

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

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.

Haverling 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