

**ANNUAL REPORT ON THE
WORK OF THE AUDIT COMMITTEE
2023/24 FINANCIAL YEAR**

1. Introduction

This reports covers the period July 2023 to May 2024 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 2023 – May 2024):

Audit Committee: Councillor Jukie Wilkes (Chairman)
Councillor Jacqueline Williams (Vice Chairman from April)
Councillor David Taylor
Councillor Keith Prince
Councillor Damian White
Councillor Sarah Edwards
Councillor Jane Keane
Councillor Darren Wise
Councillor David Godwin (Vice Chairman till April 2024)

Internal Auditors: oneSource

External Auditors: Ernst & Young

During the year under review, the Committee met on five 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 2022 TO MAY 2023

July 2023

- Annual Treasury Management Report 2022/23
The Committee received a report on the Annual Treasury Management for 2022/23 that the council is required by regulations issued under the Local Government Act 2003 to produce. It was noted that the 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”).

Members sought clarification from the following areas of the presentation:

It was noted that the Council holds a £7 million (Lender Option, Borrowing Option) LOBO loan that has the option to propose an increase in the interest rate at set dates. It was clarified to Members that the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Treasury Manager stated there was a possibility that the lender may propose an increased rate in the foreseeable future. Officers would continue to monitor and liaise with the lender going forward.

Members enquired if the funding for the SLM/Everyone’s Active were funded by the Council. It was asked if the programme of work was planned for in the Council’s MTFs budget. Member sought clarification on how the investment in Everyone Active impacted on the Council’s finances.

The Committee asked to receive further breakdown of the debt figures in the report along the line of Housing Revenue Account and GF split.

Members enquired about the Capital Investment programme and asked for a prediction of the extra cost to the Joint Venture programme following the requirement that every new development over 11 storeys should be fitted with two staircases.

Members sought clarification on the impact of the changes e.g. 2 staircases on the housing development may have on the council’s finances. It was asked if the slippage will be covered in the capital programme. It was suggested to Members that a response was better addressed by the Regeneration Services.

Following discussion, it was agreed that Members would receive the list of the council’s current borrowing.

- Head of Assurance Annual Report and 2022/23 Internal Audit Plan Outturn

The Committee was presented a report that brought together all the aspects of audit, assurance and counter fraud work undertaken in the 2022/23 financial year. These included actions taken by management in response to audit and counter fraud activity which supported the governance framework of the authority.

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.

Questions were raised about the CCTV charges, Members sought clarification whether all refunds have been processed. It was agreed that the CCTV report be recirculated to Members of the Committee.

The Committee sought assurance that the Taxi undertaking SEND pupil travel journey were licenced with TFL. It was stated that the services had no record to support this assurance but it was noted that DBS review checking was in progress. Officers assured Members that all licences were in place and the issue that required action was the record keeping.

Member discussed the council's approach to prosecuting corporate and housing fraud. Figures for prosecution would be provided to the Committee. There was a suggestion that the prosecution policy to be reviewed.

Officers were asked to look in to specific training for Members of the Committee.

October 2023

- Impact of impending Ultra Low Emission Zone (ULEZ) changes to the Council's fleet assets

At the request of Members, a report that detailed the financial impact of the ULEZ enforcement that came into force on the 29 August 2023 across a wide range of council vehicles and departments was presented to the the Committee.

The report detailed a projected cost of replacing non-compliant vehicles. An appendix to the report identified the fleet and the following costs:

- The daily, monthly and yearly costs of ULEZ fines per vehicle.
- The ULEZ cost for this current year from 1st September 2023
- The estimated cost of replacing non-compliant fleet assets
- The estimated cost of replacing all vehicles including the buses with TFL community grace period application certificates.
- Identified 201 vehicles with 68 ULEZ non-compliant.

The report detailed a projected schedule that identified a worst-case scenario in the unlikely event of no further fleet replacements being achieved during the current

financial year and all non-compliant vehicles being used daily, the Council's potential exposure to ULEZ fines would be approximately £103k in 2023/4.

It was noted that about 40 vehicles would incur ULEZ charges. The Council has now put in place a ULEZ account with TFL to cover charges in order to avoid payment fines.

Members were informed that Transport Services would most likely absorb all the charges than go down the line of individual cost centres as the service was a trading service that brings in an income.

- 2023/24 Treasury Management - Mid-Year Report.
The Committee received an update on the mid-year report on the treasury management activities as required by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code ("TM Code").

The report stated that the Authority's Treasury Management Strategy Statement (TMSS) for 2023/24 was approved at the Cabinet meeting on 8 February 2023 and at Full Council on the 1 March 2023. The TMSS aims to bring together the Council's capital programme and its Budget to ensure borrowing decisions are affordable and sustainable in line with regulation.

The report covered activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the mid-year report were as follows:

- At the end of August 2023 the investment portfolio yield was 5.18% - this was achieved keeping investments on very short maturities thereby tracking successive increases in bank rate over the period.
- The Authority weighted average rate of return was 4.65% compared to Link's benchmarking club return of 4.38% for the last published quarter to the end of June – this was virtually risk free as all investments were placed with the Government Debt Management Office and a number of Local Authorities and NatWest Bank.
- Net interest outturn, expense is expected to be within budget.
- According to the Office for Local Government this Authority has one of the lowest debt servicing cost at 4.6% of core spending power, compared to other authorities in 2021/22.
- The Authority fully complied with the prudential and treasury indicators set out in the (TMSS) for 2023/24.

Members received responses to questions raised about the Council's approach to borrowing and lending and risk in particular.

Officers stated that there has not been a shift in terms of re-profiling debt from the capital programme to the HRA.

It was clarified to Members that the Council's fixed term investment deposit were being monitored on a day to day basis. The current position was that there is very little risk in terms of losing the authority's deposits.

Officers indicated that the Council's treasury advisers have not raised any issues on the council's risk profile.

A Member asked that auditors look at the viability of each of the housing regeneration schemes.

- Assurance Progress Report

The Committee was presented with a report that informed Members on the work undertaken by the Assurance Service (internal audit and counter fraud) during the period from 1 April to 30 September 2023.

The report indicated that some of the work undertaken by internal audit does not result in an opinion such as advisory reviews and grant claims.

The Committee noted that 11 final reports/reviews were completed during the period and 4 draft reports were issued.

Two levels of assurance were applied in the overall Audit opinion on the system control environment within the areas reviewed. These are as follows:

- 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.

Members noted the results of the work undertaken during quarter one and two of 2023/24 and the recommendations provided with the limited assurance summary reports.

It was noted that Internal Audit follows up all high and medium risk audit recommendations with relevant service management. There was 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 were provided was verified through a follow up audit review.

It was stated that the work was 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. Part of the Audit Committee's role was to monitor the extent to which recommendations were implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.

All high and medium risk recommendations due as at the end of September 2023 have been followed up and confirmed with management as implemented. Any recommendations that remain outstanding and were past agreed implementation dates or where management had not responded to requests for progress updates, would be reported to Audit Committee.

The report classified recommendations under three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

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

Members sought and received clarification on specific questions matters raised.

January 2024

- Treasury Management Strategy Statement 2023/24 and Annual Investment Strategy 2023/24 Treasury Indicators.

The Committee were presented with the Treasury Management Strategy Statement (TMSS) report that was a part of the authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management (TM) Code and its Prudential code (The CIPFA Prudential Code) for capital finance in local authorities.

The Treasury Management Strategy Statement sets out recently introduced changes to the legislative framework which were generally designed to place restrictions on authorities' commercial activity.

It was explained that the report fulfilled the authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code/Prudential Code and Government Guidance, and it covered the following:

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators.

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators - there had been a change to the revised CIPFA TM Code and Prudential Code (2021) that would be reported upon in the 2023-24 TMSS. At the time of writing, the report on the capital programme had not been finalised and it was stated that the figures in the report may change before they are presented to Cabinet.

Officers reviewed other economic forecasts and found that there was a consensus that rates are trending down. Officers were in agreement that long term borrowing should be on shorter durations of between 2 and 5 years and then refinance on longer term durations when rates are expected to be lower. Officers were of the view that following further reductions in shorter duration of Public Works Loan Board rates since December, the balance has shifted in favour of locking in some long term debt on short durations.

For the reasons set out above the Authority needs to maintain a prudent cash balance to allow it to cover the variability of expenditure. The extent to which borrowing would be required would depend on the movement in cash reserves, working capital, strength of the capital forecast and how much slippage might occur during each financial year.

It was sensible to plan on the basis of covering the inevitable month on month fluctuations in cash balances to avoid what would in effect be an unplanned and therefore expensive, short-term overdraft. Based on analysis of the monthly cash variations then £40m has been established as an appropriate cash balance or liquidity allowance.

In response to Members enquiry, the Director of Resources and s151 Officer assured the Committee of the confidence in terms of what was being proposed regarding the treasury management strategy changes compared to previous strategies. It was stated that it was still very prudent in terms of the approach. The Committee noted that what was been proposed was further detail into the liability benchmark in terms of the minimum threshold of cash balances that the local authorities or councils should be maintaining Tertiary. It was stated that the team provided the Director with a weekly update that included an update in terms of lent money.

For the reasons set out in the report and its annexes Cabinet was recommended to agree:

- The Draft 2024/25 TMSS & AIS which would form part of the Budget Report to Cabinet on 7 February and Full Council on 28 February 2024.
- The revised prudential and treasury indicators set out in Appendix 2 and 3 of the report.
- The operational and authorised borrowing limits set out in tables 5 & 6 of appendix 2 of the report.

Under the Havering Scheme of Delegation Part 3 section 3.10.3 the s151 Officer functions are:

To manage the Council's loan debt, investments, and temporary investments, pension scheme and pension fund, insurance fund, act as registrar of loan instruments,

manage all banking arrangements including numbers and types of accounts and arrange insurance of property and the selecting and accepting of tenders for insurance cover and related services which are considered to offer best value for the Council promoting good risk management practices at all times.

- **Internal Audit Progress Report**

The Committee received a report that advised on the work undertaken by the Assurance Service (internal audit and counter fraud) toward delivery of the 2023/24 audit plan as at the end of December 2023 in support of the Audit Committee's role.

The Annual Audit Plan was presented to Audit Committee in April 2023. The plan was developed in line with the three themes (People, Place and Resources) outlined in the Havering Vision and Corporate Plan. Members were reminded that the 2023/24 audit plan was presented as a flexible plan, subject to review through the year to ensure that emerging risks are covered. Adjustments to the plan were made to allow for changes in the risk and operational environment in which the Council operates. The status of the 2023/24 Internal Audit Plan was reported in section 4 of the report.

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

The report detailed the following work undertaken by Internal Audit during quarter: LBH Systems, LBH Schools Audits, Counter Fraud Audit Work Housing cases, Status of Internal Audit Plan 2023/24, LBH Schools Audit Programme.

At the meeting relevant Officers were present to answer the questions of Members. In response to a Member question, the Committee received assurance that the CCTV contract was compliant.

May 2024

- **Annual Statement of Accounts 2020/21 & External Audit Reports To Those Charged With Governance**

Members received officers from Ernst & Young (EY) who presented the external audit report.

Members noted that the statement of accounts for 2020/21 were originally presented in July 2021 but sign off had been delayed with only 9% of national accounts signed by the deadline of September 2021. EY has undertaken additional work due to the Council's financial position which had further delayed the sign off of the accounts with a projected sign off date of June 2024.

It was explained to the Committee that the Highways assets in April 2022 had caused delays in the audit results for Audit and a resolution had not been found until late 2022 which halted the other audits. The capitalisation directive would have to be included with all work to be concluded by July 2024. Officers explained to Members that although issues in the accounting had been found, these were not material and were keen to conclude the 202/21 statements to allow more time to focus on the 2023/24 accounts with some issues remaining in the later accounts.

Members only noted one main issue within the audit for Pensions which was a disclosure error relating to LGIM investments but these did not affect the finance level.

The Committee agreed the recommendations subject to any changes being circulated to the Committee Members.

- Draft Annual Governance Statement 2023/24

The Committee was presented with the annual 'look back' at governance.

It was noted there were 89 breaches with more in-depth data to be shared with members. 89% of Council staff had been trained on data breaches but the target was 95% so there was still work to be done to reach the target. Officers suggested a potential deep dive into General Data Protection Regulation (GDPR) breaches which was welcomed by the Committee. Officers were asked to review the implementation against the READI review which officers agreed they would do.

- Head of Assurance Annual Report 2023/24

The Committee was presented with the Head of Assurance Annual Report for 2023/24. The report detailed a summary of the systems completed and drafted. It was noted that 4 systems had been removed from the plan with highway services showing as an error as it had been delayed until the following year. Members were presented with details of all the recommendations linked to any risks. The Data Protection Impact Assessment compliance of CCTV had been implemented. Members questioned the relationship of the Audit team with other services within the Council to which officers explained the relationships were generally positive.

The Committee gave thanks to the officers for their continued hard work to present the report in the new layout.

- Draft Internal Audit Plan 2024/25 Consultation

The Committee was presented with the Draft Internal Audit Plan for 2024/25.

Members noted that the risks were fluid and the plan were a flexible document. A Member raised a number of queries to which officers would reply to outside of the meeting.

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