Havering
LONDON BOROUGH

AUDIT COMMITTEE
(Joint meeting with Pensions Committee)

AGENDA

7.00pm	**Tuesday, 15 September 2009**	**Havering Town Hall Main Road, Romford**

Members 8: Quorum 3

COUNCILLORS:

Conservative Group (5)	**Residents' Group (2)**	**Rainham Residents Group (1)**
David Grantham (C)		
Frederick Thompson (V.C)	Clarence Barrett	Mark Stewart
Gary Adams	Steve Whittaker	
Michael Armstrong		
Eric Munday		

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NOTES ABOUT THE MEETING

1. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. **For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters.**

2. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

3. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room.

AGENDA ITEMS

1. CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements 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

3. DECLARATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in an item at any time prior to the consideration of the matter.

4. ISA260 REPORT – report to follow

5. STATEMENT OF ACCOUNTS 2008/9 AND IFRS PROJECT PLAN UPDATE – report attached

Cheryl Coppell
Chief Executive

Havering
LONDON BOROUGH

MEETING	DATE	ITEM
AUDIT COMMITTEE (Joint meeting with Pensions Committee)	15 September 2009	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: Statement of Accounts 2008/09 and IFRS Project Plan update

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 30th September 2009. At this stage our auditors, PricewaterhouseCoopers expect to issue an unqualified opinion on the Statement of Accounts. Their report is included elsewhere on the agenda.

This report also provides an update of the project plan for International Financial Reporting Standards (IFRS) implementation, the progress to date and any major issues which have been identified.

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RECOMMENDATION

The Committee is asked to:

a) confirm that no amendments are required to be made to the accounts in respect of the items set out in appendix B to the auditors report.

b) note that the audited accounts must be published by 30th September 2009.

c) note the IFRS project plan and the actions required to collect data in advance.

REPORT DETAIL

1. Statement of Accounts 2008/09

Our auditors, PricewaterhouseCoopers have completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings is included elsewhere on the agenda.

Following the conclusion of the audit, the opportunity has been taken to make some presentational changes to the statements, however the financial results for the year ended 31 March 2009 remain unaltered from those approved by this Committee on 23rd June 2009.

A small number of errors have been identified by PWC in appendix B to their report. The majority of these items relate to amendments to Homes in Havering's audited accounts which were approved after the date of approval of the Council's Group Accounts by this committee on 23 June 2009. These items have not been amended on the grounds of immateriality, since they do affect the readers understanding of the accounts. Neither do these errors impact upon the level of useable reserves and balances.

2. IFRS Implementation

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2.1 Background

In 2007, the Government announced that the Statement of Accounts of all Government Departments and Local Government would in future be prepared in accordance with International Financial Reporting Standards (IFRS).

Central Government departments will prepare accounts on an IFRS basis for the first time in 2009/10. Local Authorities will follow in 2010/11. The UK private sector has already adopted IFRS.

Although the Council will not be required to publish IFRS based accounts until 2010/11 it will be necessary to produce information at a much earlier stage in order to comply with the Central Government timetable. In particular the Council will need to:

a) Restate it's closing Balance Sheet at 31 March 2009 on an IFRS basis.
b) Re-state its 2009/10 accounts on an IFRS basis for comparative purposes and to complete the Whole of Government Accounts (WGA) return by 30 September 2010.
c) Agree accounting polices and implement system changes prior to the commencement of the financial year 2010/11.

A summary timetable is attached which sets out the key tasks required (appendix A). A more detailed schedule is also attached which sets out the steps required to complete phase 1.

The project plan will be adapted to reflect any further changes required by the draft CIPFA code or by legislation. The Committee will be advised further as part of our regular monitoring reports.

2.2. Progress to Date

CIPFA are in the process of developing an IFRS based code of practice. The draft code has been released for consultation.

Finance staff have received training via CIPFA's finance advisory network. This training programme will continue throughout the implementation phase and provides invaluable support for the IFRS project plan.

It also recognised that our auditors, PricewaterhouseCoopers should be advised of progress throughout the implementation period. In particular, assumptions over materiality levels and interpretation should be discussed with the auditors in advance.

Officers have identified a number of key areas where a significant level of preparation is required. These areas and the progress made to date are reported below;

a) Asset valuation and reporting
All asset valuations carried out on or after 1st April 2010 will need to be made in accordance with IFRS. The new standards require the separate valuation of land, buildings and major components. Asset valuations may continue to be carried out on a five year rolling cycle but it will be necessary to carry out an annual review to ensure that the value of assets is not materially over or understated. These additional valuation requirements are expected to have cost implications.

b) Identification and treatment of leases
The accounting treatment and disclosure of leases may change under IFRS. Arrangements are underway to identify and review all existing leases. It will also be necessary to review service contracts to determine whether they contain any embedded leases.
One consequence of lease reclassification may be to switch the expected funding stream from revenue to capital. The resulting funding problem can be avoided by making an appropriate revision to the Minimum Revenue Provision policy or by adjusting revenue contributions to capital.

c) Private Finance Initiatives (PFI) and other off-balance sheet financing.

The Council entered into a Public Private Partnership (PPP) in 2003 lasting fifteen years. The disclosure requirements for such arrangements have altered significantly and officers are in the process of gathering sufficient information to comply with the requirements. No other existing arrangements have been identified at this stage which would be affected.

d) Accrual of employee benefits (e.g. leave carried forward at year end)

Under IFRS the Council will have to accrue for employee benefits not taken but paid for at the year end. The affect will be to increase expenditure in 2010/11. The Government has indicated that it proposes to issue regulations to reverse the impact of this accounting adjustment so that it has no impact upon the level of Council Tax.

Officers are proposing to collect sample data from which the calculation will be made. Work will need to commence during 2008/09 in order to prepare effectively for full IFRS implementation.

Financial Implications and risks:

There are no direct financial implications arising from the publication of the 2008/09 statement of Accounts.

The Introduction and implementation of IFRS is likely to give rise to additional expenditure on project management including the increased valuation requirements. The costs are currently being evaluated and are likely to be contained within existing contingencies or reserves. Any significant on-going commitments which are identified may need to be considered as part of the budget development process as a cost pressure.

There is a risk that some changes in accounting policy required by IFRS will give rise to additional revenue expenditure. The Government has indicated that it intends to issue regulations which will reverse the affect of such changes so that there is no impact upon Council Tax. These regulations may not be in place when the Council sets its 2010/11 budget.

Legal Implications and risks:

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2009.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

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CHERYL COPPELL
Chief Executive

Background Papers List

SUMMARY IFRS TIMETABLE

Stage	Description	Lead Officer	Start Date	Target End date	Actual completion date
1.0	Identification and reclassification of leases	Mark White	05/08/2009	02/11/2009	
1.1	Asset valuation and disclosure	Mark White	05/08/2009	02/11/2009	
1.2	PPP - review of disclosure requirements	Nigel Foster	05/08/2009	02/11/2009	
1.3	Employee benefits accruals	Nigel Foster	05/08/2009	02/11/2009	
1.4	Identification of embedded leases, new PFI or other potential On-Balance sheet financing	Mike Board & Group Finance Managers	01/09/2009	02/11/2009	
1.5	Balance sheet format	Mike Board	01/09/2009	02/11/2009	
1.6	Progress report to Audit Committee	Mike Board	01/09/2009	30/09/2009	
1.7	Staff training and updates	Mike Board/ Owen Sparks	on-going	on-going	
1.8	Initial review of accounting policies	Mike Board	05/08/2009	30/10/2009	
1.9	Identify budgetary impact	Mike Board/ Owen Sparks	05/08/2009	07/09/2009	
1.10	Initial review of systems implications	Mike Board/ Owen Sparks	05/08/2009	31/10/2009	
1.11	Initial draft skeleton format of accounts	Mike Board	01/09/2009	31/12/2009	
Stage 1	**Restate 1/4/09 Balance Sheet in IFRS format**	**Mike Board**	**05/08/2009**	**01/12/2009**	
2.0	Produce skeleton format of accounts in IFRS format	Mike Board	01/01/2010	30/08/2010	
2.1	Restate accounting policies and related practices	Mike Board	01/01/2010	31/03/2010	
2.2	Asset accounting and capital charges	Mark White	01/01/2010	30/08/2010	
2.3	Update Leasing schedules	Mark White/ Reena Patel	01/04/2010	30/08/2010	
2.4	PFI PPP and embedded leases-disclosures	Reena Patel/Nigel Foster	01/04/2010	30/08/2010	
2.5	Employee benefits accruals	Nigel Foster	01/04/2010	30/08/2010	
2.6	Systems changes including "chart of accounts"	Mike Board/ Owen Sparks	30/06/2010	31/12/2010	
2.7	Staff Training	Mike Board/ Owen Sparks	on-going	on-going	
2.8	Progress reports to Audit Committee	Mike Board/ Owen Sparks	on-going	on-going	
2.9	WGA returns in IFRS format	Nigel Foster	01/04/2010	30/09/2010	
Stage 2	**Restate 2009/10 Accounts in IFRS format**	**Mike Board**	**01/04/2010**	**01/12/2010**	
3.0	IFRS compliant systems reports produced	Mike Board/ Owen Sparks	01/01/2011	01/06/2011	
3.1	Asset valuation and capital accounting	Mark White	01/01/2011	30/05/2011	
3.2	Leasing Register updates	Reena Patel	28/02/2011	30/04/2011	
3.3	Accounting policies final review	Mike Board	01/01/2011	31/03/2011	
3.4	Staff Training	Mike Board/ Owen Sparks	on going	on going	
3.5	Progress reports to Audit Committee	Mike Board/ Owen Sparks	on going	on going	
3.6	***Full closure programme 2010/11 - IFRS format***	***Mike Board***	***01/01/2011***	***30/06/2011***	
Stage 3	**Produce 2010/11 Accounts in IFRS format**	**Mike Board**	**01/04/2011**	**30/06/2011**	

IFRS Phase 1 - Technical Requirements

No.	Key Areas	Action Required	Lead Officer	Specialist Support required?	Accounting Policy change required?	System Change required?	Budgetary impact / Mitigation required?	Future issues
1.0	Leases	Schedule of Leases to be created. Agree deminimus levels (with PWC) below which no action will be taken. Review accounting treatment (Finance lease vs Operating lease). Review service contracts for potential embedded leases.	Mark White	Valuers. Schools Finance	May require change in MRP policy	Maintenance of Lease register	Reclassification of operating leases into finance leases may have budgetary impact. MRP policy may need to be changed to mitigate impact on budget.	Review policy for new leases
1.1	Assets	Reclassification of Assets in accordance with IFRS proposals Early view of component accounting and valuation issues Seek guidance from internal/external valuers. Discuss de-mimimus threshold with PWC. Asset Register compliance.	Mark White	Valuers	Policy needed on preferred approach to the identification of components	Asset Register must be capable of recording separate components		frequency of valuations?
1.2	PPP	Identification of principal, interest and service elements of contract payment. Is it an embedded finance lease? If material, requires On-Balance Sheet disclosure. Materiality level to be discussed with PWC.	Nigel Foster	No but could need help from service manager	May require change in MRP policy	No	See leases item 1.	Requires on-going record keeping.
1.3	Employee Benefits	Identification of accrued leave at year end. Technique required to produce representative sample. Sampling method and materiality level need to be agreed with PWC Schools leave arrangements and accounting policy needs clarification.	Nigel Foster	No... but assistance needed from HR and Schools	IFRS requirement	Requires ongoing record keeping. Could this be obtained from HR system?	Yes. Costs could be charged earlier than planned. Government is considering issuing regulations to mitigate impact on Council Tax.	Enhancement of HR systems to record leave etc?
1.4	Identification of embedded leases, new PFI or other potential On balance sheet financing	Identify and review service contracts which might contain an embedded lease. Highlight any potential contracts (including PFI and LIFT) which might contain embedded finance leases.	Mike Board, David Allen and Group Finance Managers	No but could need help from service managers and Schools	May require change in MRP policy		See leases item 1.	On-going record keeping
1.5	Balance sheet format	Preparation of draft Balance Sheet in IFRS format.	Mike Board	CIPFA FAN training. Publication of CIPFA guidance	None directly	No but will help to identify future requirements	None directly	Development of FIS reports required
1.6	Progress report to Audit Committee	Update Audit Committee on project plan and implications of IFRS	Mike Board	No	No	No	No	No
1.7	Staff training and updates	Continued training for staff involved in delivery of the project plan. Training for finance staff Updates and information for budget holders	Mike Board/ Owen Sparks	CIPFA FAN training. Publication of CIPFA guidance	No	No	No	
1.8	Initial review of accounting policies	Identification of changes in policy arising directly from conversion to IFRS (i.e. leasing) Identification of changes in policy required to mitigate impact Networking with other authorities	Mike Board	CIPFA FAN training. Publication of CIPFA guidance	Yes.	No	Mitigation issues to be identified as part of CIPFA consultation.	
1.9	Identify any budgetary impact	To identify any budgetary implications of IFRS and potential mitigation. Changes might include: a) Additional cost pressures b) Revenue expenditure previously capitalised c) Changes in cashflow or funds flow which results in expenditure being charged to an earlier accounting period than would have previously been the case.	Mike Board/ Owen Sparks	CIPFA FAN training. Publication of CIPFA guidance	To be identified	To be identified	Central Government plan to issue mitigation to avoid Council Tax implications	
1.10	Initial review of systems implications	Review systems and processes to determine whether changes are required. Key areas are: Asset Register, Leasing Register, System reports including "chart of accounts".	Mike Board/ Owen Sparks	CIPFA FAN training. Publication of CIPFA guidance	None directly	Yes	To be determined	
1.11	Initial draft skeleton format of accounts	First draft of accounts in new format	Mike Board	CIPFA FAN training. Publication of CIPFA guidance		New spreadsheets created. FIS reports need to be re-formatted in IFRS	None directly	Changes arising from Government regulations

Havering
LONDON BOROUGH

AUDIT COMMITTEE
(Joint meeting with Pensions Committee)
SUPPLEMENTARY AGENDA

7.00pm	Tuesday, 15 September 2009	Havering Town Hall, Main Road, Romford

Agenda item 4 is submitted with the agreement of the Chairman as an urgent matter, pursuant to Section 100B (4) of the Local Government Act 1972

Item 4

ISA260 REPORT.

Report documentation attached

For information about the meeting please contact:
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MEETING	DATE	ITEM
AUDIT COMMITTEE (joint meeting with Pensions Committee)	**15 September 2008**	**4**

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: Report To Those Charged With Governance International Standard of Auditing (ISA) 260

SUMMARY

The attached draft report from the external auditor PWC, summarises their findings from the 2008/09 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2009. They also expect to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

RECOMMENDATION

To note the contents of the Report To Those Charged With Governance and the draft Letter of Representation and consider any issues raised by the external auditor.

REPORT DETAIL

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2009.

The attached draft report from the external auditor summarises their findings from the 2008/09 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2009. They also expect to issue an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial Implications and risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly from this report.

Equalities and Social Inclusion Implications and risks:

None arising directly from this report.

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CHERYL COPPELL
Chief Executive

Background Papers List

Working papers held within Finance sections

Draft Statement of Accounts 2008/09

Draft Summary Statement of Accounts 2008/09

Report to Audit Committee 23rd June 2009 on the Draft Statement of Accounts 2008/09

Government and Public Sector

September 2009

London Borough of Havering

2008/09 Report to those charged with governance

PricewaterhouseCoopers

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4 September 2009

Ladies and Gentlemen

2008/09 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2008/09. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

PricewaterhouseCoopers LLP

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Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies' which applies to the 2008/09 audit. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our audit work from our 2008/09 audit of accounts.

It includes the issues arising from our audit of the financial statements including the pension fund accounts and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Value for Money in the Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you on 17 June 2008. This report sets out the more important issues and recommendations arising from our work. We will issue a separate internal control report to management covering other issues noted and discussed with management during the audit. We would like to thank management and staff for their assistance during the 2008/09 Statement of Accounts audit.

Statement of Accounts

We have substantially completed our audit, subject to the following outstanding matters:

- Receipt of outstanding bank, investment, borrowing and legal confirmations;
- Completion of outstanding testing of fixed assets, debtors, unrecorded liabilities, income and payroll;
- Review of finalised cash flow statement;
- Completion procedures including subsequent events review.

Based on the work to date, we do not expect any significant issues to arise in these areas and we will provide an update on finalising our remaining audit work to the Audit Committee on 15 September.

During the audit we identified the following significant issues that we wish to bring to your attention:

- Accounting treatment of assets under construction
- Accounting treatment of the impairments of enhancement works
- Accounting treatment of the impairments to infrastructure assets
- Impairment of Icelandic Bank deposits

These issues are set out within the "Financial statements" section of this report.

We are pleased to report that there are no issues arising from our audit of the Authority's Pension Fund which we feel need to be brought to your attention at this time. Our work in respect of the Pension Fund Annual Report will be completed in October 2009 and reported to the Pensions Committee in November 2009, along with any internal control issues identified.

Use of Resources

We anticipate issuing an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our 2009 Use of Resources assessment is currently being finalised and the results from this will be presented to Members separately.

Financial statements

Accounts

As indicated in the previous section, we have substantially completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. We anticipate issuing an unqualified audit opinion on the financial statements including the pension fund accounts on conclusion of our remaining audit work.

Accounting Issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are set out in Appendix B to this report and the Committee is requested to consider whether in their view these items should be adjusted.

Accounting practices

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on issues affecting the Authority.

These issues do not materially affect the understanding of the financial statements or present significant risks to Authority's underlying financial position. The Authority should review the potential impact, risk and value for money implications of each element and identify appropriate responses.

Impairment of Icelandic bank deposits

CIPFA issued an updated Local Authority Accounting Panel (LAAP) Bulletin on 8 September setting out its revised views as to the correct accounting treatment of investments with Iceland Banks, or their UK subsidiaries.

At present we are considering the accounting implications of the updated bulletin, which management have assessed would require a further impairment of the investments by £172k, in conjunction with the Audit Commission. The key issue is whether the bulletin represents an adjusting or a non-adjusting post balance sheet event. At present we have not included this adjustment on our summary of unadjusted differences but will update the Committee on the 15th September 2009.

Assets under construction

At any point in time the Authority has a range of capital projects in operation. As a result, at year end there may be some projects which are incomplete and need to be classified as 'fixed assets under construction'. The term can include assets which are complete but not yet operational (eg construction has been competed but possession has not yet been passed over by the architect or project manager) as well as items that are not complete. It is usual for assets under construction to be recognised at cost but treated as non-operational, until they are brought into use. Such assets should not be depreciated until they are complete and brought into operational use, at which point they should also be revalued.

Our review of the Authority's draft accounts noted that they did not account for 'assets under construction' separately in the balance sheet. Through discussion with Management we understand that this has been the Authority's approach for a number of years, based on capital expenditure being mainly related to the reinstatement of fixed assets rather than creating new ones.

We have reviewed a number of capital programmes which were incomplete as at 31 March 2009 and identified £1.3m of capital expenditure in the year on assets which were not operational at the year end.

Having reviewed the 31 March 2009 position and taking into account the school's capital programme commencing in 2009/10 and other ongoing capital programmes management has agreed to amend the draft accounts for these assets under construction this year and account for them in accordance with the Statement of Recommended Practice (SORP) in 2009/10.

Impairment of Enhancement Works

Of the £43.2m in capital additions in the 2008/09 draft accounts, £32.4m was impaired in the year and written out to the I&E account. While this is allowed within the SORP the determination of whether or not the enhancement works have added value or not was being determined by the corporate finance team and not by qualified valuers. We advised management of the need to get a qualified property valuer to assess whether capital expenditure had enhanced the value of a fixed asset or not.

This is currently being done to ensure that the treatment of capital expenditure in the accounts is supported by the views of a qualified valuer. We would recommend that the Authority obtains appropriate confirmation from the valuers annually to determine whether or not the enhancement work does or does not add value to the overall fixed asset.

Infrastructure impairments

The local authority SORP requires councils to account for infrastructure assets based on their historic cost. During our testing of additions we identified that a significant proportion of capital expenditure on infrastructure assets was being capitalised and written out as an impairment in the same financial year. The Authority's accounting practice was therefore not in accordance with its stated accounting policy or the requirements of the SORP.

Accounting for infrastructure assets is a complex area and identifying the appropriate useful economic life of the assets can be difficult. Management have agreed to update the accounting policy to reflect the current treatment that is being applied and the potential non compliance with the SORP.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have set out below details of the control weaknesses that we have identified as part of our audit.

NNDR Shared Service Agreement

The Authority's NNDR service is provided as part of a shared service arrangement with the London Borough of Barking and Dagenham. At present the service level agreement for the management of the service does not provide management at the Authority with assurance over the operation of the systems and processes operated at Barking and Dagenham during the year, though we understand that management do review the outputs from the system to ensure that they are in line with expected performance.

We understand that an internal audit of the service was carried out by the internal audit function at the London Borough of Barking and Dagenham, however, this review did not include any Havering cases.

There is a risk that management does not obtain sufficient comfort over the operation of the NNDR system during the year and we would recommend that the SLA is reviewed to ensure that sufficient assurance over the operation of the system is obtained during the course of the year.

School's Bank Accounts and supporting documentation

As part of our audit of the Authority's accounts we seek to obtain confirmations of bank account balances for all of the Authority's bank accounts, including those operated by schools.

In order for the banks to release the required information to us as the Authority's auditors, authorisation is required from the bank mandate signatories. At present the Authority is not a signatory to the schools bank accounts resulting in a burdensome process of obtaining the authorisation from the individual schools.

Once authority to disclose has been achieved for all accounts this should not be a significant problem in future periods, but it would be helpful where schools change their banking arrangements that the Authority is included on the authorised signatories list so that the process of obtaining audit confirmations is made more efficient

There is also a value for money consideration of having schools setting up their own bank accounts against the potential efficiencies to be achieved from the Authority consolidating its banking arrangements with a single provider.

In addition, we have experienced delays in the audit as a result of schools retaining all supporting invoices for income and expenditure transactions and the audit coinciding with the summer holiday. This has led to delays in obtaining some evidence, though we are hopeful that by the time of the Audit Committee that we will have received all outstanding information.

We will seek to select our sample of schools income and expenditure earlier next year to allow sufficient time for schools to provide the supporting information prior to the summer holidays and would recommend that the Authority requests copies of all supporting documentation from schools when individual transactions exceed £100,000.

Authorisation of journals

As part of our substantive testing we selected a number of journals for testing. In doing so, we noted that senior staff are able to electronically process journals without requiring authorisation. This is not good practice. We would recommend that all journals prepared by one individual are authorised by another prior to being input to the general ledger.

In addition, we noted in a small number of cases that third party supporting documentation to support the journal was not readily available. This made it time consuming for staff and auditors to locate documentation to verify the journals. We would recommend that supporting documentation is attached to paper journals to ensure a robust audit trail is retained and easily locatable. This will also aid review by senior staff when authorising journals made by other personnel.

Authorisation of newly opened and closed bank accounts

As part of our substantive testing, we reviewed all bank accounts that had been opened and closed by the Authority during 2008/09. We identified that 5 of the 9 bank accounts either opened or closed had not been appropriately authorised in accordance with the internal authorisation policy.

Review of the Creditor's control account reconciliation

We reviewed the year end creditor's control account reconciliation and identified that, whilst the reconciliation had been prepared in a timely manner, the review of the reconciliation did not take place until almost two months later.

This could lead to errors not being identified and resolved in a timely fashion. We would recommend that control accounts are reviewed within two weeks of the reconciliation being prepared.

Payment of loan interest

We reviewed the date of interest payments on borrowings being made. We identified one instance whereby an interest payment was made 11 days late in May 2008. We understand that the reason for the late payment was due to the borrowing company sending out a late notification email to remind Havering to make its due payment.

There is a risk that late interest payments may be subject to late payment penalties. Havering should implement a loan log to be used by the Treasury Manager to ensure that timely payments are made and to avoid reliance on notification from third parties.

Homes in Havering

The Authority's draft Group accounts were completed using a draft version of the Homes in Havering accounts. During the audit of the Homes in Havering Accounts for 2008/09 adjustments which were put through in the final accounts which related to the change in FRS17. As such there is a variance between the figures consolidated as part of Homes in Havering and the figures in the finalised Homes in Havering financial statements. These adjustments, £960k were not processed by management as they are not material to the Authority's or Group's accounts and as such they have been included in Appendix B as unadjusted items.

Other matters

Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption

We have reviewed the reports produced by Internal Audit for the Audit Committee on fraud and the response to the National Fraud Initiative. There are no matters arising from our work to report to Members.

The Legality of Financial Transactions

From the testing we have performed we have not identified any areas of concern regarding the legality of the Authority's financial transactions.

Elector's questions

We received an Electors' Question in relation to the Authority's TV aerial contract and will liaise with Internal Audit to understand what actions the Authority has already taken. We have undertaken to respond to the elector by the end of September 2009.

Value for Money in the Use of Resources

Work performed

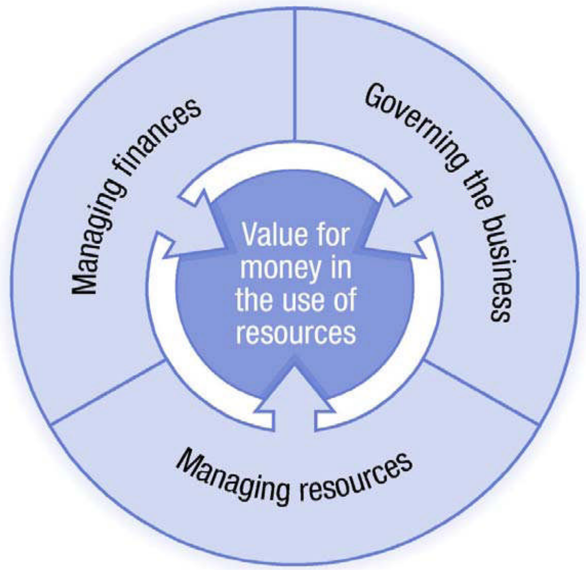
We have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment, supported by our conclusions on the key lines of enquiry (KLoEs) as specified by the Audit Commission
- Review of the Statement on Internal Control

Use of resources

From April 2009, the Audit Commission has been implementing comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA. Our use of resources judgements in 2008/09 will therefore input into the first results of CAA which the Audit Commission will report on in autumn 2009 as well as acting as the basis for our value for money conclusion. The Audit Commission have therefore issued new Key Lines of Enquiry (KLoEs) for auditors to assess Local Authorities' arrangements against.

We have assessed the Authority's arrangements against a series of Key Lines of Enquiry (KLoEs) grouped into three themes which form the Use of Resources framework. The assessment has changed to focus on the Authority's achievements, outputs and outcomes rather than the Authority's processes. Auditors are therefore considering the Authority's strategies rather than the detailed processes that the Authority has put in place.



KLoEs are scored as follows:

1 – Failure to meet minimum requirements – inadequate performance;

2 – Meets minimum requirements – performs adequately;

3 – Exceeds minimum requirements – performs well; or

4 – Significantly exceeds minimum requirements – performs excellently.

We have completed our assessment and submitted our findings to the Audit Commission in August 2009 and following a national review process will report the results to the Authority in mid-September. Throughout the process we have maintained a dialogue with officers and Members and will continue to discuss issues as they arise with our key contact officers.

Value for Money Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. From 2008/09 the Key Lines of Enquiry for the scored use of resources assessment also form the criteria for the Use of Resources conclusion. They are listed in Appendix C. A score of Level 2 or higher under the KLoEs will usually result in an assessment of 'adequate' arrangements for the purposes of the Code criteria. In reaching our conclusions, we also consider whether the KLoE scores should be adjusted for other factors such as whether the arrangements have been in place for the whole financial year.

We intend to issue an unqualified value for money conclusion.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Audit plans and fee update

Audit Plan 2008/09

We issued our Audit Plan for 2008/09 and presented it to Members on 17 June 2008. We issued our Audit Plan for the pension fund accounts and presented it to Members on 9 March 2009.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plans of 2008/09. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2008/09

We reported our fee proposals as part of the Audit Plans for 2008/09.

Our actual fees were in line with our proposals.

Appendix A: Audit reports issued in relation to the 2008/09 audit year

The following audit reports have already been issued in relation to the 2008/09 audit year:

- London Borough of Havering – 2008/09 Audit and Inspection Plan dated 17 June 2008
- London Borough of Havering – Pension Fund: 2008/09 Audit Plan dated 9 March 2009

In addition to this report we expect to issue the following reports relating to 2008/09;

- Auditor’s opinion on the 2008/09 Statement of Accounts;
- Auditor’s opinion on the 2008/09 Pension Fund
- Auditor’s conclusion on whether there are proper arrangements for securing economy, efficiency and effectiveness in Use of Resources;
- Grant Claims Certification Letter; and
- Annual Audit Letter - including the results of our Use of Resources Assessment.

Appendix B: Summary of unadjusted misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Consolidated Revenue Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Homes in Havering The consolidation between the Authority and Homes in Havering were based on the Homes in Havering draft financial statements. The following adjustments were made to the finalised Homes in Havering accounts but have not been incorporated in to the Whole of Government accounts return.	Actuarial Gain 30 Operating Expenses 12	Operating Expenses 41 + 10 Other Income 70	Pension Fund Liability 930 Creditors 41 + 80	Pension Reserve 960 Creditors 12

Unadjusted Misstatement	Consolidated Revenue Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Icelandic investments: Accrued income The latest CIPFA guidance received (LAAP 82) identified that it was likely that the Authority would receive 90% / 95% of the accrued income earned up to the date of administration. The Authority has fully impaired the full amount of accrued income in the financial statements. The Authority should have recorded £108,638 within accrued income			Interest Receivable 109	Investments – Principal 109
Net effect	42	121	1,160	1,081

Appendix C: Value for Money Conclusion

The Audit Commission publishes Code of Practice criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

These code criteria are linked to the scored use of resources, Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. We are currently in the process of finalising our 2009 Use of Resources assessment. We have carried out sufficient work to confirm that a minimum Level 2 (adequate) will be reached for each KLoE.

The use of resources assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprises three themes that focus on:

• sound and strategic financial management;

• strategic commissioning and good governance; and

• the management of natural resources, assets and people.

Managing Finances

Key Lines of Enquiry	
1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?
1.2	Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?
1.3	Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?

Governing the Business

Key Lines of Enquiry	
2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?
2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?
2.3	Does the organisation promote and demonstrate the principles and values of good governance?
2.4	Does the organisation manage its risks and maintain a sound system of internal control?

Managing Resources

Key Lines of Enquiry	
3.1	Is the organisation making effective use of natural resources?
3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?