting documents and should clearly signpost users to other applicable governance processes. Consideration should also be given as to the clarity of guidance available to officers and if there is a risk that this is left open to interpretation.	Implemented	High	01 October 2024	This recommendation will be closed down as implemented given that the new Intranet is up and running. Any further work will be undertaken as part of the implementation of the new procurement regs.
Tenant Management Organisations	Conduct training sessions for estate managers and board members on MMA obligations and council policies. Regular compliance checks to be implemented.	Implemented	High	01 August 2025	Monitored regularly with TMO managers. Training sheet held on file for Beta and Delta and managers working towards related qualification. Ongoing support got Petra but deadline missed
Tenant Management Organisations	Create a clear responsibilities framework and ensure estate managers receive training and guidance materials.	Implemented	High	01 August 2025	Training completed and held on file for Beta Delta have partially met requirements Manager has stated this is completed but no evidence supplied for Petra to support completion.
Tenant Management Organisations	Develop and implement a strategic business plan, aligning with council objectives and MMAs.	Implemented	High	01 August 2025	Business Plans now in place for Beta and Delta - held at site Petra have missed deadline and are being supported by the service

## 2024/2025 Recommendations - Systems

Audit Title	Recommendation	Rec Status	Rec Priority	Due Date	Progress Update
Tenant Management Organisations	Establish a procurement process requiring a minimum of three quotes for works above £2,000.	Implemented	High	01 August 2025	Policy has been updated and held on file at Betra office
Tenant Management Organisations	Implement a document retention policy and centralised digital filing system. Conduct periodic audits to ensure compliance.	Implemented	High	01 August 2025	Procedure files written and held on site for Betra and Delta. Not completed for Petra
Tenant Management Organisations	Implement a procurement policy mandating competitive quotes before contract approvals.	Implemented	High	01 August 2025	Policy completed and held on file at TMO office
Tenant Management Organisations	Introduce a structured reconciliation process, ensuring purchase card spend is accurately tracked.	Implemented	High	01 August 2025	Completed and held on file at TMO office
Tenant Management Organisations	Require approval forms and supporting documentation for all purchases above a set threshold.	Implemented	High	01 August 2025	Completed and held on file at TMO office
Tenant Management Organisations	Review and streamline invoice processing. Implement automated reminders for overdue payments.	Implemented	High	01 August 2025	Procedure file completed and held by Betra, Delta staff have been informed and procedure file being written. Petra manager has stated this is done but no evidence has been supplied
Tenant Management Organisations	Conduct a contract review and ensure written agreements are in place for all ongoing services.	Not Due	High	01 August 2025	TMO manager has missed deadline to provide evidence
Tenant Management Organisations	Ensure TMOs have dedicated procurement accounts with proper controls in place.	Not Due	High	01 August 2025	Partially complete as Betra wait for results of external audit of accounts

## 2024/2025 Recommendations - Systems

Audit Title	Recommendation	Rec Status ▲	Rec Priority	Due Date	Progress Update
Tenant Management Organisations	Introduce a structured reconciliation process, ensuring purchase card spend is accurately tracked.	Implemented	High	01 August 2025	Completed and held on file at TMO office
Tenant Management Organisations	Establish proper financial governance, develop a formal financial management policy outline budgeting, spending and reporting procedure. Train staff & Board members on handling finances. Implement regular budget reviews, maintain clear documentation (ensure all financial transactions are recorded. Invoices files and receipts kept. Improve transparency by sharing financial updates with board members.	Not Due	High	01 August 2025	TMO manager has missed deadline to provide evidence
Tenant Management Organisations	Implement a formal financial policy that explicitly stated that personal funds should not be used for TMO expenses. Ensure all staff and board members are aware of this policy through training and written guidelines. Implement strict budget controls, implement an emergency fund. Ensure all expenses are made directly from the TMO'S official bank account using corporate debit/credit cards for approved purchase orders. Ensure the TMO board actively monitor financial transactions, regular audits accounts and provide regular financial reporting to board to ensue transparency.	Not Due	High	01 August 2025	TMO manger has stated this is no longer happening but no evidence has been provided
Tenant Management Organisations	Implement and remove signatories that are no longer living on the Petra Estate. Review the multiple accounts and confirm some new signatories. Implement or show a procedure for signatories at the Petra TMO.	Not Due	High	01 August 2025	TMO manager has missed deadline to provide evidence
Tenant Management Organisations	Provide clear guidance on repair and maintenance responsibilities and ensure TMOs follow insurance claim protocols.	Not Due	High	01 August 2025	Partially complete, awaiting information to be supplied by the TMO manager
Tenant Management Organisations	Review and update financial limits in consultation with the council.	Not Due	High	01 August 2025	Beta manager to discuss at next board meeting



# Introduction - Schools Programme

There are currently 40 borough maintained schools within Havering. Of these, 27 schools will have received a triennial audit between the financial years 2022/23 – 2024/25. The remaining 13 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.

Eight of these schools have received at least one health check since their last triennial visit, the remaining five schools are scheduled to be reviewed as part of the 2024/25 audit plan.

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 outlined below.

Assurance opinions are given for each school report. Currently, nine schools that were due to be audited in 2024/25 have received a Triennial audit, eight of which were given a Reasonable Assurance, and one a Limited Assurance. Two schools, which form a federation have deferred their audit to 25/26 due to time constraints.

Recommendations raised during the 2024/25 audits identified some common themes across multiple schools, in the following areas;

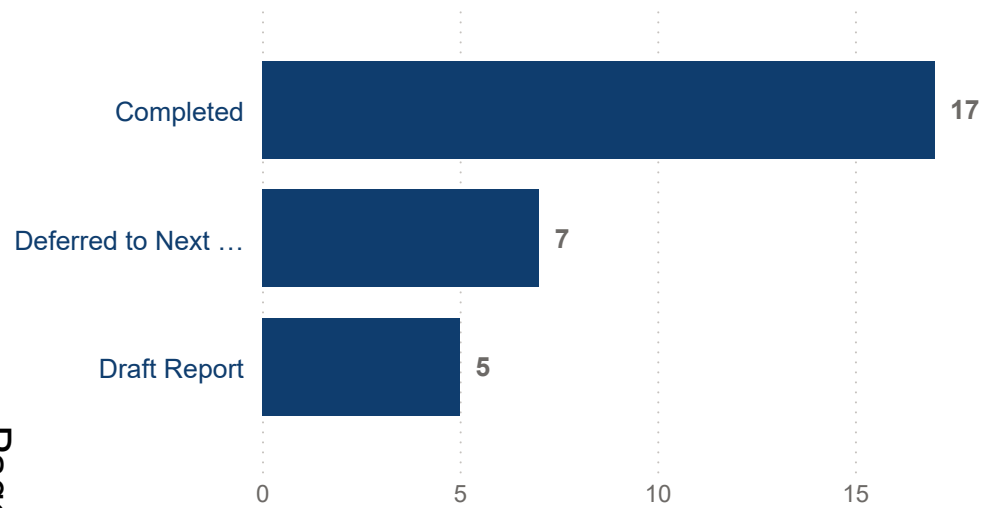
- Expenditure;
- Financial Management; and
- Strategic Planning.

During 2024/25, the service delivered eleven Health Checks for maintained schools, four of which were deferred from 2023/24, and four health checks have been deferred to 2025/26 as requested by the schools. Two academies bought into the service, and a total revenue for 2024/25 of £12,980 was generated.

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.

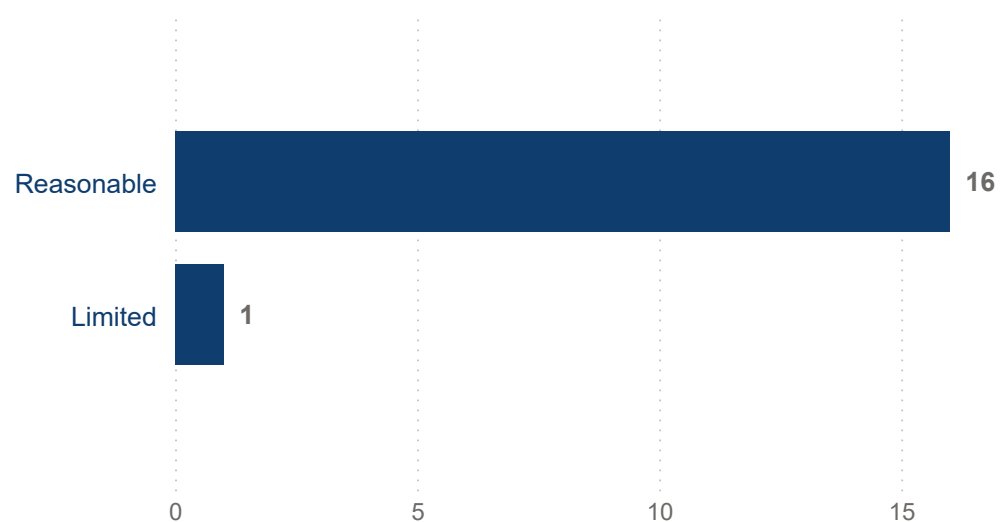
# 2024/2025 Audit Plan Monitoring - Schools

## Audits by Status



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## Audits by Assurance

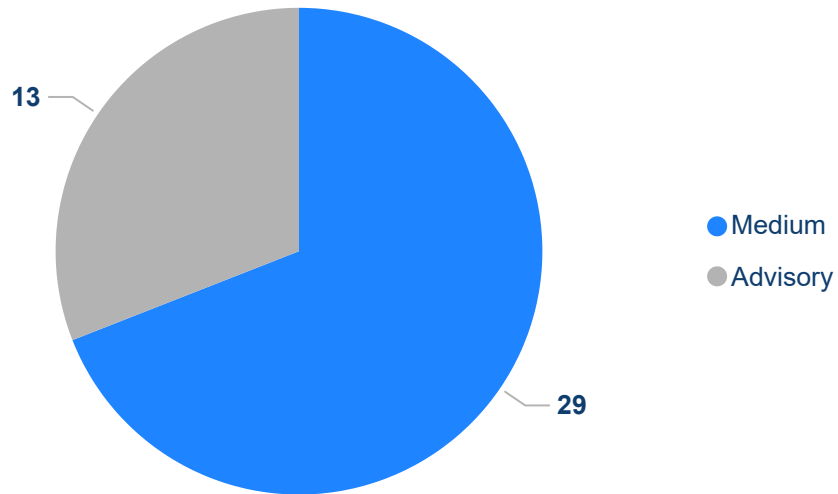


Title	Status	Assurance
Brady (TR)	Completed	Reasonable
Crownfield Infants (HC)	Completed	Reasonable
Emerson Park Academy (HC)	Completed	Reasonable
Engayne Primary (HC)	Completed	Reasonable
Harold Court Primary (TR)	Completed	Reasonable
Harold Wood Primary (TR)	Completed	Reasonable
Hilldene Primary (TR)	Completed	Reasonable
La Salette Catholic Primary (HC)	Completed	Reasonable
La Salette RC Primary (HC)	Completed	Reasonable
Shaw Primary Academy (HC)	Completed	Reasonable
St Albans Catholic Primary (HC)	Completed	Reasonable
St Edwards Church of England Primary (HC)	Completed	Reasonable
St Marys Catholic Primary (TR)	Completed	Reasonable
St Patricks Roman Catholic Primary (HC)	Completed	Reasonable
Suttons (TR)	Completed	Reasonable
The Growing Together Federation (TR)	Completed	Reasonable
The Towers Federation (TR)	Completed	Limited
Clockhouse Primary (HC)	Deferred to Next Year	
Squirrels Heath Infants (TR)	Deferred to Next Year	
St Josephs - (HC)	Deferred to Next Year	
St Josephs Catholic Primary (HC)	Deferred to Next Year	
St Josephs Catholic Primary (TR)	Deferred to Next Year	
The Learning and Achievement Federation (TR)	Deferred to Next Year	
The Towers Federation (HC)	Deferred to Next Year	
Corbets Tey Primary (HC)	Draft Report	
James Oglethorpe (HC)	Draft Report	
Rainham Village Primary (HC)	Draft Report	
St Peters Catholic Primary (TR)	Draft Report	Reasonable
The Aspire Learning Federation (HC)	Draft Report	

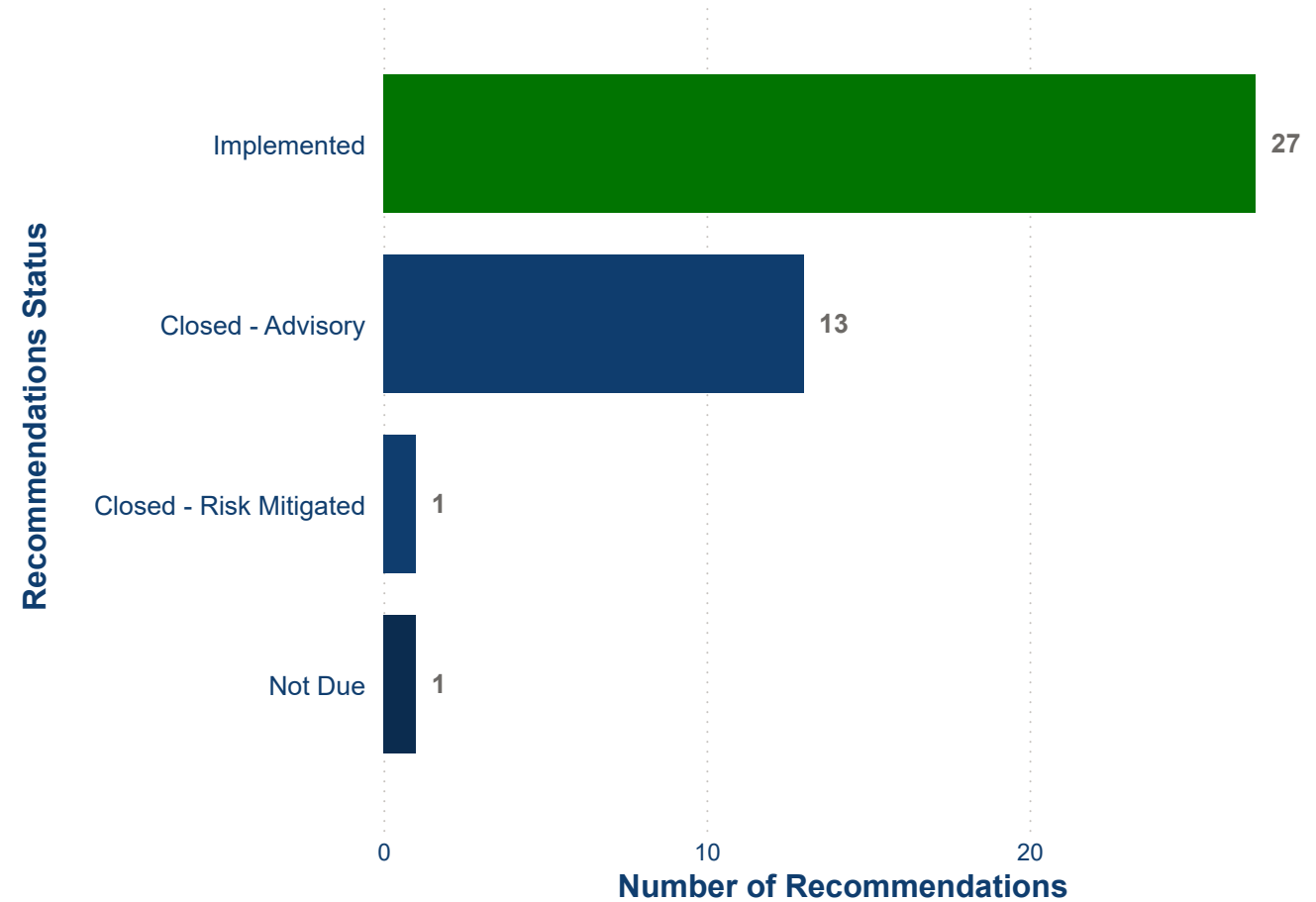
## 2024/2025 Audit Recommendations Progress - Schools

Similarly to systems audit recommendations, Internal Audit follows up all audit recommendations when the deadlines for implementation are due. Where schools buy in an annual Health Check, the scope would include following up on the implementation of recommendations raised during the previous audit.

### Recommendations Raised in 2024/25 by Priority

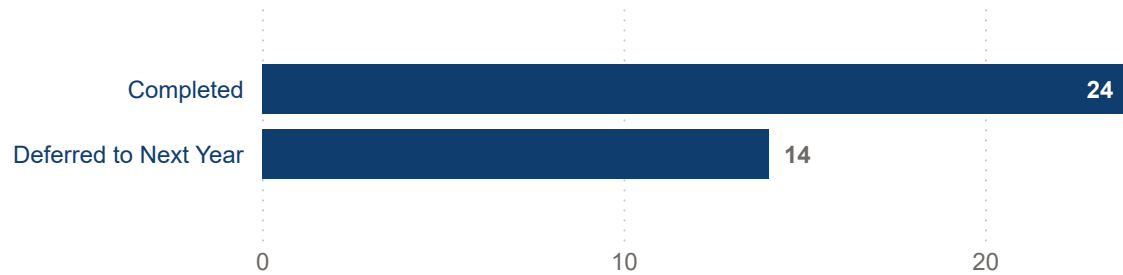


### Recommendations by Status



## 2024/2025 Audit Plan Monitoring - Early Years

### Audits by Status



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▼	Title	Status
	Towers Infant School	Deferred to Next Year
	Tiddlywinks Playgroup Ltd	Deferred to Next Year
	The Railway Children Gidea Park Nursery	Deferred to Next Year
	Star Bright Day Nursery	Deferred to Next Year
	Playdays 2 Preschool (Betty Strathern Centre)	Deferred to Next Year
	Playdays 1 Preschool (Harold Hill Community Centre)	Deferred to Next Year
	Gidea Park Preparatory School and Nursery	Deferred to Next Year
	Forget-me-Not Day Nursery	Deferred to Next Year
	Fledgelings Day Nursery (Hornchurch)	Deferred to Next Year
	Fairy Tales Playgroup	Deferred to Next Year
	Essex After Schools Club Ltd - Drapers Pyrgo Priory	Deferred to Next Year
	Drapers' Pyrgo Priory School	Deferred to Next Year
	Childminder - EW	Deferred to Next Year
	Bretons Preschool	Deferred to Next Year

▼	Title	Status
	Wingle-Tye Preschool Ltd 1 (Nelmes School)	Completed
	Truly Scrumptious Early Years (Romford) Day Nursery	Completed
	Topsy Turvy Preschool	Completed
	Toddle-Inn Day Nursery	Completed
	Rise Park Infants' School	Completed
	Playways Preschool	Completed
	Playhouse Preschool	Completed
	Mead Primary Nursery	Completed
	Lottie and Ollie Day Nursery	Completed
	Kerry Church - Childminder	Completed
	Immanuel School	Completed
	Elm Park Baptist Church Playgroup	Completed
	Edenberries Day Nursery And Preschool	Completed
	Early Years - End of Year Report	Completed
	Creative Kids Day Nursery (Gidea Park)	Completed
	Clockhouse Primary School	Completed
	Childminder - SS	Completed
	Childminder - KB	Completed
	Childminder - JL	Completed
	Childminder - DL	Completed
	Childminder - BK	Completed
	Childminder - AP	Completed
	Childminder - AI	Completed
	Chatterbugs Day Nursery	Completed

# 2024/2025 Counter Fraud Audit Work

The counter fraud service is continuing to follow up, fraud referrals, desk-based intelligence checks and investigations with doorstep visits and Interviews under Caution where necessary. The Council take a zero tolerance approach to tenancy fraud and currently have 84 open investigations.

One non-housing referral was brought forward from the previous period and is still under investigation.

During the period 01/04/2024 to 31/03/2025, 27 non-housing referrals were also received; four of which were Whistleblowing referrals. Fifteen cases have been investigated and concluded and 12 referrals are currently being investigated.

## Proactive Counter Fraud Investigations

Proactive work undertaken between 01/04/2024 and 31/03/2025

Area	Description	Number Recieved
Advice to Other Local Authorities	All Data Protection Act requests via Local Authorities, Police etc.	52
National Fraud Initiative	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.	Matches have been released and are now being investigated.

## Reactive Investigation Cases

One referral was brought forward from the previous period and is still under investigation.

During 01/04/2024 to 31/03/2025 27 referrals were received; four of which, information was provided by Whistle-blowers:

- 15 cases have been investigated and concluded; and
- 12 referrals are under investigation.

## 2024/2025 Counter Fraud Audit Work

### Housing Cases

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

Description	2023/24	2024/25
Number of referrals for investigation	127	110
Properties recovered	14	7
RTB stopped	3	50
Notional Saving	383820	6820000
Notional Saving *	588000	294000
RTB referred and reviewed	94	333
Total Notional Saving	971820	7114000

\* Notional saving revised from 2022/23 figures as recommended method uses a standard formula to arrive at an average national cost to the taxpayer per detected tenancy fraud of £42,000

### Mutual Exchanges and Successions

Housing Services refer Mutual Exchanges and Succession to the Counter Fraud Team to review. A total of 35 Mutual Exchanges and 44 Successions have been referred and reviewed.

Three Mutual Exchanges and eight Successions were denied.

### Housing Cases

The following table illustrates the breakdown of cases:

Description	2024/25
Awaiting Court Hearing	0
Awaiting Eviction	1
Closed - Fraud Detected	3
Housing Application Cancelled	1
NFA / No Offence	15
Notice To Quit (NTQ) issued	4
Number of completed / closed investigations	26
Number of new referrals retained for investigation *	26
Number of referrals brought forward	84
Number of referrals currently under investigation	84
Open Investigations	71
Passed to Legal Services for Criminal / Civil Proceedings	7
Pending bailiff action / Eviction	1
Properties Recovered	7
RTB stopped **	0

### Key:

\*\* Total number of referrals received and triaged was 128. Only 26 are being investigated as the remaining referrals do not get investigated by the Counter Fraud Team, e.g. Housing Benefit, other LA's.

\*\*\* Total number of RTB's referred and reviewed was 333. Fifty RTB cases were stopped by Counter Fraud at the initial review stage and therefore are not counted as investigations.

Four RTB applications are under investigation.

NB: From the 21/11/2024 the maximum RTB discount dropped from £136,400 to £38,000 this has resulted in the large increase in applications submitted and reviewed.

## Tenant Management Organisations (TMOs)

### Background

There are three Tenant Management Organisations (TMOs) in operation within Havering, they provide management services to relevant estates (Beta, Delta, Petra). The management of the estates should be carried out in accordance with Modular Management Agreements (MMA) between each TMO and Havering.

The MMAs were redrafted and resigned in March 2022 for all three TMOs; to reflect any updates to the requirements, and responsibilities, of the TMO.

Each TMO is provided funding from Havering to manage the estates for which they are responsible, with the level of funding determined by the cost of Havering to deliver the service(s) calculated per property, multiplied by the number of council properties within the estates.

The TMOs invoice Havering on a quarterly basis before the funding is paid. Across the three TMOs there are 637 properties, with the funding allocation totalling £663.4k. This is broken down below:

TMO	Properties	Funding Allocation (24/25)
Betra	215	£237,387.28
Delta	276	£257,450.63
Petra	146	£168,573.31

### Assurance Opinion - Limited

Due to the lack of available information during the audit 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.

Finding	Recommendations
<b>High</b> No agreed Business Plans were in place within any of the TMOs	Develop and implement a strategic business plan, aligning with council objectives and MMAs.
<b>High</b> Non-compliance with the MMA and the Councils policies and procedures	Conduct training sessions for estate managers and board members on MMA obligations and council policies. Regular compliance checks to be implemented.
<b>High</b> A lack of awareness of the responsibilities among the Estate Managers.	Create a clear responsibilities framework and ensure estate managers receive training and guidance materials.

Finding	Recommendations
<b>High</b> Late payment of invoices by the Council to the TMO.	Review and streamline invoice processing. Implement automated reminders for overdue payments.
<b>High</b> Lack of documents relating to financial management and controls, recruitment, staffing and governance	Implement a document retention policy and centralised digital filing system. Conduct periodic audits to ensure compliance.
<b>High</b> Lack of appropriate TMO banking arrangements for procurement activities.	Ensure TMOs have dedicated procurement accounts with proper controls in place.
<b>High</b> Financial limits set within MMA are not fit for purpose	Review and update financial limits in consultation with the council.
<b>High</b> No documentation to show quotes have been obtained for works exceeding £2,000	Establish a procurement process requiring a minimum of three quotes for works above £2,000.
<b>High</b> Lack of understanding of responsibilities for repairs and maintenance which in the event of an insurance claim the Council would ultimately be responsible for any financial costs incurred	Provide clear guidance on repair and maintenance responsibilities and ensure TMOs follow insurance claim protocols.
<b>High</b> Quotes were not obtained before entering in to a contract with a supplier.	Implement a procurement policy mandating competitive quotes before contract approvals.
<b>High</b> Monthly records for purchase card expenditure were not able to be reconciled accurately to spend incurred.	Introduce a structured reconciliation process, ensuring purchase card spend is accurately tracked.
<b>High</b> A lack of documentation retained on file to evidence the appropriate approval process had been followed for purchases.	Require approval forms and supporting documentation for all purchases above a set threshold.
<b>High</b> Lack of documentation retained securely in relation to spend using the Metro Bank debit card.	Introduce a structured reconciliation process, ensuring purchase card spend is accurately tracked.
<b>High</b> Contracts are not in place for services that have been procured on an ongoing basis.	Conduct a contract review and ensure written agreements are in place for all ongoing services.
<b>High</b> The TMO have multiple inaccessible accounts, as the signatories are no longer available.	Implement and remove signatories that are no longer living on the Petra Estate. Review the multiple accounts and confirm some new signatories. Implement or show a procedure for signatories at the Petra TMO.



Finding	Recommendations
<b>High</b> The Estate Manager is using their own personal funds to subsidise the TMOs ongoing costs.	Implement a formal financial policy that explicitly stated that personal funds should not be used for TMO expenses. Ensure all staff and board members are aware of this policy through training and written guidelines. Implement strict budget controls, implement an emergency fund. Ensure all expenses are made directly from the TMO'S official bank account using corporate debit/credit cards for approved purchase orders. Ensure the TMO board actively monitor financial transactions, regular audits accounts and provide regular financial reporting to board to ensured transparency.
<b>High</b> It is unclear as to whether the TMO has long term financial viability due a complete lack of financial and budget documentation being prepared and maintained.	Establish proper financial governance, develop a formal financial management policy outline budgeting, spending and reporting procedure. Train staff & Board members on handling finances. Implement regular budget reviews, maintain clear documentation (ensure all financial transactions are recorded. Invoices files and receipts kept. Improve transparency by sharing financial updates with board members.
<b>Medium</b> No declaration of interests for board members and staff.	Implement a mandatory declaration of interest register, updated annually.
<b>Medium</b> Lack of controls around the management of petty cash transactions and reimbursements	Introduce petty cash policies, logbooks, and periodic reconciliations.
<b>Medium</b> Board meeting minutes not adequately completed and maintained on file	Implement a standardised template for meeting minutes

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Audit Area	Proposed Scope/Audit Work	Proposed Timing
<b>Core Assurances &amp; Cross Cutting</b>		
<b>Governance</b>		
<b>General Governance Work</b>	To include co-ordination of Annual Governance Statement and production of Audit Committee / ELT reports.	Ongoing
<b>Assurance Work</b>		
<b>General Assurance Work</b>	Advice and Consultancy, Audit Plan Management, Follow up of recommendations and Counter Fraud Support.	Ongoing
<b>Grant reviews</b>	To include ongoing Supported Families review and any other grants arising during the year that require audit review / sign off.	As need arises
<b>Compliance &amp; Risk Work</b>		
<b>Key financial audits</b>	Ongoing compliance work for key financial areas as a risk- based rolling programme of work.	Q1-3
	Budgetary Control – at directorate level, incorporating budget management and forecasting and to include manual and off-system workarounds.	TBC
<b>Governance &amp; Compliance Culture</b>	Programme of work during year to assess governance arrangements and check compliance.	Q1-4
<b>CIPFA FM Code</b>	To provide assurance on the progress of the CIPFA Financial Management Review	Q1-2
<b>Outcomes from CIPFA external assurance review</b>	Any additional work identified as a result of the CIPFA external assurance review	TBC
<b>Risks &amp; Assurance Mapping</b>	Identifying ongoing or planned work across services that provide additional assurances.	Ongoing
<b>Joint Counter-Fraud Work</b>	Increased Internal Audit and Counter-Fraud collaboration.	Ongoing
<b>Contingency allowance and provision for assurance work on emerging risk</b>		As need arises
<b>People</b>		
<b>Education</b>	School audit programme (incorporating early years reviews and school health checks)	Ongoing
<b>Starting Well</b>	Outcomes from Ofsted report. Assurance taken from progress of recommendations.	TBC
<b>Starting Well / Ageing Well</b>	High cost placements (learning disabilities and supported living payments)	Q1
<b>Special Guardianship payments</b>	Risks arising following NFI work	TBC
<b>Financial Assessments &amp; Benefits</b>	Follow Up Review	TBC
<b>Temporary Accommodation</b>	Follow up Review	TBC
<b>Place</b>		
<b>Tenant Management Organisations (TMOs)</b>	Follow Up Review	Q1-2
<b>Private Sector Leasing (PSL)</b>	Management request to provide assurance on control environment	TBC
<b>Asset Management – Corporate Landlord</b>	Responsibilities and management of the corporate buildings portfolio (condition surveys, compliance and works)	TBC

<b>Highways</b>	TBC - Contract renewal/replacement at end March 2024	TBC
<b>Contract Management - Waste</b>	To review contract management/monitoring arrangements in place	TBC
<b>Tree Maintenance</b>	Increased risk based on recent insurance claim arising from a case where recommended work was not carried out.	TBC
<b>Parking services and enforcement</b>	Process/Assurance mapping	TBC
<b>Marketplace management</b>	Process/Assurance mapping	TBC
<b>Mercury Land Holdings (MLH)</b>	Governance arrangements	TBC
<b>Health &amp; Safety</b>	Compliance review to ensure we are meeting our Health and Safety Responsibilities	TBC
<b>Voids</b>	Tenant rechargeable repairs (to include both PSL and general stock) - Moved from 2024/25 plan	
<b>Empty Properties</b>	Moved from 2024/25 plan	
<b>Resources</b>		
<b>Complaints</b>	Follow on from 2022/23 assurance memo and implementation of new system in 2024/25.	Q3
<b>Contracts</b>	Sample based Value for Money review	TBC
<b>Total Audit Plan (Days)</b>		<b>700</b>

<p style="text-align: center;"><b>ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE 2024/25 FINANCIAL YEAR</b></p>
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## 1. Introduction

This reports covers the period July 2024 to May 2025 and outlines:-

- Information relating to the Audit Committee;
- The coverage of work undertaken by the Audit Committee;
- Actions taking during the year, including training, to ensure the effectiveness of the Audit Committee; and
- Future planned work and challenges.

## 2. Background

- 2.1 The Audit Committee has been in place for a number of years. The Committee's terms of reference list the responsibilities and authorities delegated in the Council's Constitution, which comprise:

### Internal control

- To consider and monitor the adequacy and effectiveness of the authority's risk management and internal control environment and to make recommendations to full Council where necessary.

### External audit

- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

### Internal audit

- To support the Officers with their delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To approve the Annual Statement of Accounts, including the Annual Governance Statement, and to recommend as necessary to the Governance Committee regarding the committee's responsibilities to monitor corporate governance matters generally.
- To monitor proactive fraud and corruption arrangements.

### **The Audit Structure (April 2024 – May 2025):**

Audit Committee: Councillor Jukie Wilkes (Chairman)  
Councillor Jacqueline Williams (Vice Chairman)  
Councillor John Crowder  
Councillor David Taylor  
Councillor Keith Prince  
Councillor Philip Ruck

Internal Auditors: LB Havering  
External Auditors: Ernst & Young

During the year under review, the Committee met on four occasions and dealt with the following issues:

### **3. Audit Committee coverage**

3.1 The Audit Committee has received the reports as set out in Appendix A. The coverage can broadly be categorised as regular and specific. More information on both is set out below.

#### **3.2 Regular work**

The Committee has regularly reviewed:

- Progress against the audit plan and performance;
- Key findings/issues arising from each audit undertaken;
- Progress against implementation of the recommendations;
- Anti-fraud and corruption activity, including frauds investigated and outcomes;
- Treasury Management activity; and
- The Accounts closedown timetable and progress reports.

#### **3.3 Specific Reviews / Reports**

There were several during the year including a review and approval of:

- the Statement of Accounts;
- the Annual Governance Statement; and
- the Annual Audit Plan.

The Committee also received assurances via:

- Annual Report from Internal Audit that includes the Annual Assurance Statement; and
- The work of the Council's External Auditors (Ernst & Young).

### **Priorities and work plan for the forthcoming year**

- 3.1 The Audit Committee is currently scheduled to meet on four occasions over the next municipal year. There are specific reports planned throughout the year, running through a mix of progress reports and annual reviews of specific strategies and policies within the remit of the Committee, together with progress reports from the Council's External Auditor.
- 3.2 Officers will continue to ensure all members on the Committee, and their nominated substitutes, are adequately trained.
- 3.3 The Committee will continue to oversee the effectiveness of the audit team and wider fraud resources in accordance with the Public Sector Audit Standards Audit and Accounts Regulations 2015.
- 3.4 The Committee will continue to receive updates on the Corporate Risk Register and specific input from risk owners where required.
- 3.5 Fraud prevention and detection will continue to be high on the Audit Committee's agenda going forward.
- 3.6 The Committee will continue to focus on ensuring Value for Money and challenging control issues and high risk areas that have been highlighted by the work of Internal Audit.

**AUDIT COMMITTEE AGENDA ITEMS – FROM JULY 2024 TO MAY 2025**

**July 2024**

- External Audit Plans 2023/24  
Heather Salmon, Head of Finance introduced the Council's external auditor, Ernst and Young (EY), who presented its 2023/24 audit plans for both the Council and the Pension Fund to the Committee.

Each year the council's external auditor presented their audit plan for the financial accounts to the Audit Committee. The audit plan outlined the scope of the audit, any significant risks inherent in the audit, materiality and value for money arrangements.

In summary at its meeting on Wednesday 22 March 2022 the Council approved the decision of Audit Committee to procure an external audit contract through Public Sector Audit Appointments Ltd (PSAA) for both the London Borough of Havering and the Havering Pension Fund.

At the time it was anticipated that audit scale fees for 2023/24 would likely increase by 150% compared to the previous year. Under the Local Audit (Appointing Person) Regulations, the 2023/24 fee scale must be published before 1 December 2023. Following a period of consultation, the PSAA published the scale fees for 2023/24 for each audited body in November 2023. The scale fees for 2023/24 accounts were: LB Havering Council - £421,745 and Pension Fund - £ 85,945.

Any subsequent changes that may affect audit fees, such as in national requirements or local circumstances, would be the subject of fee variations.

EY provided the key highlights and expanded on specific areas of the report and in particular highlighted the risks.

Members asked questions around level three investments and why one would invest in them. It was explained that level three investments were not investments that were held or valued on a sort of standard Stock Exchange and therefore was a hard to value stock. The reason for investing in these type of investments was to ensure diversification in funds. The Council received both independent and professional advice to support their decision making and the pension funds fast and foremost objective and responsibility was to ensure a financial return.

- Annual Treasury Management Report 2023/24  
Kathy Freeman, Strategic Director presented the report that outlined the performance of the treasury management function that was approved by Full Council on 1 March 2024. The report covered the delivery of the TMSS in



2023/24, activity on treasury managed investments and borrowings and the associated monitoring and control.

The CIPFA TM Code required that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end). The Authority's Treasury Management Strategy Statement (TMSS) 2024/25 was approved by Full Council on the 1 March 2024.

It was explained that the Authority had borrowed and invested sums of money as part of activities through its treasury management activities and would be exposed to changes to interest rates on its investments which would also impact on the cost of borrowing to fund its capital programme.

The Council provided an annual report and a Treasury Management Strategy every year as part of the budget setting process. A mid-year report was also provided to look at the formants against that strategy, in terms of how the Council was doing in that year. The final of the three reports was a backward look of the performance of the prior year and to demonstrate that the Authority had acted in accordance with the policy that they set out for themselves. In terms of the key highlights section on page 115, there were a number of indicators, the debt position, what the yield was, what the investment income was and also the interest payable.

The report broadly set out a number of key sections including the economic outlook and looking backwards for the last financial year, notably the increase in the Bank of England base rate and the PWB rate and how that increased in line with the base rates, which could be seen on graph one of the report on page 117. It was also noted that the report set out how the Council's borrowing strategy was adhered to and section three of the report further set out the detail of the debts and the amount of interest paid. Page 119 set out details of the compliance with the Council investment strategy. Appendix A displayed how the Council set out the maturity of the borrowing profile and the terms of the investment and the security rating of who the money was invested with. Lastly, the report illustrated that the Council operated within the operational and authorized limits in terms of borrowing which was vital that there was no breach in the operational or the authorized limits in borrowing terms.

Members asked various questions around the Lender Option Borrower Option (LOBO) and Kathy explained that assessment was made as and when offered a buyout option to determine whether or not it was cheaper to keep the LOBO or whether to buy out of it, consideration was relative to the interest rate and if the Council would be able to borrow for that equivalent sum.

It was also explained that the Council budgets as if all of the capital program was going to be fully spent. They then had to budget for interest costs and debt repayment costs on the assumption that they were going to fully spend the capital program and what's contributed towards the reduction and overspend last year was because they haven't fully spent the capital program.

The budget was then brought down by the overspend quite significantly because of the slippage in the capital program and thereby it had reduced the capital financing costs and the cost that had been set aside for the repayment of the debt which had helped to contribute to the overspending. It was not great for the delivery of the capital programming perspective; however, from a financial perspective, it had supported the Council's overall situation.

- Risk Management Update

Jeremy Welburn, Head of Assurance provided an update on the Strategic Risk Register, the updated and revised Risk Management Toolkit and Strategy.

It was to be noted that the Strategic Risk Register was subject to regular review and risks were discussed at Governance and Assurance Board meetings, chaired by the Section 151 officer during the first half of 2023/24 and subsequently at the Executive Leadership Group since December 2023.

As part of the ongoing review, new risks may be added and existing risks amended or removed at any time as changes were identified. A summary version of the current Strategic Risk Register was provided in Appendix 1. It included the current likelihood and impact scoring of the risks based on assessment by the risk owner (using the risk matrix from the Council's Risk Management Strategy and Toolkit). The Risk Management Strategy and Toolkit provided a comprehensive framework and process designed to support managers in ensuring that the Council was able to discharge its risk management responsibilities fully. The strategy outlined the objectives and benefits of managing risk, described the responsibilities for risk management, and provided an overview of the process that was in place to manage risk successfully.

Havering used a 5 x 5 scoring matrix to assess the likelihood of a risk event occurring and the potential impact on the Council if it were to happen. The green shaded area on the matrix contained in the report showed the risks where there was good control and the Council was comfortable with the level of risk. Risks in the amber and red zones were those over which closer control and further management action may be required.

Work continued by the Internal Audit & Risk Team to further embed the risk management strategy at a Directorate level, including risk workshops and further training where required. This phase of work would ensure Directorate level risks were aligned to the strategic risks to ensure mitigating actions were managed consistently. There would also be a wider rollout of access to JCAD, the Risk Management system, to make the process more efficient and effective; providing links to strategic objectives; easier monitoring and reporting, and demonstration of compliance with good risk management practices.

Members asked various questions and queried various risks to which Officers provided responses.

- Assurance Progress Report  
Jeremy Welburn, Head of Assurance introduced the report that provided a summary of the outcomes of the Internal Audit and Counter Fraud work that was completed during Quarter 1 of 2024/25.

The report brought together all aspects of audit, assurance and counter fraud work undertaken in Quarter 1 of the 2024/25 financial year, including actions taken by management in response to audit and counter fraud activity, which supported the governance framework of the authority. Limited assurance reports issued since the last Audit Committee were included in Appendix 1.

Member asked questions around the risks in relation to the IT transition and contract procedure rules. Officers explained that procurement was underway for various software packages etc. and an up-to-date contract procedure rules document was being worked on.

## **December 2024**

- Statements Of Accounts 2021/22 & 2022/23 And External Audit Reports To Those Charged With Governance  
The Head of Financial Control introduced the report and then invited the representative of Ernst and Young (EY), the external auditors, to present the report the Audit Completion Report from Ernst and Young LLP on the 2021/22 and 2022/23 Statement of Accounts, together with the 2021/22 and 2022/23 Financial Statements for approval.

The Council was required to prepare annual financial accounts covering the period from 1 April to 31 March. These accounts were required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Accounts and Audit Regulations 2015 required that the authority prepared and published its unaudited accounts by 31 May, however; the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 revised the statutory publication date for 2021/22 to 31 July 2022. This reverted back to 31 May for 2022/23. Regulation 9(2) required Members to approve the Statement of Accounts that was to be published, either by meeting as a whole or through a committee.

Once Members had approved the Statement of Accounts, regulation 10 set out the requirements for publication of an authority's accountability statements. These comprise of the Statement of Accounts together with the opinion and any certificate, the Annual Governance Statement approved by Members and the Narrative Statement. Over recent years Havering, like many local authorities, had experienced significant delays with the audit of its accounts.

To address the backlog, and following a period of consultation, the system leaders developed a solution involving 'backstop dates'. As a result, a large number of financial statements would be published with modified opinions. To mitigate any potential reputational risk and so that local bodies were not unfairly judged due to disclaimed or modified opinions, auditors would be expected to provide clear reasons for the issuing of such opinions. Havering's draft

accounts were published on the Council's website. The 2021/22 accounts were published on the 29th of July 2022, and the 2022/23 accounts were published on the 31st of May 2023.

The local audit backstop arrangements had been established to set dates by which an authority must publish a final version of its statement of accounts for a particular year, irrespective of the progress that had been made by the auditor. It was to be noted that the first of these dates was the 13th of December 2024, by which time the 2022/23 should be published. The 2021/22 and 2022/23 statement of accounts that the Committee were asked to approve were unchanged from the draft versions which were previously published on the Council's website. The auditor had done a value of money for both years and the pension fund accounts for both years were also audited.

A number of procedures were performed to ensure understanding of the entity and fraud risks through letters to management, the Audit chair, internal audit and the Monitoring Officer. Limited comparative and casting cheques that made recommendations were made to ensure consistency. Page 8 of the report gave the reason for the disclaimer and the background of why the audit of 2021/22 and 2022/23 was unable to be performed. The 2023/24 audit was underway and would be reported in January and February to the Committee.

In discussion, it was explained that it is the auditor's responsibility to look at the arrangements any local authority had in place, primarily around governance, economy, efficiency and effectiveness, and financial sustainability. Under governance it would be the committee structure and whether it was appropriate to discharge the Council's business, but not whether that structure provided the best value that a policy decision that the management would want to make. If recommendations and follow up to queries were not done in a timely matter that would be an issue for internal audit and then in turn for the auditor. It was also agreed that a deep dive could be done on any specific issues where concerns were raised. In addition, EY would come and speak to the Committee once a year independently as well. Therefore, should Members wish to raise specific concerns they could do so.

In regard to a question asked about Mercury Land Holdings and it being a significant borrower of Council finance, the business plan was scrutinised yearly and it was explained that if it's a wholly owned subsidiary, auditors don't necessarily have the capacity or policy mechanisms to scrutinise how business plans were run properly. However, that would be a worthwhile discussion and could be taken offline to see if an internal audit review could come back to the Committee.

- Head of Assurance Progress Report 2024/25  
The Head of Assurance introduced the report that summarised the cumulative outcomes of audit and counter fraud work from 1st April to 31st October 2024, including actions taken by management in response to audit and counter fraud activity, which supports the governance framework of the authority.

The Accounts and Audit Regulations required 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.

Internal audit was a key component of corporate governance within the Council. The three lines of defence model, as detailed in the report, provided a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation. The Council's third line of defence included internal audit, which should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence had been operating.

An independent internal audit function would, through its risk-based approach to work, provided 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. The work of internal audit was critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and formed the basis of the annual opinion provided by the Head of Assurance which contributed to the Annual Governance Statement. It could also perform a consultancy role to assist in identifying improvements to the organisation's practices.

The limited assurance reports issued since the last Audit Committee were included in Appendix 1 and it was confirmed that the authority had operated within the Treasury and prudential indicators set out in the TMSS; all Treasury management operations had been conducted in full compliance with the authority's treasury management practises.

Key indicators would be produced for the next quarter and it was explained that schools were reviewed every 3 years. However, the Towers requested the review was brought forward due to some concerns and there was work on-going to resolve those issues and the progress would be checked on in the next 6 months to ensure any risk was mitigated. In regard to the first recommendation, the control process to ensure all procurements were subject to appropriate governance etc. It was explained that implementation was due in February 2025 and Officers would go through and look at the detail of the average balance over the course of the year and processes were in place and provide clarification.

A debt board was created and the first meeting was being held in January which looked at assurance issues and ensured a process was in place to pursue and recover payments from non-payers.

- Mid-Year Trasury Management Report 2024/25  
The Capital Strategy Manager provided a report that covered activity on treasury managed investments and borrowings and the associated monitoring and control.

The CIPFA TM Code required that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end), and the report covered the period from 1st April 2024 to 30th September 2024.

The Authority's Treasury Management Strategy Statement (TMSS) 2024/25 was approved by Full Council on the 1 March 2024. The TMSS aimed to bring together the Council's capital programme and its budget to ensure borrowing decisions were affordable and sustainable in line with regulation.

It was explained that the average cash balance was about 90 million and the average of the authorities' performance was 5.36% for the full year.

## January 2025

- Statement of Accounts 2023/24 and External Audit Reports To Those Charged With Governance

The Committee received the Statement of Accounts and External Audit Report for 2023/24.

Members noted the draft accounts had been published by 31st May 2024 and the audits had followed with the Pensions Fund audit commencing in June 2025.

Members then received a presentation from Havering's external auditors, Ernst & Young (EY).

EY officers explained they were on track to sign an unqualified opinion. The materiality had been set to £9.7million with a minimum £500k limit set to report to the Committee. EY then explained the areas of risk which included fraud. Members questioned the audit and disclosure differences to which EY responded that collection fund was at £800k and not material and there had been changes in the cash flow settlement due to its nature but it was not significant.

- Head of Assurance Progress Report 2024/25

The Committee received the Head of Assurance progress report for 2024/25.

Members noted that the items on the future reports list were not in any particular order and some should not have been shown as they had not been started. It was noted that complaints would be reported at a future meeting.

- Risk Management Update

The Committee received a risk management update.

Members noted the summary was reported twice a year. Members questioned how the likelihood matrix was scored to which officers explained a

comprehensive risk strategy and toolkit sat behind the register which showed how the scoring is applied.

Members then discussed Risk 7 – Climate Change. Officers explained some risks have a subjective nature, of which this was one of them. The risk was set at medium to reach the 2040 ambition.

Members appreciated the report was clearer to read and follow.

- Accounting Policies 2024/25  
The Committee received the Accounting Policies for 2024/25.

The Section 151 officer was responsible for setting the policies. The main change for 24/25 was with respect to leases as CIPFA had adopted the IFRS 16. Members noted the private sector had adopted the IFRS 16 in 2019 and the public sector were due to adopt it earlier but it was delayed due to the COVID-19 pandemic. This meant the new standard was for all leases will move onto the balance sheets. Members were assured there would be limited impact on the Council and it should not cause any additional pressure.

- Treasury Update – Quarter 3 2024/25  
The Committee received the Quarter 3 2024/25 Treasury Update.

Members were given a brief overview up until the end of December 2024 given the financial position of the Council. There had been an additional £50million of borrowing as the liquidation buffer of £40million had been reached. Interest on investments was £3.1million and Year to Date was £1.8million above the budget. Members noted the debt was below the original estimate due to large amounts of internal borrowing.

- Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy 2025/26  
The Committee received the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2025/26.

Members noted this was presented to fulfil legal obligations. It had been presented to the Overview & Scrutiny Board on 29th January 2025 and was due to be presented to Cabinet in February and then to Full Council following that.

The 2027/28 capitalisation direction costs would be 12.7% of revenue. Members questioned the affordability of the costs to which officers explained that if the capitalisation direction surpassed the 16% it would be unreasonable and further action would need to be taken.

## **April 2025**

- Draft Internal Audit Plan  
The Committee received the Draft Internal Audit Plan Report for 2025/26, presented by Jeremy Welburn.

- **Anti-Fraud and Corruption Strategy**  
The Committee received the Anti-fraud & Corruption Strategy Report, presented by Jeremy Welburn.

Members noted the contents of the report and were given the chance to raise any issues of concern and ask specific questions of officers where required.

Members asked how the delivery of the strategy will be monitored. Members noted that a progress report is made public quarterly.

Members then asked for confirmation that the report was achievable given the financial situation of the council. Members appreciated that a proactive approach to Tenancy Fraud was ongoing. They were also reminded of the rapid increase in Right to Buy applicants over recent months, due to changes to discounts. An overall proactive not reactive approach was emphasised. This proactive approach continually aims to become embedded in the organisation's culture.

Flexibility and internal adjustment of resources across the entire Anti-fraud & Corruption Strategy plan is supported.

Members noted that there were no significant changes at this 4-year review of the strategy.

- **Draft Annual Governance Statement**  
The Committee received the Draft Annual Governance Statement 2024/25 Report, presented by Jeremy Welburn.

Members noted and discussed the report.

Members were informed that Newham is slightly behind Havering in the OneSource split, with Havering on track to separate by 31 December. Any delays will be reported. If Havering meets the deadline, Newham will bear costs for remaining in the shared tenancy.

Members noted that Newham is currently slightly behind Havering's timeline in the OneSource shared split. Members were informed that Havering is on track for a 31 December separation. An update will be given if a delay is expected. If Havering's end-of-December separation is successful, Newham will pick up any costs associated with keeping their service if they haven't left the shared service arrangement.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

None – narrative report only.



**Legal implications and risks:**

None – narrative report only.

**Human Resources implications and risks:**

None – narrative report only.

**Equalities implications and risks:**

While the work of the Committee can impact on all members of the community, there are no implications arising from this specific report which is a narrative of the Committee's work over the past year.

**BACKGROUND PAPERS**

Minutes of meetings of Audit Committee

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