



AUDIT COMMITTEE

08 07 2025

Subject Heading:	Head of Assurance Annual Report 2024/25
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Policy context:	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.
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 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 1st 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:

5. 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.

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.

Actions taken during 2024/25

- Initial internal audit reviews have taken place and, where applicable, fraud investigations remain underway.
- A summary of the issues, causes and actions provided to Audit Committee with members requesting a follow up within 6 weeks.
- Work underway by finance

Planned actions for 2025/26

- Follow up to be provided to Audit Committee in June 2025
- Additional reviews added to the Internal Audit Plan 2025/26

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 1st 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.