



Havering

LONDON BOROUGH

AUDIT COMMITTEE AGENDA

7.30pm	Tuesday, 23 June 2009	Havering Town Hall Main Road, Romford
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Members 8: Quorum 3

COUNCILLORS:

Conservative Group (5)

David Grantham (C)
Frederick Thompson (V.C)
Gary Adams
Michael Armstrong
Eric Munday

Residents' Group (2)

Clarence Barrett
Steve Whittaker

Rainham Residents Group (1)

Mark Stewart

For information about the meeting please contact:
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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. MINUTES

To approve as a correct record the minutes of the Committee meeting held 03 March 2009 and to authorise the Chairman to sign them.

5. ANNUAL STATEMENT OF ACCOUNTS – report to follow

6. ANNUAL AUDIT LETTER – report attached

7. EXERNAL AUDIT FEE LETTER –report attached

8. EXTERNAL AUDIT PROGRESS REPORT – an oral report will be given

9. HOUSING BENEFIT FRAUD REPORT – report attached

10. INTERNAL AUDIT PROGRESS REPORT – report attached

11. ANNUAL INTERNAL AUDIT REPORT – report attached

12. URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Cheryl Coppel
Chief Executive

MINUTES OF A MEETING OF THE AUDIT COMMITTEE
Havering Town Hall, Romford
3 March 2009 (7.30pm – 9.20pm)

Present:

COUNCILLORS

Conservative Group David Grantham (in the Chair), Gary Adams, Michael Armstrong, Roger Ramsey, and Frederick Thompson.

Residents' Group Clarence Barrett

Apologies for absence were received from Councillor Andrew Mann and Nicholas Beth from the Audit Commission.

All decisions were made with no member voting against.

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

There were no declarations of interest

33. MINUTES

The minutes of the meeting held on 3 March 2009, were agreed as a correct record, subject to minor typographical changes, and subsequently signed by the Chairman.

34. 2007/08 GRANTS REPORT

In accordance with Section 28 of the Audit Commission Act 1998 the Audit Commission were required to certify claims and returns in respect of grants and subsidies paid by the government departments and public bodies to the Council. A fee was charged to cover the full cost of certifying the claims and was dependant on the level of work required to certify each claim or return.

The Audit Commission was continuing its commitment to reduce the burden of the grant audit work. The de minimis and threshold limits for grant certification work are as follows:

- For claims and returns below the de minimis of £100,000, the Commission did not make certification arrangements;

Audit Committee 21 April 2009

- For claims and returns between the de minimis and the threshold of £500,000, auditors undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure;
- For claims and returns over the threshold (>£500,000), auditors assessed the control environment for the preparation of the claim or return and decided whether or not to place reliance on it. Where reliance was placed on the control environment, auditors undertook limited tests to agree form entries to underlying records but did not undertake any testing of the eligibility of expenditure or data. Where reliance was not placed on the control environment, auditors undertook all the tests in the certification instruction and used their reassessment of the control environment to inform decisions on the level of testing required.
- For claims spanning more than one year, the financial limits above related to the amount claimed over the entire life of the claim and testing was applied accordingly. The approach impacted on the amount of grants work carried out, placing more emphasis on the high value claims.
- For the 2007/08 audit year, eight claims and returns were submitted for certification, compared to 12 in 2006/07.

All grants and returns had been submitted for audit by the Council in line with the deadlines set by the department or as agreed with the auditors.

Four of the claims required amendment, compared with five in 2006/07. All four of these claims had required amendment in 2006/07. Three of the claims were qualified compared to four in 2006/07, but two of the three claims were also qualified in 2006/07.

The Committee noted the contents of the report.

35. 2007/08 AUDIT REPORT OF GRANT CLAIMS AND RETURNS

The Chairman agreed pursuant to section 100B(4) of the Local Government Act 1972 that the Committee should consider the following as an urgent matter, in order to not delay the Council's response to the Audit Commission report.

Having considered the Audit Commission report the Committee considered their response in the light of officers' comments. With regard to the claim/return in respect of Housing and Council Tax Benefit the Committee **agreed** with the Audit Commission recommendations and noted the action proposed to ensure appropriate training is given.

In respect of the National Non Domestic Rates Return the Committee felt that the explanation given by officers was valid and **noted** that it was not possible to process all Valuation Officer Directives prior to 31 March because directives continue to be received up to 31 March. The Committee further **noted** that every endeavour would be taken to process as many as possible in the timescale.

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The Audit Commission had raised questions regarding the return for Disabled Facilities grants. Officers did not accept the Audit Commission's view as in their opinion the instructions, with regard to the treatment of expenditure originally approved in 2006/07 but actually incurred in 2007/08, were unclear. The Committee **noted** that in future the supporting financial information would be presented in a more understandable format.

Concerns regarding the claim for Housing Subsidy and Grants were addressed when officers agreed to take into account shared ownership HRA dwellings and dwellings owned for part of the year when calculating figures for cells relating to Rental Constraint Allowance. Agreement had been reached as to the method of calculating dwellings owned for part of the year and this method would be used for future claims. The Committee **noted** the steps taken by officers to deal with the recommendations from the Audit Commission.

The claim for HRA subsidy 2009/10 had not been qualified, but several amendments were required in relation to the inclusion and classification of dwellings before the claim could be certified. The Committee **noted** the officer's comments that the relevant guidance will be followed in the future.

Officers assured the Committee that there had been no loss of income as a result of these recommendations from the Audit Commission.

The Committee **noted** the report and the fact that whilst the overall cost of the audit had fallen the cost of auditing each individual claim had risen sharply.

36. INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

The Internal Audit Charter and Terms of Reference outlined the role of Internal Audit and how the audit service would fulfil this role. The review of the Charter had been slightly delayed to follow the review of the Audit Strategy. The Strategy outlined the means by which Internal Audit sought to achieve its stated aims and objectives. These objectives were linked to the goals and vision of the organisation.

In response to questions officers advised the Committee that Key Performance Indicators had been included they were derived from the Service Plan. Whilst there was no standard regarding indicators of performance, the Chairman and Internal Audit and Corporate Risk Manager had attended a training session which had helped firm up ideas. The main feeling from the training was that the key to a quality audit plan and service flexibility and the ability to adapt to meet managements' needs throughout the year.

The Committee agreed the revised document subject to a minor amendment to the order of contacts in paragraph 15.0 to ensure the Internal Audit & Corporate Risk Manager is shown above the Head of Finance and Performance.

Audit Committee 21 April 2009

37. INTERNAL AUDIT INTERIM PROGRESS REPORT

Six final reports had been issued since the last meeting, two of which were qualified.

The Committee noted that regular stock checks by the storeman and management spot checks were not being carried out. Immediate action had been required to remedy this. This slippage had arisen because a new system was being introduced. The Committee requested details of the cost of consumable parts which were now to be recharged to service areas.

The Committee expressed surprise that there was no up to date procedures manual in place in Council Tax, nor was there evidence that staff had been informed that they are not authorised to access the accounts of friends and relatives. Officers informed the Committee that the lack of evidence would not prevent disciplinary action if staff abused the system.

The Committee were advised that Council Tax staff were experienced in their roles. The problem was with the high number of agency staff in this area. The Committee asked that they be provided with the number and percentage of agency staff employed in Council Tax. They further requested that details of management's response to the recommendations be included in the wrap up report in June.

The Committee **noted** the report subject to the comments set out above.

38. ANNUAL REVIEW OF WHISTLE BLOWING ARRANGEMENTS

Officers advised the Committee that robust arrangements regarding Whistle Blowing, also known as 'Confidential Reporting', were key in maintaining effective governance arrangements within the Public Sector. It was a process used to "empower the honest majority" in the fight against fraud and corruption.

The review of the Council's Whistle Blowing arrangements was undertaken in March 2009, as planned, by the Internal Audit & Corporate Risk Manager.

London Borough of Havering had received 12 Whistle Blowing reports in the period April 2008 to March 2009.

The Committee noted that case T8laaa had been referred to the Housing Benefit Fraud team and that it was hoped the Council would be able to claim back benefit if the allegation was proven to be true.

With regard to the Blue Badge scheme the Committee were advised that the Council had gone through the reissue process this year and that information was shared across London. Work on the Blue Badge scheme was also carried out as part of the pro-active audit process and was regularly reviewed by the Environment OSC.

The Committee **noted** the report.

Audit Committee 21 April 2009

39. ANNUAL REPORT OF MONEY LAUNDERING ARRANGEMENTS

Officers stated that the Council had in place arrangements to reduce the risk of its services being exposed to Money Laundering, being party to terrorist financing or the recipient of the proceeds of organised crime generally. The arrangements were reviewed annually, but the Council was not considered, in legislation, to be an organisation at high risk of exposure to this activity. The obligations to the community were clear however and in the current economic climate the risks the organisation faced were increased.

Officers advised the Committee that although the cash office was now closed the expertise of those staff had not been lost, just spread across the organisation.

No money laundering reports had been received in 2008/09.

The following action plan had been drawn up for 2009/10:

Action Ref	Action	Responsible Officer	Target Date
1	Include reference to Proceeds of Crime within the 'E' fraud awareness package.	Money Laundering Reporting Officer (MLRO)	October 2009
2	Complete annual planned programme of awareness raising actions – prior to next review.	MLRO	March 2010
3	Complete surveys to gain assurance regarding awareness – to feed into next review.	MLRO	March 2010

The Committee:

1. noted the outcome of the 2008/09 annual review;
2. agreed the action plan; and
3. confirmed the on-going support for the arrangements in place.

40. ANNUAL REPORT OF AUDIT COMMITTEE

The Annual report for 2008/09 covered the following areas:

1. Background and management structure;
2. Audit committee coverage;
3. Key issues arising;
4. Effectiveness and training; and
5. 2009/10 forward plan.

Audit Committee 21 April 2009

In considering the report the Committee requested a number of minor amendments as follows:

- Amend para. 3 to read Audit Structure not the management structure;
- Correct spelling of Pricewaterhouse Coopers in para. 3;
- Amend fourth point of para. 4.3 to read 'reviewed and approved the annual accounts as well as the findings of the external auditors';
- Amend para. 5.2 to read ' Generally there is a good satisfaction with the Internal Audit Service and the method by which assurance is provided regarding internal controls';
- Include reference to the way the Audit Committee has driven the way in reports are done, improved the format and tilted the agenda;
- Include reference to the fact that provision has been made for the Audit Committee to sit down with the Internal Audit and Corporate Risk Manager without the presence of senior officers;
- Amend Appendix B to reflect that Sessions 5 and 6 have not yet been done.

The agreed the Annual Report subject to the above amendments for submission to the July Council meeting.

41. AUDIT INVESTIGATION

The Committee appointed Councillors Grantham and Barrett to serve on the Audit Investigation Panel.



MEETING	DATE	ITEM
AUDIT COMMITTEE	23 June 2009	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: Statement of Accounts 2008/09

SUMMARY

- 1.1 Under the code of accounting practice, the Statement of Accounts must be presented to the Council's relevant committee by the 30th June 2009.
- 1.2 The Statement of Accounts will be forwarded to members prior to the Committee meeting and are subject to audit at this stage.

RECOMMENDATIONS

That the Committee:

- 2.1 Consider the Statement of Accounts.
- 2.2 Note the key issues set out in the explanatory forward to the accounts
- 2.3 Receive and approve the Statement of Accounts.
- 2.4 Note that the accounts have been amended to reflect the changes introduced in the Statement of Recommended Practice (SORP) 2008.
- 2.5 Note the work taking place to continue to meet the requirements of the Whole of Government Accounts process.
- 2.6 Ask that the Chairman signs and dates the Statement of Accounts as required by the Accounts and Audit Regulations.
- 2.7 Note that a project plan has been produced in order to prepare for the introduction of under International Financial Accounting Standards for 2010/11.

REPORT DETAIL

- 3.1 The Statement of Accounts for 2008/09 is subject to audit by the Audit Commission's appointed Auditors, Price Waterhouse Coopers.
- 3.2 The Accounts and Audit Regulations 2003 require that the Chairman presiding at the meeting receiving the Statement of Accounts should sign and date the statement.
- 3.3 Copies of the published Statement will be distributed as normal and it will be published on the Council's website.
- 3.4 The Statement of Accounts is a public document and every year, as part of the annual audit, local government electors for the borough are given a period of four weeks to inspect the Council's accounts and supporting records. The dates for inspection are advertised in the local press.
- 3.5 Members of the Committee have previously been briefed on the Statement of Accounts, its purpose and the key issues arising. The key issues are also set out in the explanatory forward to the accounts.
- 3.6 The Statement of Accounts includes the following two statements which relate to the revenue out-turn of the Council.
- The Income and Expenditure Account; which contains the income and expenditure of the Council for the year and complies with Generally Accepted Accounting Practice (GAAP).
 - The Statement of Movement in General Fund Balance; which takes the deficit on the Income and Expenditure account and sets out the adjustments required by statute to be accounted for in raising council tax.

These two statements must be considered together when comparing the Council's performance to budget and the impact on the level of Council tax.

- 3.7 The Accounts have been amended to reflect any changes in the Statement of Recommended Practice (SORP) 2008 which sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts. For 2008/09 the changes are not significant.
- 3.8 The Council has put in place arrangements to meet the requirements of the Whole of Government Accounts (WGA) process which aims to amalgamate the accounts of all public bodies. The 2008/09 return will be based upon the audited accounts due to be completed by 30 September 2009.

3.9 In 2010/11 all Council's will be required to prepare accounts under International Financial Reporting Standards (IFRS). WGA accounting returns will be required in the IFRS format for 2009/10. Experience of their introduction in the private sector indicate that the lead in time for implementing these changes is significant. Finance staff have developed an initial project plan and will continue to report progress against the plan until the implantation is complete. The project plan is attached at appendix A.

4.0 **Financial Implications and risks:**

Production of the Council's accounts within the statutory deadline is a key objective for the Council and a key measure under the Use of Resources assessment. Approval of the accounts by this Committee therefore, meets these targets.

There are no financial implications or risks arising directly from the report.

5.0 **Legal Implications and risks:**

The consideration and signing of the accounts has to be carried out as part of the process to comply with the Councils' obligations to produce the accounts.

6.0 **Human Resources Implications and risks:**

None arising from this report.

7.0 **Equalities and Social Inclusion implications:**

None arising from this report.

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Cheryl Coppell
Chief Executive

Background Papers List

Working papers held within the Finance Sections.

APPENDIX A**International Financial Reporting Standards (IFRS)**

From 2010/11 the Council's Statement of Accounts will be prepared under an IFRS based Code of Practice on Local Authority Accounting. This is part of a wider public sector move to international standards.

The initiative is designed to promote comparability between both public and private sector organisations and between countries.

The draft code of practice is currently being written and it is not anticipated to be finalised for some time. The accounting changes required in some areas however, are likely to be fundamental and as such a robust planning process is required to ensure successful implementation.

Although formal reporting is not required until 2010/11, the Council's 2009/10 Statement of Accounts will need to be adjusted to enable comparators to be produced. Moreover, the Whole of Government Accounts are required to be produced on an IFRS basis a year earlier, in 2009/10. This will necessitate some limited preparatory work based on the Council's 2008/09 statements.

In this context some preparatory work has already been undertaken and a summary level project plan is set out below. This is subject to change as further guidance becomes available.

Throughout the process discussions with the external auditors will take place over the approach taken, assumptions made and any issues or difficulties that arise.

	Step	Dependency	Dates	Areas for Discussion with External Audit
1	Carry out high level impact assessment using information on CIPFA web site (and other resources where available) PFI Leases Tangible Assets Employee Benefits (e.g. Holiday Pay) Other Areas		As soon as possible; completion of this stage by May 2009 recommended	

2	Identify changes to accounting policies	In parallel with step 1	As soon as possible; completion of this stage by May 2009 recommended	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues / difficulties etc.
3	Identify key staff (finance, legal, property, HR, other) Asses whether resources adequate Allocate responsibilities Develop detailed project plan	Based on impact analysis in step 1	As soon as possible; completion of this stage by May 2009 recommended	
4	Key staff trained on IFRS transition		At an early opportunity, then ongoing throughout project	
5	Identify systems and procedural changes (including Chart of Accounts changes) required		March 2009 – end July 2009	
6	Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet and 2009/10 accounts		March 2009 – September 2009	
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in step 2	October 2009 to November 2009	
8	Obtain information required to restate 1 April 2009 balance sheet	Identified during step 6	March 2009 – September 2009	Corporate Finance Manager
9	Identify likely impact on budgets (if any)		March 2009 – September 2009	Financial Services Manager
10	Implement systems and procedural changes	Identified in step 5	July 2009 – January 2010	Corporate Finance Manager
11	Training for all relevant staff and members		Ongoing from July 2009	Financial Services Manager
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS	Obtained in step 7 & 8	September 2009 to December 2009	Corporate Finance Manager

13	Compile 2010/2011 and later budgets on IFRS balance sheet, taking into account changes to the final version of the Code and any other regulations proposed by government to mitigate the impact on General Fund / HRA	Impact from step 9	November 2009 to January 2010	Financial Services Manager
14	Testing of systems and procedural changes	Follows on from step 10	September 2009 to March 2010	Corporate Finance Manager
15	Prepare WGA on IFRS basis		June 2010 to August 2010	Corporate Support Accountant
16	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	See steps 6, 7, 8, 12	April 2010 to December 2010	Corporate Finance Manager
17	Produce 2010/2011 accounts on IFRS basis		April 2011 to June 2011	Corporate Finance Manager

London Borough of Havering
Statement of Accounts
For the Financial Year
2008/09

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London Borough of Havering

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Explanatory Foreword

1. Introduction from the Responsible Financial Officer

I am pleased to introduce the Council's Statement of Accounts for 2008/09. Havering Council is a large and wide ranging organisation whose goals are:

- To ensure a clean, safe and green borough;
- To achieve excellence in education and learning;
- To provide opportunities for all through economic social and cultural activity;
- To value and enhance the lives of every individual;
- To deliver high customer satisfaction and a stable Council Tax.

This publication incorporates all the financial statements and disclosures required by statute. These Statements are as follows:

- Income and Expenditure Account
- Statement of Movement in General Fund Balance
- Statement of Recognised Gains and Losses
- Balance Sheet
- Cash Flow Statement

- Housing Revenue Account
- Collection Fund
- Pension Fund

- Group Income and Expenditure Account
- A reconciliation of the Surplus/Deficit of the London Borough of Havering and the Group Surplus/Deficit
- Group Statement of Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement

The Group Accounts consolidate the results of Homes in Havering Limited, a private company limited by guarantee whose sole member is the London Borough of Havering. The company was formed to provide a housing management service to the Council with effect from 1st July 2006.

2. SORP 2008

The accounts have been prepared in accordance with the Code of Practice on Local Authority

Accounting in England and Wales. The Statement of Recommended Practice (SORP) 2008 sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts. In contrast to previous years the SORP 2008 requires only minimal changes to the presentational format of the accounts in 2008/09.

The Pension Fund Accounts have been amended in order to reflect the requirements of the Pension SORP 2007. This has resulted in changes in the basis of valuing pension funds assets and sets out additional disclosure requirements. The impact of the changes in valuation methodology are not material to the asset values disclosed in the accounts.

3. Review of 2008/09

There are few individuals or organisations that have remained unaffected by the impact of the global banking crisis and the resulting economic down-turn. The Council has not been immune to the impact.

I am pleased to report that the Council's overall financial performance remains strong despite the significant pressures placed upon it. The financial out-turn for the year was in line with the annual budget and remains consistent with long term financial plans. Whilst the downturn will continue to be felt for some time I believe that the Council is well placed to cope with the impact on both its operational activities and financial management.

a) impact of the economic downturn on financial disclosures

The economic downturn has raised a number of issues for the preparation of the Statement of Accounts for 2008/09. These include:

i) Asset Valuation

The asset values disclosed in the Balance Sheet are routinely revalued on the basis of a five year rolling programme. An additional valuation of the Council's Fixed Assets (including Land and Buildings) was carried out as at 31st March 2009 in order to consider their accuracy in the light of current economic conditions. Asset values as disclosed in the Balance Sheet are based upon their latest valuation in the five year programme together with any impairment identified in the 31 March 2009 valuation.

Financial Assets include deposits with financial institutions and sums owed by customers, clients, and council tax payers. The sums due as at the Balance Sheet date reflect realistic provisions for non payment in the light of current market conditions.

ii) Treasury Management

The Council's Treasury Management Policy is agreed annually at full Council in order to provide the framework for managing its investments and borrowing. Total investments currently stand at £103.5 million with borrowing at £46.3m. The global banking crisis led to a significant increase in the level of risk associated with making deposits with many financial institutions. The credit ratings applied by rating agencies have fallen so dramatically over the course of the year as to substantially reduce the number of institutions meeting the Council's lending criteria. I have sought to switch investments back into institutions which can demonstrate that they meet the Council's lending criteria as soon as the opportunity arises. However it is disappointing to note that deposits totalling £12.5 million were not repaid to the Council on their due date, in respect of two Icelandic banks now in administration. At the time of preparing these accounts the date and amount of the final settlement remains uncertain. Provisions have been raised in accordance with Government guidance and are reflected in the accounts.

iii) Pension Scheme

The impact of the downturn on global financial markets has had a significant impact upon the value of pension fund investments. The Council's accounts reflect an increase in the size of the pension fund liability as measured by the Council's actuaries as at the 31 March 2009.

b) Performance issues

The Havering element of the April 2008 Council Tax increase was held at 3.9% (as compared to Retail Price Index inflation of 3.8%); however the Council has continued to identify increased efficiencies which have enabled resources to be redirected to priority services.

Amongst the financial achievements of the year, it is particularly pleasing to note that:

- Overall financial performance was

consistent with longer term goals as set out in the medium term financial strategy and Corporate Plan. The level of general reserves has been maintained at £10 million as required by the strategy.

- The capital programme plays a key part in the Council's longer term strategy. Investment performance continues to support the delivery of the programme and capital slippage has been minimised through effective programme management.
- The Council has successfully implemented a Single Status agreement representing a significant achievement in achieving pay harmonisation. The costs associated with implementation have been reflected in the accounts for the year.
- The high level of market interest rates in the first half of the year enabled investment performance to exceed the annual target. However, interest rates have fallen dramatically during the second half of the financial year. The global banking crisis has also led to a shift in the pattern of investments as the Council, in common with most Councils, has sought to minimise risk and protect the value of its investments. This has led to a further erosion in investment returns. However, the full impact of this low interest environment will not be felt until 2009/10.
- I am pleased that the Council has once again been judged as performing well and awarded a three star rating (out of a possible four) by the Audit Commission as part of the Comprehensive Performance Assessment. It incorporates an assessment of our "use of resources" which has been judged as level three. The Council is judged to be performing well and consistently above minimum requirements in all categories of the "Use of Resources Assessment".
- The Council's performance in achieving "Value for Money" is recognised in the Comprehensive Performance Assessment.

4. Revenue Expenditure and Services Provided

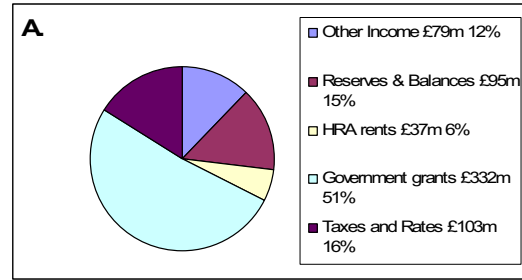
A. REVENUE FUNDING

The Council's total revenue spending (as set out in the Income and Expenditure account) is funded from various sources as illustrated on the right.

Taxes and rates comprise business rates and domestic council taxes.

Government grants include the Revenue Support Grant and specific grants.

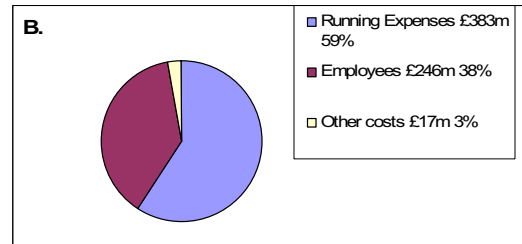
Other income includes fees and charges for services and bank interest.



B. REVENUE EXPENDITURE

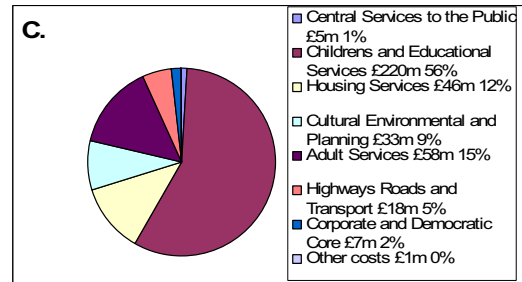
This chart shows the main categories of expenditure over all its services.

Running expenses include all maintenance of buildings, vehicles costs, purchases of supplies and services and net recharges between Council services. Employee costs account for 38% of total service expenditure.



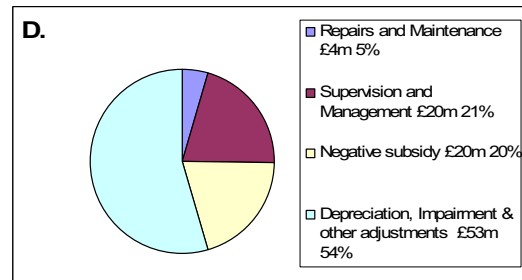
C. SERVICES PROVIDED

This chart shows the proportion of the Council's net expenditure on the different service areas (as shown in the Income and Expenditure account). Education spending is shown gross of Dedicated Schools Grant.



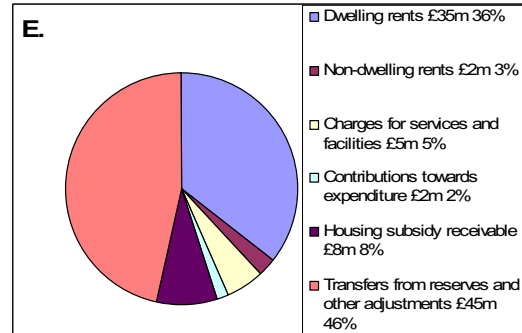
D. HOUSING REVENUE EXPENDITURE

This chart shows the main categories of expenditure within the Housing Revenue Account totalling £97m in 2008/09.



E. HOUSING REVENUE INCOME

This chart shows the main categories of income within the Housing Revenue Account totalling £97m which is used to fund HRA expenditure as set out in chart D.



5. The 2008/09 Budget

The main components of the General Fund Budget for 2008/09 and how they compare with actual income and expenditure are set out below.

	Original Budget	Outturn	Difference
	£'000	£'000	£'000
Total Budget	157,116	157,116	0
Financed by:			
Revenue Support Grant	6,556	6,556	0
NNDR	47,096	47,096	0
Collection fund surplus/(deficit)	(177)	(177)	0
Precept on the Collection Fund	103,641	103,641	0

Note: The precept on the Collection Fund is met from Council Tax and Business Rates. For more details see page 49 to the accounts.

6. Balance Sheet Liquidity Ratios

The following table shows the changes in key ratios as measured by movements in the opening and closing Balance Sheet. The results continue to indicate that the Council has a strong cash and liquidity position.

Description	Ratio as at 31.3.08	Ratio as at 31.3.09
Current Ratio	2.39	2.42
Quick Ratio	2.38	2.42
Cash Ratio	1.85	1.88

For an explanation of these liquidity ratios please refer to the glossary on page 65.

7. Capital

In 2008/09 the Council spent £49.8 million on capital projects. The main areas of capital expenditure were:

- £13.6m on the enhancement and improvements of Council dwellings;
- £13.4m on schools and other education facilities;
- £6.9m on roads, parking and lighting;
- £6.0m on libraries leisure and sports;
- £2.5m on public offices;
- £1.9m on IT software and other costs and

- £2.3m on capitalisation of revenue approved by Central Government
- £3.3m on grants for social housing and other improvements in the community.

Like most local authorities the Council has been financing a substantial level of its capital expenditure from the sale of assets. In 2008/09 £13.2m of capital expenditure was financed in this way. The balance of the funding requirement came from capital grants (£18.6m), loans (£4.4m), revenue contributions (£5.6m) and Major Repairs Allowance (£8.0m). Total long term loans outstanding owed to external lenders amounted to £45.0m. This sum should be viewed in relation to the Council's fixed assets, which have a net book value of £1,067m as at 31 March 2009.

7. Reserves and Balances

The General Fund working balance stood at £10 million (excluding schools balances) as at 31 March 2009 (£10 million as at 31 March 2008). Earmarked reserves and balances were increased by £8 million to £34 million.

8. Further Information

Further information about the accounts is available from:

Group Director Finance and Commerce
Town Hall
Romford
RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2008/09 the inspection period will take place between 17 July 2009 and 16 August 2009. These dates have been advertised in the local press.

Rita Greenwood, CPFA
Group Director Finance and Commerce
30 June 2009

E mail finance@haverinq.gov.uk
Website www.haverinq.gov.uk

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director Finance and Commerce
- Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Group Director Finance and Commerce's Responsibilities

The Group Director Finance and Commerce is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the code of practice").

In preparing the Statement of Accounts, the Group Director Finance and Commerce has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code of practice.

The Group Director Finance and Commerce has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents fairly the financial position and transactions of the Authority at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.

Councillor David Grantham
Chairman, Audit Committee
30 June 2009

Rita Greenwood
Group Director Finance and Commerce
30 June 2009

**Independent auditor's report to the
Members of the London Borough
of Havering**

Page 1 to be inserted here on completion of
the audit

**Independent auditor's report to the
Members of the London Borough
of Havering**

Page 2 to be inserted here on completion of
the audit

Income and Expenditure Account 2008/2009

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last financial year. It includes all day to day expenses and related income on an accruals basis as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2007-2008				2008-2009
Net		Notes	Expenditure	Income
Expenditure			£'000	£'000
£'000			£'000	£'000
4,274	Central Services to the Public		24,208	19,442
30,839	Cultural, Environmental and Planning		46,323	13,274
35,870	Children's and Education Services	13	270,058	197,372
17,999	Highways, Roads and Transport Services		23,149	4,603
2,508	Housing General Fund Services		70,664	69,086
35,645	Housing Revenue Account		96,797	51,796
50,087	Adult Social Services		75,622	18,006
156	Coroner's Court		172	0
7,293	Corporate and Democratic Core		6,789	94
5,054	Non Distributed Costs		87	0
189,725	Net Cost of Services		613,869	373,673
0	(Gains) or losses on the disposal of fixed assets			(5,466)
9,242	Levies counting as Havering expenditure	9		10,280
2,174	Interest payable and similar charges			2,486
0	Impairment of Financial Assets			3,212
4,552	Contribution of housing capital receipts to Government Pool			1,291
(7,086)	Interest and other investment income			(7,371)
8,080	Pensions interest cost and expected return on pensions assets	48		14,850
206,687	Net Operating Expenditure			259,478
(99,116)	Demand on Collection Fund			(103,641)
(500)	Collection Fund transfer for estimated (surplus)/deficit			177
795	Collection Fund provision for estimated deficit			0
(7,365)	Government Grants (not attributable to specific services)	14		(14,326)
(41,801)	Distribution from Non-Domestic Rate Pool			(47,096)
58,700	Net General Fund (Surplus)/ Deficit			94,592

Statement of Movement in General Fund Balance

The Income and Expenditure Account shows the Council's actual performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss of income to the Income and Expenditure account but is met from the useable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

The General Fund balance compares the Council's spending against council tax that it raised for the year taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the out-turn on the Income and Expenditure Account and the General Fund balance.

2007-2008		Note	2008-2009
£'000			£'000
58,700	Deficit for the year end on the Income and Expenditure account		94,592
(59,134)	Net additional amount required by statute and non-statutory proper accounting practices to be debited or (credited) to the General Fund Balance for the year	15	(95,374)
(434)	(Increase) / Reduction in General Fund balance for the year		(782)
(18,652)	General Fund balance brought forward		(19,086)
(19,086)	General Fund balance carried forward		(19,868)
9,058	Amount of General Fund balance held by schools under local management schemes and centrally held DSG balances	39	9,840
(10,028)	General Fund balance carried forward net of schools balances		(10,028)

Rita Greenwood
Group Director Finance and Commerce
30 June 2009

Statement of Total Recognised Gains and Losses

The Statement of Total Recognised Gains and Losses brings together all the recognised gains and losses of the Authority during the financial year.

2007/08 £'000		Note	2008/09 £'000
(58,700)	Surplus or (deficit) on the Income and Expenditure Account for the year		(94,592)
119,736	Surplus or (deficit) arising on the revaluation of fixed assets	34	3,044
19,820	Actuarial gains and (losses) on pension fund assets and liabilities	48	(92,260)
(1,514)	Increase or (decrease) in Collection Fund surplus	33	71
1,925	Creation of Financial Instruments Adjustment Account		0
64	Other gains and (losses) required to be included in the STRGL		0
81,331	Total recognised gains and (losses) for the year		(183,737)

A prior year adjustment of £0.9 million has arisen as a consequence of the change in the basis of valuing pension fund assets. This figure has the affect of increasing the actuarial loss on pension fund assets and liabilities. Further information on this matter is included in notes 48 and 49 to the accounts.

Balance Sheet as at 31st March 2009

The Balance Sheet reflects the Authority's position at the end of the year for all activities and services.

Balances relating to the Pension Fund and Trust Funds have been excluded.

31 st March 2008 £'000		Notes	31 st March 2009 £'000	£'000
	Fixed Assets			
1,045	Intangible Fixed Assets	17		800
	Tangible Fixed Assets:	16		
	Operational Assets			
612,069	- Council Dwellings			483,814
444,414	- Other Land and Buildings			501,819
7,847	- Vehicles, Plant and Equipment			5,844
44,738	- Infrastructure Assets			44,723
1,088	- Community Assets			1,085
33,056	Non-operational Assets			28,969
1,144,257	Total Fixed Assets			1,067,054
2,818	Long-term Debtors	24		2,382
1,147,075	Total Long-term Assets			1,069,436
	Current Assets			
290	- Stocks and Work in Progress			242
34,209	- Debtors (net of provision for bad debts)	26		33,885
103,115	- Investments (net of provision for losses)	23		103,472
14,882	- Cash in Hand	27		14,391
1,299,571	Total Assets			1,221,426
	Current Liabilities			
(8,309)	- Borrowing repayable within a year	23		(1,340)
(54,539)	- Creditors	30		(61,453)
(1,010)	- Cash Overdrawn	27		0
1,235,713	Total Assets Less Current Liabilities			1,158,633
(38,797)	Borrowing maturing in more than a year	23 & 28		(44,986)
(31,361)	Government grants-deferred	29		(32,835)
(10,442)	Unapplied Capital Grants & Contributions	29		(9,839)
(2,681)	Deferred Credits	25		(2,290)
(219,170)	Net Pensions Liability relating to defined pension schemes	48 & 49		(318,900)
(5,003)	Provisions	31		(5,261)
928,259	Total Assets Less Liabilities			744,522
109,076	Revaluation Reserve	34		108,964
965,794	Capital Adjustment Account	35		884,654
(1,700)	Financial Instruments Adjustment Account	36		(4,333)
27,873	Usable Capital Receipts	37		19,941
26	Major Repairs Reserve	33		134
25,978	Earmarked Reserves	38		34,043
19,785	General Reserves	39		20,811
1,831	Housing Revenue Account Balance	33		371
(1,234)	Collection Fund Balance	33 & 40		(1,163)
(219,170)	Pension Reserve	48		(318,900)
928,259	Total Net Worth			744,522

Rita Greenwood
Group Director Finance and Commerce
30 June 2009

Cash Flow Statement as at 31st March 2009

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2007/08 £'000		Note	2008/09 £'000	£'000
Revenue Activities				
218,273	Cash paid to and on behalf of employees		205,730	
244,678	Other operating cash payments		257,032	
24,315	Housing Benefit paid out		29,495	
59,356	National non-domestic rate payments to national pool		65,778	
26,807	Precept payments		27,322	
3,763	Payments to capital receipts pool		1,920	
577,192	Total Outflow			587,277
36,274	Rents (after rebates)		36,658	
109,007	Council tax receipts		113,916	
60,790	National non-domestic rate receipts		64,103	
41,801	National non-domestic rate receipts from national pool		47,096	
7,365	Revenue support grant		6,556	
66,755	DWP grant for benefits	57	76,739	
187,621	Other government grants	57	185,790	
51,709	Cash received for goods and services		54,323	
38,262	Other operating cash receipts		24,484	
599,584	Total Inflow			609,665
(22,392)	Revenue Activities Net Cash Flow	51		(22,388)
Returns on Investment and Servicing of Finance				
2,493	Interest paid & prepaid -premiums (outflow)		2,467	
(5,988)	Interest & discounts received (inflow)		(7,357)	
(3,495)	Net Cash Outflow (Inflow) from Servicing of Finance			(4,890)
Capital Activities				
41,620	Purchase of fixed assets (outflow)		44,328	
3,667	Other capital cash payments (outflow)		5,540	
(22,009)	Sale of fixed assets (inflow)		(6,586)	
(20,959)	Capital grants received (inflow)	58	(17,660)	
-	Other capital cash income (inflow)		-	
2,319				25,622
(23,568)	Net Cash (Inflow)/Outflow Before Financing	52		(1,656)
Management of Liquid Resources				
609,312	Short-term deposits made (outflow)		585,807	
(587,704)	Short-term deposits repaid (inflow)		(585,451)	
21,608	Net Increase/(decrease) in investments	53		356
Financing				
2,150	Repayments of loans & finance leases (outflow)		11,989	
(2,085)	New loans raised (inflow)		(11,208)	
65	Net (Inflow)/outflow from financing	54		781
(1,895)	Net Decrease in Cash	55		(519)

Notes to the Core Financial Statements

1. Building Control

£136,000 (£235,700 in 2007/08).

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the Building Control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non-chargeable activities. The net cost of this service is included in Cultural, Environmental and Planning Services.

	Charge -able	Non Charge- able	Total
	£000	£000	£000
Expenditure			
Employees	595	226	821
Premises	53	23	76
Transport	20	2	22
Supplies & Services	48	21	69
Central & Support Services	81	21	102
Income			
Building Regulation Charges	675	0	675
Miscellaneous	0	6	6
(Surplus)/Deficit for the year	122	287	409
2007/08	(62)	395	333

2. Agency Income & Expenditure

There were no agency activities in 2008/09 or 2007/08.

3. Local Authorities (Goods & Services) Act 1970

The Council is empowered by the Act to provide goods and services to other public bodies. Services provided by the Council to other bodies inside and outside the borough amounted to

4. Pooled Budget

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000 a partnership arrangement was established with the Havering Primary Care Trust. The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners. This includes integrated services and joint commissioning in relation to the provision of Health & Social Care Services for Adults with Learning Disabilities (LD) qualifying for such provision. Services can be provided to those clients either in borough or at their current location in the United Kingdom, depending on needs and circumstances.

In 2008/09 LBH contributed £12.1m to the pool arrangement out of a total pooled expenditure of £19.4m, the balance of £7.3m being provided by Havering Primary Care Trust. This includes the LD Development grant of £0.157m provided by Central Government, which in 2008/09 came directly to LBH. Other income contributing to LBH's work in this service area, including transport expenditure, is not formally part of the pool.

5. Publicity Account

Local Authorities are required by Section 5 (1) of the Local Government Act 1986 to keep a separate account of expenditure on publicity, including advertising for staff. The details of expenditure in 2008/09 relating to publicity are as follows:

	2008/09	2007/08
	£'000	£'000
Staff Advertising	657	484
Other publicity	288	370
	945	854

6. Members Allowances

Payments in the year were £1,152,890 including expenses (£1,130,302 in 2007/08). Additionally, payments to co-opted Members totalled £2,721 (£2,340 in 2007/08).

7. Employees' Remuneration

The number of employees (including teaching staff) whose remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000 were:

			2008/09			2007/08		
			Schools	Other	Total	Schools	Other	Total
£50,000	-	£59,999	122	60	182	101	60	161
£60,000	-	£69,999	53	30	83	53	21	74
£70,000	-	£79,999	18	4	22	12	4	16
£80,000	-	£89,999	2	7	9	1	10	11
£90,000	-	£99,999	4	6	10	4	6	10
£100,000	-	£109,999	2	1	3	1	-	1
£110,000	-	£119,999	-	-	-	-	2	2
£120,000	-	£129,999	-	2	2	-	-	-
£130,000	-	£139,999	-	1	1	-	1	1
£140,000	-	£149,999	-	-	-	-	-	-
£150,000	-	£159,999	-	-	-	-	2	2
£160,000	-	£169,999	-	1	1	-	-	-
			201	112	313	172	106	278

8. Audit Costs

The Council incurred the following fees relating to external audit and inspection:

	2008/09 £000	2007/08 £000
Fees payable to the Audit Commission with regard to external audit services carried out by appointed auditor (see note below)	429	350
Fees payable to the Audit Commission in respect of statutory inspection	27	27
Fees payable to the Audit Commission for the certification of grant claims and returns	99	110
Fees payable in respect of other services provided by the appointed auditor	2	0
	557	487

Note: Fees payable to the Audit Commission in 2008/09 with regard to external audit services include the sum of £87,000 paid to the Audit Commission for Audit work relating to the 2007/08 Audit. The fee paid to PriceWaterhouseCoopers relating to the 2008/09 audit is £342,450.

9. Levies Counting as Havering's Expenditure

Havering must pay levies to the following bodies:

	2008/09 £000	2007/08 £000
East London Waste Authority	9,461	8,556
Environment Agency		
- Thames	166	150
- Anglian	11	8
London Pensions Fund Authority	372	262
Lee Valley Regional Park	270	266
Total Levies	10,280	9,242

10. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Central Government has effective control over the general operations of the Council . It is responsible for providing the statutory framework within which it operates, provides the majority of funding in the form of grants and prescribes the terms of many of its transactions with other parties (e.g. housing benefits). Details of transactions with other Government departments are set out in the notes to the cashflow statement.

Information in respect of material transactions with related parties, not disclosed elsewhere in the Statement of Accounts, are as follows: -

2008/09	Payments by the Council £'000
London Borough of Havering Pension Fund	
Payment of employers pension contributions	18,046

Membership of other organisations:

Members, the Chief Executive, Group Directors and Heads of Service have made declarations of their interests in the following organisations, which in most cases relate to official Council appointments:

Payments by the Council	2008/09 £'000
Age Concern (Havering) Councillor June Alexander Councillor Steven Kelly Councillor Georgina Galpin chose Age Concern (Havering) as her appeal charity as Mayor in the municipal year to May 2008.	699
Connexions Councillor Paul Rochford Manager of Youth Services - alternate director	75
Crossroads (Havering) Councillor Georgina Galpin	467
East London Waste Authority (ELWA) Councillor Steven Kelly Councillor Barry Tebbutt	10,365

First Step Councillor Linda van den Hende	293
Havering Association for People with Disabilities Councillor Steven Kelly Councillor Patricia Mylod Councillor Linda Van den Hende	113
Havering College of Further & Higher Education Councillor Paul Rochford Councillor Geoff Starns	225
Havering Theatre Trust Councillor Michael Armstrong Councillor Wendy Brice-Thompson Councillor Andrew Curtin Councillor Gillian Ford Councillor Linda Hawthorn Councillor Ray Morgon Councillor Roger Ramsey Councillor Geoff Starns	506
Local Government Association Councillor Clarence Barrett Councillor Steven Kelly Councillor Eric Munday Councillor Michael White Councillor Andrew Curtin Councillor Michael Armstrong	68
London Assembly Councillor Roger Evans (Greater London Authority precept)	27,370
London Boroughs Grants Scheme Councillor Roger Ramsey	797
London Councils Councillor Michael Armstrong Councillor Andrew Curtin Councillor Peter Gardner Councillor Steven Kelly Councillor Andrew Mann Councillor Eric Munday Councillor Roger Ramsey Councillor Geoff Starns Councillor Barry Tebbutt Councillor Melvin Wallace Councillor Michael White	195

Councillor Michael White is a board member of the London Thames Gateway Development Corporation, which receives funding from the DCLG for delivery of economic regeneration in the Thames Gateway area. The Council made payments to London Thames Gateway of £41,000 in 2008/09.

Councillor Michael White represents the Council on the board of the Centre for Engineering and Manufacturing Excellence Ltd (CEME), a company limited by guarantee. CEME is one of the Council's regeneration and skills partners and the Council made payments to CEME of £373,000 in 2008/09. This includes payment of rent for accommodation for training and other purposes.

Councillor Michael Armstrong is a trustee of Cleanaway Havering Riverside Trust and Cleanaway Havering Riverside Maintenance Trust. The Trusts provide external funding to the Council for environmental and community projects.

11. Business Improvement Districts (BID)

The Council is the billing authority for the London Riverside Business Improvement District managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and to promote the interest of the business community within the BID. The Council collects a levy from business rate payers on behalf of the BID body.

	2008/09 £000	2007/08 £000
Bld Levy Income	(152)	(139)
Total expenditure	152	157
Deficit for the year	0	(18)
(Surplus) brought forward	0	0
(Transfer) from reserves	0	18
Surplus carried forward	0	0

12. Trading Accounts

	2008/09 Income £000	2008/09 Expenditure £000	2008/09 (Surplus)/ Deficit £000	2007/08 (Surplus)/ Deficit £000
a) Open Air Market – The Council operates an open air market three days a week	773	614	(159)	(286)
b) Other Trading Accounts				
Highways	3,748	3,787	39	(31)
Schools/Welfare Catering	4,474	4,792	318	208

The surplus and deficits from these trading accounts are included within the relevant service in the Income and Expenditure Account.

The following items relating to Schools / Welfare Catering are not included within the above table but are chargeable to the Income and Expenditure Account and General Fund Balance.

- a) A Revenue contribution to capital from the Catering service of £132,000.
- b) Single Status costs of £1,903,000.

13. Deployment of Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2008/09 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure	Individual Schools Budget	Totals
	£,000	£,000	£,000
Final DSG for 2008/09	13,791	133,616	147,407
Brought forward from 2007/08	0	0	0
Carry forward to 2009/10 agreed in advance	0	0	0
Agreed budget distribution for 2008/09	13,791	133,616	147,407
Actual Central Expenditure	12,139	0	12,139
Actual ISB deployed to Schools	0	133,616	133,616
Local Authority contribution for 2008/09	0		
Carry forward to 2009/10	1,652	0	1,652

14. Government Grants not attributable to Specific Services

	2008/09 £'000	2007/08 £'000
Revenue Support Grant	6,556	7,015
Area Based Grant	7,770	350
Total Government Grants not attributable to specific services	14,326	7,365

From 2008/09 a number of specific grants were replaced by an Area Based Grant (ABG). The ABG is a non ringfenced general grant for which no conditions are imposed as part of the grant determination thus ensuring full local control over how the funding is used. Specific grants had been required to be shown within the net cost of services (as income within the relevant service). ABG is required to be shown as a general grant below the net cost of services line.

15. Note of reconciling items for the Statement of Movement on the General Fund Balance

2007/08		2008/09
£'000		£'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	
(71,851)	Depreciation and Impairment of fixed assets	(113,383)
0	Impairment of Financial Assets	(2,772)
(2,729)	Excess of depreciation charged to the HRA over the Major Repairs Allowance element of Housing Subsidy	(651)
18,747	Government Grants Deferred amortisation matching depreciation and impairments	17,106
(1,279)	Revenue expenditure funded from capital under statute	(6,016)
0	Net gain on sale of fixed assets	5,466
149	Difference between the amounts debited /credited to the I and E account and amounts payable / receivable to be recognised under statutory provisions relating to premiums and discounts	139
(27,320)	Net charges made for retirement benefits in accordance with FRS17	(26,260)
(84,283)	Sub Total	(126,371)
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year	
940	Minimum revenue provision for capital financing	1,000
2,051	Capital expenditure charged in year to General Fund Balance	5,647
(4,552)	Transfer from useable capital receipts to meet payments to the Housing Capital Receipts Pool	(1,291)
19,180	Employers contributions payable to the pension fund and retirement pensions payable direct to pensioners	18,790
17,619	Sub Total	24,146
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund balance for the year	
(250)	Housing Revenue Account balance	(1,460)
7,780	Net transfer to or (from) earmarked reserves	8,311
7,530	Sub Total	6,851
(59,134)	Net Additional amount required to be credited to the General Fund Balance for the year	(95,374)

16. Movement in Tangible Fixed Assets 2008/09

a) Operational Fixed Assets

	Council Dwellings	Other land and buildings	Vehicles plant and equipment	Infra-structure assets	Community assets	Total Operational
	£000	£000	£000	£000	£000	£000
Net Book Value as at 31 March 2008	612,069	444,414	7,847	44,738	1,088	1,110,156
Revaluations	(119,108)	59,868				(59,240)
Additions	11,360	17,476	3,810	10,831	92	43,569
Disposals	(1,114)					(1,114)
Impairment	(11,360)	(11,068)	(2,498)	(7,391)	(92)	(32,409)
Depreciation	(8,033)	(8,871)	(3,315)	(3,455)	(3)	(23,677)
Net Book Value as at 31 March 2009	483,814	501,819	5,844	44,723	1,085	1,037,285

b) Non-operational Fixed Assets

	Investment Properties	Surplus Assets	Total
	£000	£000	£000
Net Book Value as at 31 March 2008	28,719	4,337	33,056
Revaluations	(1,147)	(2,940)	(4,087)
Net Book Value as at 31 March 2009	27,572	1,397	28,969

17. Movement in Intangible Fixed Assets 2008/09

	Intangible Fixed Assets Software & System Development
	£000
Balance at 1 April 2008	1,045
Capital Expenditure	767
Written off to revenue	(1,012)
Balance at 31 March 2009	800

18. Fixed Asset Valuation

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Property Strategy Manager, in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

Fixed Assets:	Council Dwellings	Other Land & Buildings	Comm-unity	Infra-structure	Vehicle, Plant, Machinery & Eqpt	Non-operation al Assets	Total Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historical cost	320	11,666	1,085	41,258	3,878	1	58,208
Valued at current value in:							
2008/2009	483,494	396,835		3,440	1,312	20,692	905,773
2007/2008		10,449		25	47	1,067	11,588
2006/2007		25,112				49	25,161
2005/2006		12,407				164	12,571
2004/2005		45,350			607	6,996	52,953
Net Book Value	483,814	501,819	1,085	44,723	5,844	28,969	1,066,254

19. Information on Assets Held

Fixed Assets owned by the Authority include the following:

	Number as at	
	31 March 2009	31 March 2008
Housing Property		
Council Dwellings	10,274	10,288
Housing Garages	2,817	2,817
Housing Commercial Property	307	307
Other Housing Property	119	119
Housing Surplus Property	0	1
General Fund Operational Buildings		
Central Administrative Offices	7	7
Social Services Homes & Offices	29	29
Indoor Sports Centres	4	4
Libraries & Arts Centres	11	11
Queens Theatre	1	1
Primary Schools	55	55
Secondary Schools	12	12
Special schools	3	3
Other Education Property	56	56
Depots & Nurseries	2	2
Surface Car Parks	25	25
Multi-storey Car Parks	1	1

Cemetery & Crematorium Buildings	5	5
Social Halls	13	13
Public Conveniences & Market	29	29
Refuse & Street Cleansing Buildings	4	4
Outdoor Recreation	56	56
GF Vehicles, Plant & Equipment	198	198
Infrastructure Assets		
Highways (km)	678	612
Street Lights	17,500	17,529
Community Assets		
Cemeteries & Crematorium Land	5 sites	5 sites
Parks Land	138 sites	138 sites
Allotment Land	28 sites	28 sites
Civic Regalia	11 items	11 items
Environmental Protection	9 sites	9 sites
Historic Buildings & Memorials	5 sites	5 sites
Non-operational Land & Buildings		
Commercial & Industrial	140	140
Surplus Property	17	17

There are also 2 foundation schools & 13 voluntary aided schools in the borough which are not owned by the Council and whose fixed assets are not included in this Balance Sheet.

20. Financing of Capital Expenditure & Movement in Capital Financing Requirement

The following statement shows how Havering's capital expenditure was financed and the consequent change in underlying borrowing:

Capital Expenditure	2008/09 £000	2007/08 £000
Operational Fixed Assets	43,569	44,088
Intangible Fixed Assets	766	714
Revenue expenditure funded from capital under statute	5,540	3,612
Total Capital Expenditure	49,875	48,414
Less financed from		
Capital Receipts	(13,222)	(13,056)
Major Repairs	(8,041)	(10,433)
Revenue Funds	(5,647)	(2,051)
Grants & Contributions	(18,580)	(18,089)
Increase in Need to Borrow Supported by Government	4,385	4,785

The following statement shows the make-up of Havering's Capital Financing Requirement under the Prudential Code:

Capital Financing Requirement	31 March 2009 £000	31 March 2008 £000
Tangible Fixed Assets	1,066,254	1,143,212
Intangible Fixed Assets	800	1,045
Revaluation Reserve	(108,964)	(109,076)
Capital Adjustment Account	(884,654)	(965,794)
Grants Deferred Account	(32,835)	(31,360)
Net Requirement	40,601	38,027

The following statement shows how Havering's Capital Financing Requirement under the Prudential Code changed:

Capital Financing Requirement	2008/09 £000	2007/08 £000
Balance at 1 April	38,027	34,182
ADD		
Supported borrowing	4,385	4,785
DEDUCT		
Minimum Revenue Provision	(1,000)	(940)
Capital creditors and other adjustments	(811)	0
Balance at 31st March	40,601	38,027

21. Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in the years 2009/10 to 2010/11.

	Commitment 31 March 2009 £000
General Fund	
Arts, Culture, Sport & Leisure	5,988
Roads, Footways and Bridges	3,478
Education Capital Schemes	17,493
Town Centre & Environmental Improvements	3,477
Office Accommodation, Equipment, ICT and Vehicles	5,853
Other Smaller GF Schemes	9,921
Total General Fund Commitments	46,210

	Commitment 31 March 2009 £000
Housing	
Double glazing & window replacement	0
Remedial structural & electrical works	1,500
Improvements for Sheltered Accommodation & Disabled	0
Central heating & energy efficiency	0
Other Small Housing Schemes	480
Total Housing Commitments	1,980
Total Capital Commitments	48,190

22. Leases

a) Finance Leases

There are currently no assets held under finance leases. There are no un-discharged obligations under finance leases.

b) Vehicle, Plant & Equipment Operating Leases

Operating lease rentals paid in the year amounted to £341,421 (2007/08 £474,730). Outstanding commitments under operating leases are as follows:

Year	Annual commitments
	£'000
2009/10	189
2010/11	6
2011/12	5
2012/13	5
2013/14	0
Later years	0

23. Financial Instruments

The SORP 2008 requires the fair value of each class of financial asset and liability to be disclosed in the notes to the Statement of Accounts, where this is different from the carrying amount stated in the Balance Sheet. Fair value is defined as the amount for which an asset could be exchanged or a liability settled. The fair value of the instruments is determined by calculating the Net Present Value of future cashflows, which provides an estimate of the value of payments in the future in today's terms.

	Nominal / Principal £'000	Fair Value £'000
Financial Assets		
Cash	4,743	4,743
Fixed Term Deposits	89,000	93,450
Icelandic Deposits	12,500	10,900
	106,243	109,093
Financial Liabilities		
Market Loan	7,000	6,418
Temporary Borrowing	1,340	1,340
PWLB Loans	37,986	41,909
	46,326	49,667

The fair value of Icelandic deposits has been calculated in accordance with the guidance issued in LAAP bulletin 82 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Financial instrument balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term	
	2008/09 £000	2007/08 £000
Financial Liabilities at amortised cost	44,986	38,797
Total Borrowings	44,986	38,797
Loans and Receivables	0	0
Total Investments	0	0

	Current	
	2008/09 £000	2007/08 £000
Financial Liabilities at amortised cost	1,340	8,309
Total Borrowings	1,340	8,309
Loans and Receivables	103,472	103,115
Total Investments	103,472	103,115

Financial instruments gains/losses

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities measured at amortised cost	
	2008/09 £000	2007/08 £000
Interest Expense	2,234	2,174
Interest payable and similar charges in Year	2,234	2,174

	Financial Assets Loans and Receivables	
	2008/09 £000	2007/08 £000
Interest Income	6,673	7,086
Interest and Investment Income in year	6,673	7,086

Fair value of Assets and Liabilities carried at Amortised Cost

Loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- for loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- no early repayment or impairment is recognised;
- The fair value of trade debtors and creditors is taken to be the invoiced or billed amount.

Details of carrying amount and fair value are shown below:

	Interest rates	Carrying Amount 31/3/09 £	Fair Value 31/3/09 £
	%		
PWLB debt	3.7% to 6.9%	37,986	41,909
Market Loan	3.6%	7,000	6,418
Temporary Borrowing		1,340	1,340
Total debt		46,326	49,667
Creditors		61,453	61,453
Total financial liabilities		107,779	111,120
Investments less than 1 year		103,472	109,093
Debtors		52,294	33,885
Total investment and receivables		155,766	142,978

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. SORP 2008 requires the fair value of each class of financial asset and liability to be disclosed in the Notes to the Statement of Accounts.

The purpose of this valuation is to enable the user to evaluate quantitatively the authority's financial position and performance.

Methodology and Assumptions

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain.

Discount rates used in NPV calculation

The rates used in this valuation were obtained from the market on 31st March 2009, using bid prices where applicable

Assumptions

It is noted that the following assumptions do not have a material effect on the fair value of the instrument:

- Interest is calculated using the most common market convention ACT/365
- Where interest is paid/received every 6 months on a day basis, the value of interest is rounded to 2 equal instalments
- For fixed term deposits it is assumed that interest is received on maturity, or annually if duration is greater than 1 year
- The interest value and date has not been adjusted where a relevant date occurs on a non working day

Explanation of differences between carrying and fair value

The Council's portfolio of loans includes a number of fixed rate loans which were taken out when interest rates were higher than those available for similar loans at the Balance Sheet date. Should the Council wish to settle these loans earlier than current terms, a premium or penalty charge will be payable to the lender. Conversely, where the Council has loans with rates lower than current market rates, earlier settlement of these will attract a discount. The net effect of these factors has resulted in a higher fair value amount for financial liabilities.

Nature and extent of risk arising from financial instruments

Key risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitment to make payments;
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

1. By formally adopting the requirement of the Code of Practice;
2. By approving annually in advance, prudential indicators for the following three years limiting:
 - the Council's overall borrowing;
 - its maximum and minimum exposure to fixed and variable rates;
 - its maximum and minimum exposure to the maturity structure of its debt;
 - its maximum annual exposure to investments beyond a year.
3. By approving an Investment Strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting meeting. These items are reported with the Annual Treasury Management Strategy which outlines the approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by the Director of Finance and Commerce. The Council maintains written principles for risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices. The Treasury Management Practices are a requirement of the Code of Practice and are regularly reviewed.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the procedures referred to above.

This risk is minimised through the Treasury Management Strategy Statement (TMSS) approved annually at Full Council. This requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria (i.e. as identified by credit rating agencies such as Fitch and Moody's). The TMSS also imposes a maximum sum to be invested with a financial institution located within each category. Whilst a great deal of reliance is placed on credit rating agencies the Council recognises that this must not form the sole basis for assessing Counterparty eligibility. Market intelligence is gathered from a variety of sources and is reviewed by officers. More details on the Council's strategy can be found in the TMSS.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The analysis shown on the following page summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience over the last five financial years, adjusted to reflect current market conditions:

	Amount at 31 March 2009	Historical experience of default	Estimated maximum exposure to default and uncollectability	Estimated maximum exposure at 31 March 2009
	£'000	%	%	£'000
Deposits with Banks and financial Institutions:				
Banks with a long term rating of AA- or higher	85,243	0%	0%	0
Banks with a long term rating of A- to A+	8,500	0%	0%	0
Banks with a long term rating below A-	9,728	9%	0%	0
Customers (Debtors)	52,294	3%	35%	18,409

No breaches of the Council's counterparty criteria occurred during the year and the Council does not expect any additional losses from non-performance by any of the counterparties in relation to deposits. The amount stated for customers excludes provision for bad debts.

The Council does not normally allow credit for its customers; however £21.5 of £52.3 million shown in the above table is past its due date and is in excess of one year in arrears. The Council actively pursues all debtors in accordance with its debt management policy and does not write debt off until it has exhausted all options for recovery. The Council regularly reviews its levels of debt, which includes considering the adequacy of its provision for bad debts. Amounts due from customers can be analysed by age as follows:

	2008/09 £'000
Less than three months	20,414
Less than six months	5,042
Six months to one year	5,302
More than one year	21,536
	52,294

During the year the Council held no collateral as security.

Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need and whilst the PWLB provides access to longer terms funds, it also acts as a lender of last resort to Councils. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures that sufficient monies are raised to cover annual

expenditure. There is therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy reports), as well as through cash flow management procedures required by the Code of Practice.

Re-financing and maturity risk

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing exposure to replacing financial instruments as they mature. This risk relates to the maturing of longer term financial liabilities.

The approved prudential indicator limits for the maturity structure of debt, and the limits on investments placed for greater than one year are key parameters used to address this risk. The Council approved Treasury and Investment Strategies address the main risks and the Finance and Performance Team address the operational risks within the approved parameters.

The maturity analysis of loans is as follows:

	2008/09 £'000
Less than one year	1,340
Between one and two years	0
Between two and five years	0
More than five years	44,986
	46,326

All other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance a rise in variable and fixed interest rates would have the following effects:

- borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowing at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise;
- Investments at fixed rates – the fair value of assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so normal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or the Statement of Recognised Gains and Losses. However, changes in interest payable and receivable on variable rate borrowings and investments, will be allocated to the Income and Expenditure Account and will effect the General Fund Balance.

The Annual Treasury Management Strategy brings together the Council’s prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposures. The Finance and Performance Team will monitor market and forecast interest rates within the year to adjust exposure appropriately.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2008/09 £'000
Increase in interest payable on variable borrowings	(15)
Increase in interest receivable on investments	1,288
Impact upon I and E account	1,273

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The Council does not invest in equity shares. It therefore has no exposure to risk arising from movement in prices.

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates

24. Long-term Debtors

These represent amounts owing to the Council but which are repayable over a period of time.

	31 March 2009 £'000	31 March 2008 £'000
Mortgages	1,575	1,957
Transferred Debt	680	683
Car Loans	104	137
Other	23	41
	2,382	2,818

25. Deferred Credits (Capital Receipts)

Under current legislation, the repayments of most loans or advances made by the authority are treated as capital receipts. The capital receipts that will arise from future repayments of the advances are included in this account. The balance in this account is not usable for new capital expenditure, but when the mortgages or loans are repaid, the deferred receipts are realised and are transferred from this account to the Usable Capital Receipts Reserve.

26. Analysis of Debtors and Payments in Advance

	31 March 2009 £'000	31 March 2008 £'000
Collection Fund Debtors		
Council Taxpayers	13,842	12,523
Business Rate Pool Contribution	0	0
Business Ratepayers	5,767	3,258
Other Debtors		
Government Departments	6,558	5,521
Housing	2,769	2,666
Capital Debtors	15	15
Sundry Debtors	20,687	24,533
	49,638	48,516
Less provision for doubtful debts		
Collection Fund	(10,164)	(8,850)
Other	(8,245)	(7,569)
	31,229	32,097
Payments in Advance	2,656	2,112
	33,885	34,209

27. Cash

a) Cash in hand (including schools) at the year end is as follows:-

	31 March 2009 £'000	31 March 2008 £'000
Schools – under the LMS Cheque book Scheme	12,749	13,347
Other	1,642	1,535
	14,391	14,882

28. Analysis of Long-term Loans by Maturity

	31 March 2009 £'000	31 March 2008 £'000
Maturing in:		
0 to 5 years	0	7,000
5 to 10 years	0	0
More than 10 years	44,986	38,797
	44,986	45,797

29. Government and Other Grants

a) Grants Unapplied

	2008/09 £'000	2007/08 £'000
Amounts received in year	17,660	20,959
Amounts applied to meet new capital investment	(18,263)	(17,888)
Brought forward	10,442	7,371
Carried forward	9,839	10,442

b) Grant Deferred

	2008/09 £'000	2007/08 £'000
Grants applied	18,580	18,089
Grants written down	(17,106)	(18,748)
Brought forward	31,361	32,020
Carried forward	32,835	31,361

Grants towards the cost of acquiring or improving fixed assets are transferred from the Grants Unapplied Account to the Grants Deferred Account when the related expenditure has been incurred.

30. Analysis of Creditors

	31 March 2009 £'000	31 March 2008 £'000
Collection Fund Creditors		
Income in Advance: -		
Council Taxpayers	4,468	4,059
Business Rates contributions to national pool	609	643
Business Ratepayers	1,821	1,633
	6,898	6,335
Other Creditors		
Central Government	7,736	6,500
HMRC	4,236	4,140
Pension Fund	7,999	6,673
Capital Creditors	8,103	8,095
Other Sundry Creditors	18,254	15,440
Income in Advance	8,227	7,356
	54,555	48,204
	61,453	54,539

The Council's insurers have advised the level of provision required to meet known claims and a transfer from the Insurance Reserve has been made to meet the cost of these claims.

	2008/09 £'000	2007/08 £'000
Balance at 1 April	4,209	4,858
Contributions	1,748	1,693
	5,957	6,551
Payment of Claims	(1,732)	(1,436)
	4,225	5,115
Transfer (to)/from revenue	241	(906)
Balance at 31 March	4,466	4,209

The Insurance Provision together with the Insurance Reserve total £8.6 m (£7.3m in 2007/08).

31. Provisions

	31 March 2009 £'000	31 March 2008 £'000
Collection Fund	795	795
Self insurance Provision	4,466	4,208
	5,261	5,003

a) Collection Fund

Provision has been set aside for the Council's contribution towards the Collection Fund deficit which arose in 2007/08; this will be utilised in 2009/10.

b) Self Insurance Provision

The Council's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Council's public and employer's liability, property and motor vehicle insurances. The excess levels were as follows:

	1 Jan 2009 £'000	1 Jan 2008 £'000
Public and Employer's Liability	145	140
Motor Vehicles	143	138
Property	50	50

32. Minimum Revenue Provision

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. The Council's policy is to charge 4% of the Capital Financing Requirement

The adjustment to achieve the required provision is included in the Statement of Movement in the General Fund Balance (see also note 15).

The details of the minimum revenue provision made are shown below:

	2008/09 £'000	2007/08 £'000
Non-housing – 4% of Adjusted Capital Financing Requirement	1,000	940
Minimum Revenue Provision	1,000	940
Charged as:		
General Fund depreciation	14,878	12,734
Impairment	0	0
Intangibles amortised	664	1,008
Revenue expenditure funded from capital under statute	5,540	270
Transfer to Capital Adjustment Account	(20,082)	(13,072)

33. Details of Movements on Reserves

Reserve	Balance 31 March 2008 £'000	Net Movement in Year £'000	Balance 31 March 2009 £'000	Purpose of Reserve	Further Detail of movements
Revaluation Reserve	109,076	(112)	108,964	Store of gains on revaluation of fixed assets since 1 April 2008	Note 34 to the core financial statements
Capital Adjustment Account	965,794	(81,140)	884,654	Store of capital resources set aside to meet past capital expenditure	Note 35 to the core financial statements
Financial Instruments Adjustment Account	(1,700)	(2,633)	(4,333)	Balancing account to allow for the differences in statutory requirements and proper accounting practice for borrowing and investments	Note 36 to the core financial statements
Useable Capital Receipts	27,873	(7,932)	19,941	Proceeds of Fixed Asset sales available to meet future capital expenditure	Note 37 to the core financial statements
Major Repairs Reserve	26	108	134	Resources available to meet future capital investment in Council houses	HRA statements page 44
Earmarked Reserves	25,978	8,065	34,043	Sums set aside from revenue to meet the future costs of specific projects or activities	Note 38 to the core financial statements
General Reserves	19,785	1,026	20,811	Resources available to meet non HRA services	Note 39 to the core financial statements
Housing Revenue Account	1,831	(1,460)	371	Resources available to meet future running costs for Council houses	HRA statements page 44
Collection Fund	(1,234)	71	(1,163)	Surplus/(Deficit) on fund to be carried forward for distribution in new year	Collection fund statements page 49
Pensions Reserve	(219,170)	(99,730)	(318,900)	Balancing account to allow inclusion of pension liability in the Balance Sheet	Notes 48 & 49 to the core financial statements
Total	928,259	(183,737)	744,522		

34. Revaluation Reserve

	2008/09 £,000	2007/08 £'000
Gain/(losses) on revaluation of fixed assets	3,044	119,736
Write out revaluation gains on disposal	0	(10,660)
Total increase (decrease) in unrealised capital value (a)	3,044	109,076
Transfer to Capital Adjustment Account (b)	(3,156)	0
Total movement in year (a+b)	(112)	109,076
Balance brought forward	109,076	0
Balance carried forward	108,964	109,076

35. Capital Adjustment Account

	2008/09 £,000	2007/08 £'000
Capital receipts set aside	13,222	13,056
Revenue resources set aside	(96,759)	(59,849)
Movement in major repairs reserve	(759)	(543)
Movement in year	(84,296)	(47,336)
Transfer from Revaluation Reserve	3,156	767,464
Balance brought forward from Capital Finance Account	965,794	245,666
Balance carried forward	884,654	965,794

36. Financial Instruments Adjustment Account

	2008/09 £'000	2007/08 £'000
Balance Brought Forward	(1,700)	0
Sums transferred from General Fund Balance	(3,212)	(1,925)
Write down of FIAA to I&E	579	225
Balance carried forward	(4,333)	(1,700)

37. Useable Capital Receipts

	2008/09 £'000	2007/08 £'000
Amounts received in year	6,586	22,009
Amount set aside in year	(13,222)	(13,056)
Total HRA receipts payable to National Pool	(1,291)	(4,552)
HRA Admin costs	(5)	(9)
Balance brought forward	27,873	23,481
Balance carried forward	19,941	27,873

38. Earmarked Revenue Reserves

The following earmarked reserves were maintained in 2008/09

		31 March 2008 £'000	Revenue transfers £'000	Other movements £'000	31 March 2009 £'000
Revenue Contributions for future Capital Schemes a)		2,741	(815)	30	1,956
Insurance Reserve b)		3,073	1,107	0	4,180
Strategic Projects Reserve c)		3,123	6,655	7,316	17,094
Standards Fund LEA Contribution d)		346	(14)	0	332
Health and Safety Reserve e)		503	(167)	0	336
Crematorium & Cemetery Funds f)		354	(4)	0	350
Reserve for Grant Repayment g)		402	0	(402)	0
IT Strategy Reserve h)		283	(283)	0	0
Realignment Reserve i)		450	(270)	0	180
LPSA Reserve j)		466	0	0	466
Capital bridge funding k)		1,000	0	0	1,000
Collection Fund l)		205	0	0	205
Debt Management initiatives m)		527	(183)	0	344
Property Management n)		415	(10)	0	405
Invest to Save o)		958	12	0	970
Single Status compensation p)		3,100	0	(3,100)	0
Benefit Service Improvements q)		0	0	552	552
HR upgrade r)		0	0	867	867
Legal Reserve s)		0	0	700	700
Other Reserves t)		8,032	2,037	(5,963)	4,106
		25,978	8,065	0	34,043

a) Revenue Contributions for Future Capital Expenditure

This reserve holds revenue contributions for capital schemes where expenditure will be incurred in the following financial year.

b) Insurance Reserve

In addition to the Insurance Provision (note 31b) the Council has established a reserve against incurred but not reported claims and for potential increases in known claims values.

c) Strategic Projects Reserve

This fund can be used in the funding of strategic projects within the Council's capital programme or revenue budget.

d) Standards Fund LEA Contribution

This reserve is to meet the Council's contribution for Standards Fund in order to maximise Government Grants to schools, which cover more than one financial year.

e) Health and Safety Reserve

This reserve has been set up in order to manage all the resources on health and safety initiatives across financial years.

f) Crematorium and Cemetery Funds

These funds have existed for many years to maintain cemeteries and to help finance improvements at the crematorium.

g) Reserve for grant repayment

This reserve was established for the possible repayment of grant.

h) Information Technology (IT) Strategy Reserve

This reserve has been set up for improvements to the Council's IT facilities as IT is a key area which service delivery often relies on.

i) Realignment reserve

This reserve was set up to fund the on-going costs of re-alignment.

j) LPSA reserve

A reserve set up to earmark funds received through the LPSA to finance future Council expenditure

k) Capital Bridge Funding

A reserve established to meet the short term funding requirements of high priority capital schemes.

l) Collection Fund

A reserve established in order to protect the authority against a deficit on the collection fund to be met in 2009/10.

m) Debt Management Initiatives

This reserve was set up in order to meet the one-off costs which will achieve improvements in future cashflow.

n) Property Management

This reserve was established to meet essential costs which are required to be met from revenue.

o) Invest to save

A reserve established to finance capital or one off revenue costs which will generate savings in future years.

p) Single Status Compensation

A reserve established to meet compensation payments arising from the planned implementation of single status arrangements. Single status has been implemented and the costs reflected in the financial year 2008/09. The reserve is no longer required.

q) Benefit Service Improvements

A reserve established in order to achieve service improvements for customers in the delivery of the benefit service.

r) HR upgrade

A reserve set up to assist with the funding of an upgrade to the HR system.

s) Legal reserve

A reserve established to meet the potential costs of litigation in claims made against or by the Council.

t) Other Reserves

These comprise a number of reserves established for specific purposes.

In addition to the earmarked reserves shown above, under the local management of schools any unspent delegated budgets are to remain available for use by schools in future years and must be earmarked by Local Education Authorities (LEAs) for this purpose.

39. General Reserves

(a) General Fund Balances excluding schools

	2008/09 £'000	2007/08 £'000
General Fund	10,028	10,028
General Reserves	943	699
	10,971	10,727

(b) Centrally held DSG balances

	2008/09 £'000	2007/08 £'000
Balance	2,504	0

(c) Schools Balances

	2008/09 £'000	2007/8 £'000
Balance at 1 April	7,153	8,363
Underspend on budgets		(860)
	7,153	7,503
Less balances due from/ (to) the Council	183	320
Balance at 31 March	7,336	7,823

Schools in the North Romford Area also operate as a consortium, using a separate bank account. Balances are treated in the same way as other schools balances.

Schools balances can be further analysed as follows: -

	2008/09 £'000	2007/08 £'000
Schools in surplus	6,572	7,440
Schools in deficit	(905)	(1,282)
Consortium and unallocated schools balances to carry forward	1,486	1,345
	7,153	7,503

There are 15 schools in deficit and 70 in surplus as at 31 March 2009.

40. Collection Fund Balance

The Council's share of the Collection Fund deficit

balance is £924,000 and the Greater London Authority's share is £236,000.

41. Contributions to/(from) Capital Reserves

An appropriation must be made between the Housing Revenue Account and the Major Repairs Reserve where the housing depreciation charge differs from the Major Repairs Allowance in the year.

A proportion of capital receipts from the sale of HRA assets must be paid to a Central Government pool. The contribution to the pool is recorded separately in the Income and Expenditure Account and a corresponding adjustment made in the General Fund Working Balance.

Where revenue resources are used to finance capital expenditure, this is recorded as an appropriation to the Income and Expenditure Account.

Capital grants written down to the Income and Expenditure Account are appropriated to the Capital Adjustment Account.

An adjustment must also be made with the Capital Adjustment Account in respect of the Minimum Revenue Provision (see note 32).

The transactions in 2008/09 were as follows:

	2008/09 £'000	2007/08 £'000
HRA Contribution to/(from) Major Repairs Reserve	(651)	(2,729)
Transfer from Usable Capital Receipts Reserve for Government Pooling	(1,291)	(4,552)
Contributions to/from Capital Financing Reserve		
Revenue Financing of Capital Expenditure		
- from General Fund	5,527	1,840
- from HRA	120	211
Capital Grants Release	17,106	18,748
Minimum Revenue Provision Adjusted	(20,082)	(13,072)
Net Contribution to/from Capital Reserves	729	446

42. Analysis of Net Assets Employed

	31 March 2009 £'000	31 March 2008 £'000
General Fund	236,054	298,357
HRA	508,468	629,902
	744,522	928,259

43. Contingent Liabilities**Employee related liabilities**

- There are 7 non equal pay complaints against the Council in Employment Tribunals, which are at various stages in the process. At this time it is not possible to assess the potential liability because it is either too early in the process or it is in respect of a claim where there is no limit of liability.
- No provision has yet been made in the accounts following various court rulings in relation to claims of former and present employees in respect of previous statutory exclusion from the Local Government Pension Scheme. It is clear that some cases must be conceded by the Council. If correctly conceded there will be no immediate lump sum liability as back dated payments of employer contributions will be taken into account in the next actuarial valuation of the respective pension funds. There would only be an immediate liability upon the Council if a claim was incorrectly conceded. There are currently no claims against the Council in respect of incorrectly conceded cases and due care is being taken in assessing whether or not claims should be conceded on the basis of the court ruling to guard against the risk of incurring liability for immediate lump sum payments.
- The Council has undertaken a review of its pay structure in accordance with the national agreement on single status agreed by public sector unions and employers in 1997. The scheme has been substantially completed and the costs charged in 2008/09. It is planned to meet the cost of any outstanding claims from within existing budgets and established reserves.

Other Liabilities

- The Council acts as guarantor to the Havering Theatre Trust Ltd (see note 46). However, the Council has received no notification to date which could result in it having to meet a liability.
- The Council may be required to meet the cost of legal fees in relation to potential litigation relating to a major trading standards case.
- There are currently two properties which are the subject of compulsory purchase notices under the Town and Country Planning Act. If each of these cases is upheld the Council will be forced to purchase the land at a value determined by the Secretary of State.
- There are two insurance claims against the Council in respect of damages allegedly caused by root action from trees which are the subject of tree preservation order. The two claims are for ££57,351 and £73,288 respectively.

44. Authorisation of Accounts for Issue

The accounts were authorised for issue by Rita Greenwood, Group Director, Finance and Commerce on 30 June 2009. No post balance sheet events were identified at that date.

45. Trust Funds

The Council acts as sole trustee for the following trust funds, which are not included in the Income and Expenditure Account or Balance Sheet.

	Richard Ballard Charity £	Lucas Children's Playsite Charity £
Balance 31 March 2008	6,500	151,166
Receipts	228	8,212
Payments	(228)	0
Balance 31 March 2009	6,500	159,378

The Richard Ballard Charity

Interest on the capital from the sale of two properties sold for a street widening scheme is used for highway repairs.

The Lucas Children's Play Charity

The income from this charity may be applied towards the provision, maintenance and improvements of childrens' playgrounds and equipment in the borough.

46. Havering Theatre Trust Limited

The Havering Theatre Trust Ltd is a non profit making registered charity which was set up many years ago to manage the Queen's Theatre and produce theatrical performances. For the purposes of the Local Authorities (Companies) Order 1995, the Theatre Trust is a controlled company of the Council limited by guarantee. There is no share capital.

The Council provides an annual grant towards the running costs of the Trust and a budget for the maintenance of the Theatre building, grounds and insurance. The Queen's Theatre remains in the Council's ownership and there is no lease or rent paid for the building.

The Trust employs a financial controller reporting to the Council of Management.

The Theatre Trust Council of Management comprises eighteen members, all of whom are appointed by the Council. The Chair of the Council of Management, who is not a Council officer, is also the Company Secretary.

The company accounts for the period 1 April 2007 to 31 March 2008 indicated that the company made a profit (after taxation) of £9,410 for the period ending 31 March 2008 (compared with a profit of £8,218 in 2006/07). Net assets at 31 March 2008 were £307,511 (£298,101 as at 31 March 2007). The accounts for 2008/09 are unavailable at this time and await publication.

The company continues to trade because the Council has guaranteed current and future debts. The company's accounts may be inspected at the Queen's Theatre, Billet Lane, Hornchurch. There have been no qualifications to the audit opinion by Clemence, Hoar Cummings of these accounts.

The Trust is not a group entity and their accounts do not require consolidation into the Council's Group Financial Statements.

47. Homes in Havering

Homes in Havering is a private company limited by guarantee under the Companies Act 1985. As such it has no share capital. The company's sole member is the London Borough of Havering.

The Company was formed to provide housing management services to the Council and its operations commenced on 1st July 2006. The Council pays the company a fee in accordance with a management agreement and any variations subsequently approved. This management fee amounted to £19.8 million in 2008/09.

The company made a profit on ordinary activities (after taxation) of £3.279 million for the period 1st April 2008 to 31st March 2009 (compared with a loss of £1.862 million for the period 1st April 2007 to 31 March 2008). Net Liabilities at 31st March 2009 were £4.472 million (£2.661 million at 31st March 2008). These results are consolidated within the Council's group accounts.

The company's accounts for 2008/09 remain subject to audit as at this time.

48. Pension Costs

As part of the terms and conditions of employment of its employees the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two pension schemes:

The Teachers' Pension Scheme for teachers – this is a national scheme administered by the Department for Children, Schools and Families (DCSF). The employer's pension cost charged to the accounts is fixed by the contribution rate set by DCSF on the basis of a notional fund.

The Local Government Pension Scheme for other employees which is administered by the Council. This is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Change of accounting policy

Under the 2008 SORP the Council has adopted the amendment to FRS 17, *Retirement benefits*. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value.

The effect of this change is that the value of scheme assets at 31 March 2008 has been restated from £314.5m to £313.6m, a decrease of £0.9m, resulting in an increase of the pension deficit of £0.9m. The Net Pensions Liability and Pensions Reserve as disclosed in the Balance Sheet as at 31 March 2008 have been re-stated accordingly.

Transactions relating to Retirement benefits

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Accounts and Statement of Movement in the General Fund Balance during the year.

	2008/09 £000	2007/08 £000
Net Cost of Services:		
Current service cost	11,410	14,910
Past service costs	0	4,330
Net Operating Expenditure:		
Interest cost	34,540	30,010
Expected return on pension fund assets	(21,100)	(21,930)
Sub Total (Funded Benefits)	24,850	27,320
Interest Cost on Unfunded Benefits	1,420	0
Net Charge to I and E	26,270	27,320
Movement in General Fund Balance		
Movement on Pension Fund Reserve	7,480	8,140
Actual amount charged against Council Tax for pensions in the year	18,790	19,180
Payments in Year		
Employer Contributions	17,300	17,130
Unfunded pension payments	1,490	2,050
Actual amount charged against Council Tax for pensions in the year	18,790	19,180

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £92.26 million (gain of £20.02 million 2007/08 as restated) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is £127.5 m.

49. Assets and Liabilities in relation to Retirement Benefits.

Reconciliation of Scheme Liabilities

Funded Liabilities	2008/09 £'000	2007/08 £'000
Opening Balance	511,210	544,290
Current Service Cost	11,410	14,910
Interest Cost	34,540	28,860
Contributions by Scheme Participants	5,210	4,710
Actuarial (Gains) / Losses	(12,280)	(66,070)
Benefits Paid	(23,280)	(19,820)
Past Service Costs	0	4,330
Closing Balance	526,810	511,210

Un-Funded Liabilities	2008/09 £'000	2007/08 £'000
Opening Balance	21,570	22,470
Interest cost	1,420	1,150
Actuarial (Gains) / Losses	200	(610)
Net Benefits paid out	(1,490)	(1,440)
Closing Balance	21,700	21,570

Reconciliation of fair value of the scheme assets:

Scheme Assets	2008/09 £,000	2007/08 £,000
Opening Balance	313,610	335,780
Expected Rate of Return	21,100	21,860
Actuarial Gains or (Losses)	(104,330)	(46,660)
Employer Contributions	17,300	17,740
Contributions by Scheme Participants	5,210	4,710
Benefits Paid	(23,280)	(19,820)
Closing Balance	229,610	313,610

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual loss on scheme assets in the year was £83.23 m (as compared with £24.80 m in 2007/08)

Scheme history

	2008/09 £'000	2007/08 £'000	2006/07 £'000	2005/06 £'000	2004/05 £'000
Present Value of Fund Liabilities	(526,810)	(511,210)	(544,290)	(478,420)	(434,270)
Fair Value of assets in the Scheme	229,610	313,610	335,780	323,180	268,310
Net Surplus/ (Deficit)	(297,200)	(197,600)	(208,510)	(155,240)	(165,960)

	2008/09 £'000	2007/08 £'000	2006/07 £'000	2005/06 £'000	2004/05 £'000
Present Value of Unfunded Liabilities	(21,700)	(21,570)	(22,470)	-	-

In accordance with paragraph 77(o) of FRS17 (as revised), the assets for the current period and the previous two periods are measured at current bid price. Asset values previously measured at mid-market value for the financial years 2006/07 and 2007/08 have been re-measured for this purpose. Asset values for the financial years 2004/05 and 2005/06 are shown at mid-market value and have not been re-measured as permitted by FRS17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £318.9m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a reduction in the overall balance from £1,064.3 m to £744.5 m, a reduction of 29.96%. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- finance is only required to be raised to cover unfunded pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2010 is £18.21million. In addition strain on fund contributions may be required. The Employer also expects to pay £1.57 million directly to beneficiaries in respect of unfunded benefits.

Basis of Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hewitt Bacon and Woodrow, the actuaries to the London Borough of Havering Pension Fund, have assessed the liabilities, with estimates being based on the latest full valuation of the schemes as at 31 March 2007. The latest actuarial valuation of unfunded LGPS benefits took place as at 31 March 2004.

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The main assumptions used in their calculations are as follows:

	31 March 2009	31 March 2008
Long-term expected rate of return on assets in the scheme:		
Equity Investments	7%	7.6%
Government bonds	4%	4.6%
Corporate bonds	5.8%	6.8%
Property	6.0%	6.6%
Cash/other	1.6%	6.0%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.6	21.7
Women	24.6	23.7
Longevity at 65 for future pensioners:		
Men	24.6	23.7
Women	26.8	24.9
Rate of inflation	3.3%	3.7%
Rate of increase in salaries	4.8%	5.2%
Rate of increase in pensions in payment	3.3%	3.7%
Rate of increase in deferred pensions	3.3%	3.7%
Discount Rate	6.7%	6.8%
Take-up of option to convert annual pension into retirement lump sum	75%	50%

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2009 £'000	31 March 2008 £'000
Equity Investment	50.1	53.1
Property	7.5	7.8
Government bonds	18.1	12.0
Corporate bonds	17.8	23.8
Cash/other	6.5	3.3
Total	100.0	100.0

History of Experience Gains and Losses

The actuarial gains / (losses) identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories:

	2008/09	2007/08	2006/07	2005/06	2004/05
	£,000	£,000	£,000	£,000	£,000
Experience gains / (losses) on Assets	(104,330)	(46,660)	930	43,690	4,110
Experience gains / (losses) on Funded Liabilities	(2,520)	(5,560)	(1,500)	(1,140)	(14,470)
Experience gains / (losses) on unfunded Liabilities	(0.27)	(0.15)	0	0	0

In accordance with paragraph 79 of FRS17 (as revised) unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. This disclosure note represents the history of liabilities and experience gain/ (loss) for periods ended 2008 and 2009. For periods ended 2007 and earlier unfunded liabilities are included in the disclosure note for funded benefits.

Teachers Pensions

Teachers employed by the Authority are members of the Teachers Pension scheme administered by the Department for Children Schools and Families. It provides teachers with defined benefits upon their retirement and the authority contributes towards these costs by making contributions based upon a percentage of member's personal salaries.

The Teachers Pension scheme is a defined benefit scheme, administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by Local Education Authorities (LEAs). However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In 2008/09 the Authority paid £10.8m (£10.5m 2007/08) to Teachers Pensions in respect of teachers pension contributions. This represented 13.5% of teachers' pensionable pay (13.5% in 2007/08). There were no contributions remaining payable at the end of the period.

The Authority is responsible for the costs of any additional benefits awarded upon early retirements outside the terms of the Teachers' scheme. These benefits are fully accrued in the pension's liability.

50. Schools PPP Scheme

On the 16 May 2003 the Council entered into a Public Private Partnership (PPP) with Johnson Control Systems Limited (the Provider) for the provision of an essential energy project at three secondary schools (Bower Park, Brittons and Hall Mead). The Provider is responsible for upgrading, managing and the maintenance of energy services and controls. This contract will last for 15 years.

The initial capital investment was £3.2m from the Council and £1.6m from the Provider. Completion of the capital investment (originally scheduled for 26 July 2004 for all three schools) was on 18 November 2005 for Hall Mead and 26 April 2005 for the other two schools. Payments to the contractor have therefore been made from these dates, with no consequential change to the end date of the contract.

The schools contribute from energy and management savings in their school budgets, and the remaining unitary charge costs are split with the Council reflecting the level of services provided through the contract and repayment of the private sector investment.

- The schools share of the unitary charge is met from their respective delegated budgets
- The LEA share of the unitary charge is met from a separate revenue budget established for the purpose.

The payments to the Provider may also vary by virtue of certain provisions within the contract. These primarily relate to:

- performance and availability deductions
- changes in law which affect the costs of the service
- variations in the contract which are approved by the Council .

In accordance with the Local Government SORP the Council has determined that there is no need to recognise the assets provided by the Provider under this contract in the Balance Sheet of the Authority during the term of this contract.

Analysis of Annual Revenue Costs arising from the Schools PPP						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011 onwards
	£'000	£'000	£'000	£'000	£'000	£'000
Bowers Park	64	42	128	65	66	549
Brittons	60	40	97	61	62	519
Hall Mead	70	61	110	71	72	603
LEA Share	75	67	66	78	78	656
Total	269	210	401	275	278	2,327

Notes relating to the Cashflow statement:

51. Reconciliation of Net (Surplus)/Deficit on the Income and Expenditure Account to Net Cash Inflow from Revenue Activities

	2008/09 £'000	2007/08 £'000
Net (surplus) / deficit on Income and Expenditure account	94,592	58,700
Collection Fund net (surplus)/deficit	(71)	1,514
Fund Balances	94,521	60,214
Interest	4,890	3,494
	99,411	63,708
Non cash Transactions:-		
Profit on sale of fixed assets	5,466	0
Depreciation, Amortisation and Impairment	(112,183)	(67,023)
Adjustment to pension costs for FRS17	(7,470)	(8,140)
Net contributions to/(from) provisions	(258)	(145)
(Increase) / decrease in revenue creditors	(6,914)	(3,490)
(Increase) / decrease in stocks	(49)	67
Increase/(decrease) in debtors	(391)	(7,369)
Revenue Activities Net Cash Flow	(22,388)	(22,392)

52. Movement in Net Debt

	As at 31 March 2009 £'000	As at 31 March 2008 £'000	Movement £'000
Liquid Resources	103,472	103,115	357
Borrowing & Finance	(46,326)	(47,106)	780
Net Cash Balances	14,391	13,872	519
	71,537	69,881	1,656

The net revenue and capital flows of cash and servicing of finance change the authority's net debt. This is represented by the movements in the

level of borrowing, investments and cash in hand or overdrawn shown below.

Full details of the Council's borrowing and lending activities are given in the Treasury Management Report on page 84.

53. Movement in Liquid Resources

	As at 31 March 2009 £'000	As at 31 March 2008 £'000	Movement £'000
Internally Managed	103,471	103,115	356
Externally Managed	0	0	0
	103,471	103,115	356

Havering's internally managed liquid resources consist of sterling deposits not exceeding 364 days with banks, other financial institutions and other local Authorities.

54. Movement in Borrowing & Finance Leases

	As at 31 March 2009 £'000	As at 31 March 2008 £'000	Movement £'000
Long-term Loans	(44,986)	(45,798)	812
Finance Leases	-	-	-
Short-term Loans	(1,340)	(1,309)	(31)
	(46,326)	(47,107)	781

55. Movement in Cash

	As at 31 March 2009 £'000	As at 31 March 2008 £'000	Movement £'000
Cash Deposits	14,391	14,882	(491)
Cash Overdrawn	0	(1,010)	1,010
	14,391	13,872	519

56. Reconciliation of Net Cash Flow to Movement in Net Debt

	2008/09 £'000	2007/08 £'000
Increase in Cash for period	519	1,895
Cash inflow from increase in debt	(11,208)	(2,085)
Cash outflow from decrease in debt	11,989	2,150
Cash inflow from decrease in short term investments	(585,451)	(587,704)
Cash outflow from increase in short term investments	585,807	609,312
	1,656	23,568
Net Debt brought forward	69,881	46,313
Net Debt carried forward	71,537	69,881
Short term investments	103,472	103,115
Long term borrowing	(44,986)	(38,797)
Short term borrowing	(1,340)	(8,309)
Cash (overdrawn)/in hand	14,391	13,872
Net Debt Carried forward	71,537	69,881

58. Analysis of Government & Other Grants & Contributions for Capital

	2008/09 £'000	2007/08 £'000
Department of Communities & Local Government	1,386	1,444
Department for Children, Schools & Families	9,489	9,025
Transport for London	2,196	4,257
National Lottery	954	863
Single Regeneration Budget	764	975
Department of Health	467	-
Other Public Authorities & European	1,315	1,138
Developers' & Other Private Sector Contributions	1,089	3,257
Total Capital Grants	17,660	20,959

57. Analysis of Government & Other Grants for Revenue

	2008/09 £'000	2007/08 £'000
Rent Allowances	28,181	23,149
HRA Rent Rebates	30,178	26,759
Council Tax Benefits	16,688	15,129
Revenues & Benefits	1,692	1,718
Housing Subsidies	(12,523)	(8,870)
Dedicated Schools Grant	147,407	141,703
Early Years	4,386	3,802
Adult Education	1,774	1,908
Education Support & Training	25,741	26,241
Supporting People	3,300	3,091
Older People Nursing & Residential	0	1,377
Connexions	0	1,465
Local Partnership / Local Area Agreements	0	4,124
Area Based Grant	8,574	0
Other Miscellaneous Grants	7,131	12,740
Total Revenue Grants	262,529	254,336

Housing Revenue Account Income and Expenditure Account 2008/09

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Council's housing stock. The Account is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

2007/08 £'000		Notes	2008/09 £'000
	Income		
33,861	Dwelling rents		34,508
2,462	Non-dwelling rents		2,335
4,807	Charges for services and facilities		5,262
1,653	Contributions towards expenditure		1,542
8,247	Housing subsidy receivable	7	8,149
51,030	Total Income		51,796
	Expenditure		
6,172	Repairs and maintenance		4,393
18,778	Supervision and management		20,179
518	Rents, rates, taxes and other charges		570
17,116	Negative subsidy payable to the Secretary of State	7	19,566
497	Increased provision for bad/doubtful debts		273
44,054	Depreciation and Impairment of tangible fixed assets	5	51,625
293	Intangible fixed assets amortised	6	48
(22)	Revenue expenditure funded from capital under statute amortised	6	141
54	Debt management		2
87,460	Total Expenditure		96,797
36,430	Net Cost of Services included in the I and E account		45,001
0	Net gain on HRA assets		(1,370)
645	Pensions interest cost and expected return on pension assets		1,002
77	Interest payable and similar charges		0
(425)	Interest and investment income		(184)
36,727	Deficit for the Year on HRA Services		44,449

Statement of Movement on the Housing Revenue Account
Balance 2008/09

2007/08 £'000		2008/09 £'000
36,727	(Surplus) or Deficit for the Year on the HRA Income & Expenditure Account	44,449
(36,477)	Net additional amount required by statute to be debited or (credited) to the HRA balance	(42,989)
250	(Increase) or decrease in the Housing Revenue Account Balance	1,460
(2,081)	Housing Revenue Account Balance brought forward	(1,831)
(1,831)	Housing Revenue Account Balance carried forward	(371)

Note to the Statement of Movement on the Housing Revenue
Account Balance 2008/09

2007/08 £'000	Notes	2008/09 £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance	
(33,349)	Depreciation and impairment of fixed assets	(43,015)
0	Gain or (loss) on fixed assets	1,370
0	Difference between the amounts debited /credited to the I and E account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts	29
(610)	Net charge made for retirement benefits in accordance with FRS17	(842)
(33,959)		(42,458)
	Items not included in the HRA Income and Expenditure Account but included from the movement in the HRA balance	
(2,729)	Net contribution from the major repairs reserve	(651)
211	Capital Expenditure funded by the HRA	120
(2,518)		(531)
(36,477)	Net additional amount required by statute to be debited or credited to the HRA balance	(42,989)

Notes to the Housing Revenue Account

1. Information on Housing Fixed Assets

a) Number of Dwellings

	2008/09 Number	2007/08 Number
Flats		
1 bedroom	3,184	3,188
2 bedrooms	2,415	2,417
3 bedrooms	392	392
4 or more bedrooms	20	20
Houses		
1 bedroom	411	411
2 bedrooms	1,209	1,213
3 bedroom	2,503	2,512
4 or more bedrooms	140	135
	10,274	10,288

In addition to the stock above, 5 hostels providing 84 units of accommodation are owned by the Council and accounted for in the HRA. There are also 5 properties in which the Council has a 50% shared ownership.

b) Balance sheet value of HRA tangible fixed assets

	2008/09 £'000	2007/08 £'000
Operational		
Dwellings	483,814	612,069
Other Land & Buildings	15,144	15,638
Equipment	44	100
Infrastructure	3,798	4,116
	502,800	631,923
Non-operational		
Investment Properties	20,438	22,115
	20,438	22,115
Total Tangible Fixed Assets	523,238	654,038

1. Valuation of Council dwellings at year end

	2008/09 £'000	2007/08 £'000
Vacant possession value	1,307,605	1,654,241
Excess of vacant possession value over balance sheet value	823,791	1,042,172

The difference between the vacant possession value of HRA dwellings shown here and the balance sheet value of the dwellings shown in note 1(b) is a measure of the cost to Government of providing council housing at less than market rents.

2. Movement on Major Repairs Reserve

	2008/09 £'000	2007/08 £'000
Total depreciation from Capital Adjustment Account	8,800	10,976
Net contribution (to)/from HRA for difference between Major Repairs Allowance and depreciation	(651)	(2,729)
Net Income equal to Major Repairs Allowance	8,149	8,247
Capital expenditure on HRA capital assets:		
Dwellings	8,041	9,418
Other Land & Buildings	0	1,044
Equipment	0	(2)
Infrastructure	0	(26)
Total Capital Expenditure	8,041	10,434
Balance brought forward at start of year	26	2,213
Balance carried forward at end of year	134	26

3. a) Total Capital Expenditure & Funding

	2008/09 £'000	2007/08 £'000
Capital expenditure on HRA property & other assets:		
Dwellings	11,360	10,367
Other Land & Buildings	1,268	1,381
Equipment	182	160
Infrastructure	684	1,260
Revenue expenditure funded from capital under statute and Intangibles	144	63
Total Expenditure	13,638	13,231
Financed from:		
Borrowing	2,114	1,973
Major Repairs Reserve	8,041	10,433
Grants & Contributions	3	94
Revenue Contributions	120	211
Capital Receipts	3,360	520
Total Funding	13,638	13,231

b) HRA Capital Receipts

	2008/09	2007/08
Right to Buy Sales	1,725	5,998
Other Property Sales	893	2,469
Other Receipts	0	643
Total Cash Receipts	2,618	9,110
Transferred for Pooling	(1,291)	(4,552)
Total New Usable	1,327	4,558

5. Depreciation & Impairment Charge

The depreciation charged to the HRA breaks down as follows:

	2008/09 £'000	2007/08 £'000
Dwellings	8,033	10,264
Other Buildings	391	278
Equipment	57	101
Infrastructure	318	319
Surplus Property	0	14
Total HRA depreciation	8,799	10,976
Impairment charge to HRA I&E	42,826	33,078
Total HRA depreciation	51,625	44,054

6. Amortisation of Revenue expenditure funded from capital under statute & Intangible Fixed Assets

	2008/09 £'000	2007/08 £'000
Mobility Grants & Other Revenue expenditure funded from capital under statute	141	(22)
Computer Software - Intangible Assets	48	293
Total Amortised	189	271

Revenue expenditure funded from capital under statute arises where capital expenditure is incurred but no physical asset is created in Havering's ownership. Revenue expenditure funded from capital under statute is written off in the year it is incurred. The purchase of software licences and associated costs are treated as intangible fixed assets and written off over an appropriate period, currently a maximum of 5 years.

7. Housing Revenue Account Subsidy Payable

	2008/09 £'000	2007/08 £'000
Allowances:		
Management & maintenance	18,258	18,334
Others	919	883
Guide line rent	(38,783)	(38,093)
Rent Constraint Allowance	0	1,752
Prior years adjustments	40	8
Sub-total subsidy payable	(19,566)	(17,116)
Major repairs	8,149	8,247
Sub-total subsidy receivable	8,149	8,247
Total subsidy payable	(11,417)	(8,869)

8. Rent Income, Arrears & Bad Debts

	2008/09	2007/08
Average weekly rent (including service charges unpooled)	£69.70	£65.16
The increase in average weekly rents was 6.97%.		
	2008/09 £'000	2007/08 £'000
Rent arrears at 31 March	2,211	2,178
Bad debts provision at 31 March	1,539	1,573

9. HRA contribution to the Pension Reserve

Under FRS 17 the pension amount charged to each Council service is the amount of pension benefit earned in the year, as determined by the actuary. This replaces the cash contributions made by services to the Pension Fund. This principle has been applied to the HRA. In addition the HRA has been charged with its share of the pension interest cost and the return on pension assets, and these together with the change in service costs have been matched by a transfer to the HRA balance from the Pension Reserve such that the net outturn on the HRA is not altered by these accounting adjustments.

Collection Fund 2008/2009

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Authority's main Accounts. The Accounts have been prepared on an accruals basis except in respect of sums due to or from the General Fund and the Greater London Authority for their shares of surpluses and deficits.

Income and Expenditure Account

2007/08 £'000		Note	2008/09 £'000
Income			
110,965	Income from Council Taxpayers	1	115,611
	Transfers from General Fund		
15,935	Council Tax benefit		16,721
33	Prompt payment discounts		33
(6)	Transitional relief		(4)
60,971	Income collectable from Business Rates	2	66,462
3	Income from Community Charge Adjustments		0
187,901	Total Income		198,823
Expenditure			
125,791	Precepts & Demands	3	131,011
632	Distribution of previous year's Council Tax surplus/(deficit)		(225)
	Business Rates		
60,688	Payment to National Pool		66,176
283	Cost of Collection		286
	Bad and doubtful debts provision		
887	Write-offs		784
1,134	Provisions		719
189,415	Total Expenditure		198,751
(1,514)	Movement in fund balance		71
280	Net surplus (deficit) at start of year		(1,234)
(1,234)	Net surplus (deficit) carried forward		(1,163)

Notes to the Collection Fund Accounts

1. Income from Council Tax

The Local Government Finance Act 1992 abolished the Community Charge and established the Council Tax. This Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of Council Tax in 2008/09 at £1,483 for band D properties. The number of band D equivalent properties in each band making up the Council Tax base were as follows:

Band	Number of Band D Equivalent Properties
A1	2
A	2,890
B	6,257
C	19,285
D	30,981
E	16,703
F	8,391
G	4,729
H	449
Allowance for losses in collection 1.5%	(1,345)
Tax Base	88,342

2. Income from Business Rates

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values (£158.4 million at 31 March 2009 and £159.3 million at 31 March 2008) multiplied by uniform rates for large and small businesses. In 2008/09 the rate was 46.2p for large businesses (44.4p in 2007/08) and 45.8p for small (44.1p in 2007/08). The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government. Under these arrangements the amounts included in these Accounts can be analysed as follows:

	2008/09 £'000	2007/08 £'000
Gross NNDR due in year	70,039	64,003
Less: allowances and other adjustments	(3,577)	(3,032)
	66,462	60,971

3. Precepts & Demands

The Collection Fund is required to meet in full the precept of the precepting Authority and the demand of the billing Authority. Details are as follows:

	2008/09 £'000	2007/08 £'000
London Borough of Havering	103,641	99,116
Greater London Authority	27,370	26,675
	131,011	125,791

Pension Fund

Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2006; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. Civil partners are now recognised as having the same benefit rights as member's spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

Membership

The membership of the Pension Fund is as follows:

	As at 31 March 2009	As at 31 March 2008
Contributors	5,723	5,803
Deferred pensioners	3,463	3,094
Pensioners and Dependants	4,746	4,587

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies

Havering College of Further Education
Havering Sixth Form College
Homes in Havering

Admitted Bodies

Havering Citizens Advice Bureau
Morrisons (formerly AWG)
May Gurney
Catering for Education (in liquidation from Aug 08)
Sports & Leisure Management Ltd
KGB Cleaners

Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and each year publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commerce supports the Pensions Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pensions administration.

Havering Pension Fund appointed five fund managers in February 2005 with specific investment mandates. A review of the funds investment strategy took place during the summer of 2008. The main change resulted in the fund aiming to reduce its asset allocation to Bonds and increase its allocation to Equities. The mandate with the Global Bond' Manager was therefore terminated in August 2008. Given that markets have seen unprecedented volatility and market falls during 2008 some of the intended restructuring has yet to be implemented. During the forthcoming year the markets will continue to be monitored with the aim of fulfilling the Fund's long term strategy.

The fund managers and the market value of assets under their management at the 31st March 2009 were as follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	70,216	29.08
Alliance Bernstein	Global Equities	65,000	26.92
Royal London	Investment Grade Bonds	87,910	36.41
UBS	Property	18,196	7.54
	Sub total	241,322	99.95
	Other	116	0.05
	Total Fund	241,438	100.00

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of the Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2008/09, the overall return on the Fund's investments was -25.4% (2007/08 -5.9%). This represented an underperformance of -8.0% against the tactical benchmark (2007/08 -3.6%) and an underperformance of -33.1% against the strategic benchmark (2007/08 -13.0%).

During 2008 there has been unprecedented volatility in financial markets in the wake of the credit crunch and economic downturn. Stock market values have fallen dramatically over the year which has been reflected in the disappointing performance of the Fund.

Main detractors from performance for 2008/09 were attributable to stock selection in UK and Overseas Equities.

The longer term performance is as follows:

	3 years to 31.3.09 %	5 years to 31.3.09 %
Fund return	(9.3)	0.4
Tactical Benchmark	(5.8)	2.3
Difference (performance)	(3.7)	(1.9)

Fund return	(9.3)	0.4
Strategic benchmark	7.1	9.4
Difference (performance)	(15.3)	(8.2)

Amounts may not sum due to method of calculation and roundings.

Pension Fund Account for the year ended 31st March 2009

2007/08 £'000		Note	2008/09 £'000
Contributions and benefits			
24,963	Contributions receivable	3	26,547
4,178	Transfers in	4	1,189
29,141			27,736
(22,719)	Benefits payable	5	(23,720)
(1,660)	Leavers	6	(1,347)
(580)	Administration	7	(542)
(24,959)			(25,609)
4,182	Net additions (withdrawals) from dealings with members		2,127
Returns on Investments			
(1,153)	Investment management expenses	8	(1,185)
(31,955)	Change in market value of investments	9	(98,151)
11,686	Investment income	10	10,953
21,422	Net returns on investments		(88,383)
(17,240)	Net increase/ (decrease) in the Fund during the year		(86,256)
366,148	Net assets of the scheme at start of year		348,908
348,908	Net assets of the scheme at end of year		262,652

Net Asset Statement			
31 March 2008 £'000		Note	31 March 2009 £'000
349,054	Investment assets	11	262,624
329	Current assets	12	326
(475)	Current liabilities	13	(298)
348,908	Net assets of the scheme at end of year		262,652

I certify that the Pension Fund Account and Net Assets Statements fairly present the income and expenditure in 2008/09 and the Pension Fund's financial position as at 31st March 2009.

Rita Greenwood, CPFA
Group Director Finance and Commerce
Date 30 June 2009

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the auditor) Regulations 1996, and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

2. Accounting Policies

The Financial Statements summarise the transactions of the scheme and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is shown within notes 48 & 49 and these Financial Statements should be read in conjunction with them.

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Normal contributions are recognised when they are deducted from payroll for employee contributions. Employer contributions are recognised on the same basis. Employer augmentations are recognised in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis.

Investments are valued at the bid price at the year end date with any surplus or deficit on valuation being debited/ credited to the Fund account. The comparative figures for investments are shown at their mid-market value as stated in the previous year's financial statements. The comparative figures have not been restated at the bid price on the grounds that the difference in the valuation overall is immaterial. Any adjustment to the values would be reflected in the change in market value.

Future contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.

Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

A proportion of relevant officers' salary costs, including related on costs, has been charged to the Fund.

3. Contributions Receivable

2008/09	Employees £'000	Employers £'000	Total £'000
Havering Special Contribution	5,289	17,393 *653	22,682 653
Scheduled bodies Admitted bodies	661 186	1,780 585	2,441 771
	**6,136	20,411	26,547

2007/08	Employees £'000	Employers £'000	Total £'000
Havering Special Contribution	4,702	16,595 *587	21,297 587
Scheduled bodies Admitted bodies	590 180	1,721 588	2,311 768
	**5,472	19,491	24,963

* The special contribution of £653m (£587m 07/08) is in respect of early retirements.

**This includes £150,974 (£119,000 07/08) of additional contributions by employees who purchase added years.

Note: Some employees made additional voluntary contributions (AVC's) of £66,827 (£77,130 07/08) excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2008/09 were £58,545 to the Prudential and £8,282 to Standard Life.

4. Transfers In

	2008/09 £'000	2007/08 £'000
Individual transfers from other schemes	1,189	4,178

5. Benefits Payable

2008/09	Pensions £000	Lump Sums £'000	Total £'000
Havering Scheduled Bodies Admitted Bodies	19,134 219 63	4,064 240 0	23,198 459 63
	19,416	4,304	23,720

2007/08	Pensions £000	Lump Sums £'000	Total £'000
Havering Scheduled Bodies Admitted Bodies	18,272 189 53	3,867 221 117	22,139 410 170
	18,514	4,205	22,719

6. Payments To and On Account of Leavers

	2008/09 £'000	2007/08 £'000
Refunds to members	2	1
Individual transfers out to other schemes	1,345	1,659
	1,347	1,660

7. Administrative expenses

	2008/09 £'000	2007/08 £'000
Administration & Processing	476	461
Actuarial fees	10	107
Audit fees	38	0
Other fees	7	0
Other costs	11	12
	542	580

8. Investment Management Expenses

	2008/09 £'000	2007/08 £'000
Administration Management and custody Performance measurement services Other Advisory Fees	1,089 11 85	1,105 11 37
	1,185	1,153

9. Investments

	Value at 31 March 2008 £'000	Purchases at cost and derivative payments £'000	Sales Proceeds and derivative receipts £'000	Change in Market Value £'000	Cash Movement £'000	Value at 31 March 2009 £'000
Equities	173,177	116,548	(92,259)	(73,129)	0	124,337
Derivatives	170	4,290	(4,290)	(62)		108
Fixed interest Securities	64,855	129,214	(127,532)	(9,325)	0	57,212
Index-linked Securities	29,865	48,702	(48,577)	(1,088)	0	28,902
Pooled Investment Vehicles	65,171	4,180	(28,464)	(14,464)	0	26,423
Cash instruments	5	22,548	(22,055)	0	0	498
Cash deposits (fund managers)	4,975	0	0	(62)	(860)	4,052
	338,218	325,482	(323,177)	(98,130)	(860)	241,532
Other Investment Balances	4,163	0	0	(21)	(2,349)	1,793
Cash deposits (banks)	0	0	0	0	11,300	11,300
Short term investments	6,673	0	0	0	1,326	7,999
	349,054	325,482	(323,177)	(98,151)	9,416	262,624

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and due to the transfer of assets during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by Fund Managers amounted to £431,117 (2007/08 £403,902). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

10. Investment Income

	2008/09 £'000	2007/08 £'000
Income from Fixed Interest Securities	4,276	4,345
Dividends from equities	6,145	5,937
Income from pooled vehicles	1,116	1,692
Cash & Deposits	527	363
Other	75	0
Other Income		
Foreign Exchange Profits/(Losses)	(1,186)	(651)
Total Income	10,953	11,686

11. Investments

	2008/09 £'000	2007/08 £'000
Equities		
UK Quoted	72,159	113,630
Overseas quoted	52,178	59,547
	124,337	173,177
Fixed Interest Securities		
UK	0	64,855
UK Public	15,112	0
UK Private	42,100	0
	57,212	64,855
Index-Linked Securities		
UK	0	29,865
UK Public	26,394	0
UK Private	632	0
Overseas Public	1,823	0
Overseas Private	53	0
	28,902	29,865
Derivative Contracts		
Futures	14	170
Forward FX Contracts	94	0
	108	170
Pooled Investment Vehicles		
UK Managed Funds - Other		
UK Quoted	1,520	1,732
UK Unquoted	47	90
Overseas	4,651	35,642
Property	2,272	0
UK Unit Trust		
UK Property	17,933	27,707
	26,423	65,171
Cash Instruments		
UK	498	5
	498	5
Cash Deposits		
Managers	4,025	4,949
Futures Cash	27	26
	4,052	4,975
Cash Deposits		
Banks	11,300	0
	11,300	0
Short Term Investments		
L.B. of Havering	7,999	6,673
	7,999	6,673

11. Investments (continued)

	2008/09 £'000	2007/08 £'000
Other Investment balances		
Outstanding sales	2,096	4,416
Investment income	1,424	1,116
Outstanding dividend and recoverable withholding tax	850	1,735
Outstanding trades	(2,461)	(3,104)
Investment Income	(116)	0
	1,793	4,163
Total Investments	262,624	349,054

12. Current Assets

	2008/09 £'000	2007/08 £'000
Pensions	16	20
Employer contributions	229	232
Employee contributions	81	77
Current Assets	326	329

13. Current Liabilities

	2008/09 £'000	2007/08 £'000
Unpaid benefits	(18)	(181)
Accrued expenses	(280)	(294)
Current Liabilities	(298)	(475)

rates for the Council were as follows:

14. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere within the accounts. As disclosed in note 6 of the notes to the core financial statements, during the year fees were paid to certain trustees for their services to the scheme. In 2008/09, £0.475m was paid to the Council for administration (£0.461m in 2007/08) and £18.046m (£17.182m in 2007/08) was paid by the Council to the Pension Fund in respect of employer's contributions. During the year no Member or Council officer with direct responsibility for Pension Fund issues has undertaken any declarable material transactions with the Pension Fund.

	Future Service %	Past Service %	Total % of Pensionable Pay
April 08 to March 09	15.6	6.1	21.7
April 09 to March 10	15.6	6.2	21.8
April 10 to March 11	15.6	6.4	22.0

15. Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.

The rate of employer's contributions paid by the Council in 2008/09 was 21.7% of pension able pay as determined by the actuarial valuation of the Fund as at the 31st March 2007.

The most recent valuation of the Fund was carried out at the 31st March 2007. The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:

Assumption	Rate
The rate of increase in pensionable earnings	3.2%
The rate of return on bond type investments	5.2%
The rate of return on equity and property assets	7.2%
The level of increase in earnings growth	4.7%

The result of the 2007 valuation was that the value of the Fund's assets was actuarially assessed as £366.1m which was sufficient to meet 68% of its accrued liabilities of £534.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to increase the employers' contribution rates over the three years of the actuarial valuation. The actuary's recommended employer's contribution

Statement of Accounting Policies

General Principles

The Accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This code sets out the application of Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) on local authority accounts. The accounts have also been prepared to comply with the Accounts and Audit Regulations 2006. The accounting convention adopted is Historical cost modified for the revaluation of certain categories of fixed assets.

Accruals Basis of Accounting

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Fees charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed; before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled the balance of debtors is written down and a charge made to revenue for income that might not be collected.

Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

The maximum life attributed to software assets is currently five years on the grounds that it is a reasonable estimate of the life of computer systems and is the life applied to computer hardware for depreciation purposes. The assets are amortised to revenue on a straight line basis.

Tangible Fixed Assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts. Expenditure on tangible fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides, for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged direct to service revenue accounts.

Havering has applied the following de minimis criteria for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

works to buildings	£5,000
infrastructure	£5,000
office and information technology	£5,000
other furniture and equipment	£5,000

There are no de minimis limits for the following categories: land acquisition, vehicles & plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital

expenditure below £5,000.

Council dwellings are valued at existing use value for social housing as specified by the Department of Communities and Local Government (DCLG).

Other operational land and buildings have been included in the Balance Sheet at the lower of net current replacement cost and net realisable value in existing use.

Infrastructure assets have been included on the basis of depreciated historical cost.

Community assets are included at historical cost where known or otherwise at £1 per asset.

Vehicles, plant and equipment are included at depreciated historical cost.

Non-operational assets have been included at the lower of net current replacement cost and net realisable value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in value but as a minimum every five years. Increases in value are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Fixed asset valuations are certified by G.K. Green, FRICS, the Property Strategy Manager in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institute of Chartered Surveyors.

Depreciation

Depreciation is provided for on a straight line basis on all tangible fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy: -

- buildings other than investment properties are depreciated over their estimated useful lives;
- land is not depreciated;
- infrastructure assets are depreciated over a 20 year period;
- equipment assets are depreciated over a 5 year period;
- vehicles and plant are depreciated over the life assigned by the Transport Manager.

The depreciation charge begins in the year following the capital expenditure.

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gain in the Revaluation Reserve is transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are treated as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory allowances and deductions) is payable to the Government. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are apportioned to the Reserve from the Statement of Movement in the General Fund Balance.

The written off value of disposal is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement in General Fund Balance.

Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of the financial year for evidence of reductions in value. Where impairment is identified as part of the review or as a result of a valuation exercise this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- Otherwise written off against any revaluation gains attributable to the relevant asset in the revaluation reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but where there were accumulated revaluation gains in the Revaluation Reserve for the asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Charges to Revenue for Fixed Assets

Service revenue accounts, central support services and trading accounts are charged with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Revenue Expenditure Financed from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or from borrowing, a transfer is made to the Capital Adjustment Account which then reverses out the amounts charged in the Statement of Movement in the General Fund Balance so that there is no impact upon the level of Council Tax.

Government Grants and Other Contributions

Government Grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Income is credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants for fixed assets, initially to the Grants Unapplied Account and then to the Grants and Contributions Deferred Account once used to finance the assets.

Grants to cover general revenue expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

In accordance with the SORP, amounts are released from the Grants & Contributions Deferred Account to the net cost of services in the Income and Expenditure Account to offset any provision for depreciation charged to revenue in respect of the fixed assets to which the grants relate. Grants towards expenditure on fixed assets are also written off to the Capital Adjustment Account via the Income and Expenditure Account if the expenditure they finance is not materially increasing the value of the assets. As the impact of these adjustments should remain neutral for Council Tax purposes a corresponding adjustment has been made in the Statement of Movement in the General Fund Balance.

Leases

The Council has no finance leases at present.

Rentals payable under operating leases are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Financial Liabilities

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based upon the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year of the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are required to be credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. No such transactions took place in the year.

Where premiums and discounts have been charged to the Income and Expenditure Account regulations allow for the impact to be spread over future years. The Council has a policy of spreading the gain or loss over the term remaining on the loan against which the premium was payable or the discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure account to the net charged repaid against the General Fund Balance is managed by a transfer from the Financial Instruments Adjustment account in the Statement of Movement in the General Fund Balance.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Council holds no assets falling under this category.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised costs. Annual credits to the Income and Expenditure Account for interest receivable are based upon the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure account is the amount receivable for the year of the loan agreement.

The Council has not made any loans at less than market rate (soft loans).

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure account.

Reserves

Capital reserves are divided between cash-backed and non-cash backed reserves. The cash-backed reserves which can be used to fund new capital expenditure are the Usable Capital Receipts Reserve, the Major Repairs Reserve and the Grants Unapplied Reserve. The non cash-backed reserves are the Capital Adjustment Account, the Revaluation Reserve, and Deferred Receipts Accounts which represent balances arising from past funding, valuation surpluses or deferred income.

Revenue reserves are either Earmarked Reserves or General Reserves. Reserves are created by

appropriating amounts from the Statement of Movement in General Fund Balance. When expenditure is to be financed from a reserve, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back to into the General Fund Balance statement so that there is no net charge against council tax for that expenditure.

More details of all reserves are given on pages 29 to 41 of the accounts.

Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by the transfer of economic benefits, but where the timing of transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based upon the best estimate of the likely settlement. When payments are eventually made they are charged to the provision set up on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement is made) the provision is reversed and credited back to the relevant service revenue account.

Overheads and Support Service Costs

The cost of support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). The total absorption costing principle is used: the full cost of overhead and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional democratic organisation.
- Non Distributed costs – the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable to non operational properties.

These two categories are defined in the BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

Interests in Companies and Other Entities

The Council has a material interest in another legal entity, 'Homes in Havering', which having the nature of a subsidiary requires the Council to prepare group accounts. In the Council's own single entity accounts the interest in the entity is recorded as an investment (i.e. at cost less any provision for losses).

Stocks

The Council has a number of small stocks, which are mainly valued on an historical cost basis. They are all reviewed regularly and any deemed obsolete are written off.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

Pension Scheme: Change of Accounting Policy

Under the 2008 SORP the Council has adopted the amendment to FRS17, Retirement benefits. As a result quoted securities held as assets in the defined benefit scheme pension scheme are now valued at bid price rather than at market value. The effect of the change is that the value of the scheme assets at 31 March 2008 has been restated from £314.5 m to £313.6 m, a decrease of £0.9 m, resulting in an increase of the pension deficit of £0.9 m as at 31 March 2008.

Participation in Pension Schemes

The Council participates in two different pension schemes to meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers

This is a national scheme administered by the Department for Education and Skills (DfES). The employer's pension cost charged to the accounts is fixed by the contribution rate set by DfES on the basis of a notional fund.

Other Employees

Other employees are eligible to join the Local Government Pension Scheme. This is a funded defined benefit scheme, which is administered by the Council.

The change in the Net Pension Liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of service earned this year allocated in the I and E account to the revenue accounts of the services for which the employee worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to Net Operating Expenditure in the I and E account.
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the I and E account.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the I and E account.
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the I and E account as part of Non Distributable Costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made in the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- Contributions paid by the London Borough of Havering Pension Fund – cash paid as employers' contributions to the fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund each year. In the Movement on the General Fund Balance this means that there are appropriations from the Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the Fund but unpaid at the year end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirements benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Glossary

Accounting Policies Those principles, bases, conventions, rules and practices applied by an entity that specify how the effect of transactions and other events are to be reflected in its financial statements through:

- (i) recognising
- (ii) selecting measurement bases for, and
- (iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accruals The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

Actuary An independent consultant who advises on the financial position of the Pension Fund.

Actuarial Valuation Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the Fund's financial position and recommended employers' contribution rates.

Agency Arrangement An arrangement whereby an Authority (the agent) acts on behalf of another (the principal) to collect income or incur expenditure on the behalf of the principal. Such income or expenditure is not included in the agent's accounts other than any commission paid by the principal.

Amortisation The writing off of an intangible asset or loan balance over a period of time.

Appropriation The transfer of ownership of an asset, from one service to another at an agreed (usually market) value.

Bid Price The purchase price that a buyer is willing to pay for an asset.

Budget A forecast of future expenditure plans for the Authority. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets

are revised towards the year-end to take account of inflation, changes in patterns of services, and other factors.

Capital Expenditure Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

Capital Financing Requirement The measure of an authority's capital borrowing need under the Prudential Code and the Local Government Act 2003: it is made up of the total value of the authority's fixed assets and intangible assets less the sums accumulated in the revaluation account, deferred grant and capital financing accounts.

Capital Receipt Income received from the sale of a capital asset such as land or buildings.

Collection Fund A Statutory Account which receives Council Tax, Community Charges, Non-Domestic Rates and Government Grants to cover the costs of services provided by Havering and its precepting authorities.

Community Assets Assets that the Local Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

Balance Sheet A statement of all the assets, liabilities and other balances of the Authority at the end of an accounting period.

Contingent Liability A possible liability to future expenditure at the balance sheet date dependant upon the outcome of uncertain events.

Revenue Expenditure Funded from Capital Under Statute (formerly known as Deferred Charges) Expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Examples include items such as improvement grants and loan redemption expenses.

Defined Benefit Scheme A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Effective Interest Rate The rate of interest needed to discount the estimated stream of principal and interest cashflows through the expected life of the financial instrument to equal the amount at the initial recognition.

Finance Lease A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Financial Instrument A contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another

Financial Asset A right to future economic benefits controlled by the authority that is represented by:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash (or other financial asset) from another entity.
- A contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Authority.

Financial Liability An obligation to transfer economic benefits controlled by the Authority that is represented by:

- A contractual obligation to deliver cash (or other financial asset) to another entity
- A contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Authority.

Fixed Assets Assets that yield benefit to the Local Authority and the services it provides for a period of more than one year. Fixed Assets are sub-divided into **Tangible** and **Intangible**: the former are physical assets such as land, buildings and equipment; the latter are assets such as computer software or marketable research and development.

General Fund (GF) Havering's main Revenue Account from which is met the cost of providing most of the Authority's services.

General Fund Working Balance Revenue Funds which are uncommitted and available to support general funding pressures not otherwise specifically covered by planned budget or earmarked reserves.

Historic Cost The actual cost of an asset in terms of past consideration as opposed to its current value.

Housing Revenue Account (HRA) A Statutory Account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of Council Housing.

Impairment The reduction in value of a tangible or intangible fixed asset reflecting either (i) the consumption of economic benefits such as obsolescence or physical damage or (ii) a general fall in prices. In the former case, the impairment is a charge to the revenue account; in the latter, the impairment is a charge to the Revaluation Reserve or Capital Adjustment Account.

Income and Expenditure Account A statement showing the income and expenditure for the year of all the functions for which the Authority is responsible and complies with Generally Accepted Accounting Practice (GAAP).

Infrastructure Assets Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

Liquidity Ratios:

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio indicates the ratio between current assets and liabilities. A ratio in excess of "2" is normally considered strong. However, so long as cash represents such a high proportion of current assets the figure is of less concern.

Quick Ratio

$$\frac{\text{Current Assets Less Stock}}{\text{Current Liabilities}}$$

A similar ratio to the current ratio but excludes stock on the basis that this is more difficult to convert into cash in the short term.

Cash ratio

$$\frac{\text{Cash and short term investments}}{\text{Current Liabilities}}$$

The cash ratio indicates the ability to meet short term liabilities from cash or short term investments. A ratio in excess of "1" is considered strong.

Minimum Revenue Provision (MRP) The Council is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance or loans fund principal charges) The charge has been determined as 4% of the Capital Financing Requirement.

National Non-Domestic Rates Pool (NNDR Pool) Non-Domestic Rates are paid into a central pool controlled by Central Government. This money is then redistributed to Local Authorities on the basis of adult population.

Net Book Value The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

Net Current Replacement Cost The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value The open market value of the asset less the expenses to be incurred in realising the asset.

Non-Operational Assets Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

Operating Lease A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

Non Distributed Costs Costs which are not chargeable to services and comprise of:

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities
- The costs of shares of long term unused but unrealisable assets.

Operational Assets Fixed assets held, occupied, used or consumed by the Authority in the direct delivery of its services.

Outturn The actual level of expenditure and income for the year.

Post Balance Sheet Events Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are approved for issue by the Group Director, Finance and Commerce.

Precept The charge made by one Authority (e.g. Greater London Authority) on another Authority (e.g. Havering) to finance its net expenditure.

Private Finance Initiative A Government initiative that enables authorities to carry out capital projects, through partnership with the private sector.

Provisions Amounts set aside to fund known liabilities chargeable to the current year's Accounts

where the exact amount or timing of the payment are not yet certain.

Prudential Code. Since April 2004 local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities freedom to determine how much capital investment they can afford to fund through borrowing. The objectives of the code are to ensure that authorities' capital spending plans are affordable prudent and sustainable with Councils being required to set specific prudential indicators.

Public Works Loans Board (PWLB) Central Government Agency which funds much of Local Government borrowing.

Reserves Amounts earmarked to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

Revenue Expenditure The day to day expenditure of the Council, e.g. pay, goods and services and depreciation.

Revenue Support Grant The main grant paid by the Government to Local Authorities.

Statement of Movement in the General Fund Balance This statement records the out-turn on the Income and Expenditure Account and the transfers to and from reserves which are required for statutory purposes to be taken into account when setting council tax.

Statement of Recognised Gains and Losses This statement brings together revaluation gains and surpluses on fixed assets and pension assets in addition to the revenue surplus or deficit reported through the Income and Expenditure Account. The movement in the year equals the change in Balance Sheet value for the year.

Supported Borrowing Borrowing supported by central government grant towards the financing costs, mainly through HRA subsidy or Revenue Support Grant.

Group Income and Expenditure Account 2008/2009

2007-2008		2008-2009		
Net Expenditure £'000		Expenditure £'000	Income £'000	Net Expenditure £'000
4,274	Central Services to the Public	24,208	19,942	4,766
30,839	Cultural, Environmental and Planning	46,323	13,274	33,049
35,870	Children's and Educational Services	270,058	197,372	72,686
17,999	Highways, Roads and Transport Services	23,149	4,603	18,546
2,508	Housing General Fund Services	70,664	69,086	1,578
37,678	Housing Revenue Account	93,613	51,800	41,813
50,087	Adult Services	75,622	18,006	57,616
156	Coroner's Court	172	0	172
7,293	Corporate and Democratic Core	6,789	94	6,695
5,054	Non Distributed Costs	87	0	87
191,758	Net Cost of Services	610,685	373,677	237,008
0	(Gains) or losses on the disposal of fixed assets			(5,466)
9,242	Levies counting as Havering expenditure			10,280
2,174	Interest payable and similar charges			2,486
0	Impairment of Financial Assets			3,212
12	Taxation on Group Entities			8
4,552	Contribution of housing capital receipts to Government Pool			1,291
(7,149)	Interest and other investment income			(7,410)
7,960	Pensions interest cost and expected return on pensions assets			14,790
208,549	Net Expenditure			256,199
(99,116)	Demand on Collection Fund			(103,641)
(500)	Collection Fund Transfer for estimated (surplus) / deficit			177
795	Collection Fund Provision for estimated deficit			0
(7,365)	Government Grants (not attributable to specific services)			(14,326)
(41,801)	Distribution from Non-Domestic Rate Pool			(47,096)
60,562	(Surplus) or Deficit in the year			91,313

Reconciliation of Single Entity Surplus or Deficit for the
Year to Group Surplus or Deficit

2007-2008 £'000		2008-2009 £'000
58,700	(Surplus) or deficit on the authority's single entity Income and Expenditure Account for the Year	94,592
1,862	Add: (Surplus) or deficit arising from Subsidiaries	(3,279)
60,562	Group Account (Surplus) or Deficit in the year	91,313

Group Statement of Total Recognised Gains and Losses

2007/08 £'000		2008/09 £'000
(60,562)	Net Surplus or (deficit) for the year	(91,313)
119,736	Surplus or (deficit) arising on the revaluation of fixed assets	3,044
19,660	Actuarial gains and (losses) on pension fund assets and liabilities	(97,350)
(1,514)	Increase or (decrease) in collection fund surplus	71
1,925	Creation of Financial Instruments adjustment account	0
(575)	Any other gains and (losses) required to be included in the Group STRGL	0
78,670	Total recognised gains and (losses) for the year	(185,548)

A prior year adjustment of £0.9 million has arisen as a consequence of the change in the basis of valuing pension fund assets. This figure has the affect of increasing the actuarial loss on pension fund assets and liabilities. Further information on this matter is included in notes 48 and 49 to the accounts.

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2008-2009

Group Balance Sheet as at 31st March 2009

31 st March 2008 £'000		31 st March 2009 £'000
	Fixed Assets	
1,045	Intangible Fixed Assets	800
	Tangible Fixed Assets:	
	Operational Assets	
612,069	- Council Dwellings	483,814
444,475	- Other Land and Buildings	501,819
7,847	- Vehicles, Plant and Equipment	5,911
44,738	- Infrastructure Assets	44,723
1,088	- Community Assets	1,085
33,056	Non-operational Assets	28,969
1,144,318	Total fixed assets	1,067,121
2,818	Long-term Debtors	2,382
1,147,136	Total long-term assets	2,382
	Current Assets	
290	- Stocks and Work in Progress	242
31,380	- Debtors (net of provision for bad debts)	34,956
103,115	- Investments (net of provision for losses)	103,472
15,488	- Cash in Hand	15,063
1,297,409	Total Assets	1,223,236
	Current Liabilities	
(8,309)	- Borrowing repayable within a year	(1,340)
(55,038)	- Creditors	(63,065)
(1,010)	- Cash Overdrawn	0
1,233,052	Total Assets Less Current Liabilities	1,158,831
(38,797)	Borrowing maturing in more than a year	(44,986)
(31,361)	Government grants-deferred	(32,835)
(10,442)	Unapplied Capital Grants & Contributions	(9,839)
(2,681)	Deferred Credits	(2,290)
(219,170)	Net Pension Liability relating to defined pension schemes	(323,570)
(5,003)	Provisions	(5,261)
925,598	Total Group Assets Less Liabilities	740,050
109,076	Revaluation Reserve	108,964
965,794	Capital Adjustment Account	884,654
(1,700)	Financial Instruments Adjustment Account	(4,333)
(2,661)	Profit & Loss and other reserves of group entities	618
27,873	Usable Capital Receipts	19,941
26	Major Repairs Reserve	134
25,978	Earmarked Reserves	34,043
19,785	General Reserves	20,811
1,831	Housing Revenue Account Balance	371
(1,234)	Collection Fund Balance	(1,163)
(219,170)	Pension Reserve	(323,990)
925,598	Group Balances and Reserves	740,050

Rita Greenwood
Group Director Finance and Commerce
30 June 2009

Group Cash Flow Statement as at 31st March 2009

2007/08 £'000		Notes	2008/09 £'000	£'000
(20,276)	Revenue Activities Net Cash Flow	1		(22,479)
	Returns on Investment and Servicing of Finance			
2,493	Interest paid & prepaid premiums (outflow)			2,467
(6,050)	Interest & discounts received (inflow)			(7,396)
(3,557)	Net Cash Outflow (Inflow) from Servicing of Finance			(4,929)
7	Taxation			12
	Capital Activities			
41,717	Purchase of fixed assets (outflow)			44,380
3,667	Other capital cash payments (outflow)			5,540
(22,009)	Sale of fixed assets (inflow)			(6,586)
(20,959)	Capital grants received (inflow)			(17,660)
2,423				25,686
(21,410)	Net Cash (Inflow)/Outflow Before Financing			(1,722)
	Management of Liquid Resources			
609,312	Short-term deposits made (outflow)			585,807
(587,704)	Short-term deposits repaid (inflow)			(585,451)
21,608	Net Increase/(decrease) in investments			356
	Financing			
2,150	Repayments of loans & finance leases (outflow)			11,989
(2,085)	New loans raised (inflow)			(11,208)
65	Net (Inflow)/outflow from financing			781
263	Net Decrease/(Increase) in Cash			(585)

Notes to the Group Financial Statements

Basis of Consolidation

The Group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the London Borough of Havering and Homes in Havering. Homes in Havering have been incorporated as a subsidiary using the acquisition method of accounting; the Council's investment in the company is incorporated into the Group Accounts by combining the results of the Council and Homes in Havering and netting out any inter party transactions. Homes in Havering began its operations on 1st July 2006 and its results are consolidated within the group from that date.

Accounting Policies

Homes in Havering is a private company limited by guarantee under the Companies Act 1985. As such it has no share capital. The company's sole member is the London Borough of Havering. The Council is required to prepare Group Accounts where it has interests in subsidiaries, associates and joint ventures. It has determined that the interest held in Homes in Havering is such that it requires Group Accounts to be prepared. The financial statements in the group accounts are prepared in accordance with the policies set out in the statement of accounting policies on pages 59-64 with the exception of the following:

1. Tangible Fixed Assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts. Expenditure on tangible fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides, for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged direct to service revenue accounts.

The London Borough of Havering has the following de minimis rules for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

works to buildings	£5,000
infrastructure	£5,000
office and information technology	£5,000
other furniture and equipment	£5,000

There are no de minimis limits for the following

categories: land acquisition, vehicles & plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets & deferred charges.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

Homes in Havering operate a de minimis level of £500 for the capitalisation of fixed assets. Their assets are consolidated into the group accounts on that basis. The value of HiH assets stood at £67,000 as at 31 March 2009.

2. Prior Period Adjustments

The Group accounts for 2007/08 were prepared and approved prior to the completion of the audit of the accounts of Homes in Havering (HiH).

A number of amendments were made to HiH's accounts during the course of their audit and were reflected in their published accounts. The prior year comparatives for the Group have therefore been amended to incorporate these changes.

The impact of these amendments on the Group financial statements are set out below.

Balance Sheet	2007/08 £,000
Net assets as previously stated	929,374
Increase in reported HiH loss	(2,086)
HiH consolidation adjustment	(780)
Re-stated pension fund assets	(910)
Net Assets re-stated	925,598

Income & Expenditure a/c	2007/08 £,000
Net deficit as previously stated	(58,925)
Recognition of increased revenue loss as reported by HiH	(1,637)
Net Deficit re-stated	(60,562)

Statement of Recognised Gains and Losses	2007/08 £,000
Total Gains as previously reported	81,906
Increase in recognised gains and losses of HiH	(3,236)
Total Gains re-stated	78,670

Note to Group Cashflow Statement**1. Reconciliation of Net (Surplus)/Deficit on Group Income and Expenditure Account to Revenue Activities Net Cashflow.**

	2008/09 £'000	2007/08 £'000
Net deficit on Income and Expenditure account	91,313	60,562
Collection Fund net deficit	(71)	1,514
Fund Balances	91,242	62,076
Interest	4,921	3,545
Non cash Transactions:-		
Profit on sale of fixed assets	5,466	0
Depreciation, amortisation and Impairments	(112,229)	(67,080)
Adjustment to pension costs for FRS17	(7,050)	(8,050)
Net contribution to / from provisions	(258)	(145)
(increase)/decrease in revenue creditors	(5,698)	(2,499)
Increase/(decrease) in stocks	(49)	67
Increase/(decrease) in revenue Debtors	1,176	(8,190)
Revenue Activities Net Cash Flow	(22,479)	(20,276)

ANNUAL GOVERNANCE STATEMENT

This statement provides assurance to all stakeholders that within the London Borough of Havering processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the Borough.

Scope of responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility,

The London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The London Borough of Havering has approved and adopted a code of corporate governance, which is consistent with the principals of the CIPFA/SOLACE* Framework *Delivering Good Governance in Local Government*. The code sets out details of how the public and staff can expect the Council to be managed. Accountability, effectiveness, integrity, and openness are among the principles the code is based upon. The code also details how the Council conducts its business and how it relates to the community. This includes service delivery arrangements; structures and procedures; risk management and standards of conduct. The code is available on the Council's website and is within the Constitution of the Council. Other information on governance can also be found on the Council's website by following the link to council and then democracy / corporate governance. A copy of the code can be requested in other formats and languages or in paper copy from the Council's Communications Department.

This statement explains how London Borough of Havering has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

*** Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives**

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at London Borough of Havering for the year ended 31 March 2009 and up to the date of approval of the draft statement of accounts.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described in more detail below:

Vision and purpose

In 2007/08 the Council's Leader launched his 'Living Ambition' - aiming for the highest quality of life in London is a 20 year vision for the London Borough of Havering.

The Council will work with partners and the local community to seize opportunities and shape a future for Havering that is bright, bold and rewarding for everyone who lives, visits, or works in the borough. The 'Living Ambition' agenda will be delivered by striving towards five goals:

- Goal for Environment : to ensure a clean, safe and green borough;
- Goal for Learning : to achieve excellence in education and learning;
- Goal for Towns and communities : to provide opportunities for all through economic, social and cultural activity;
- Goal for Individuals : to value and enhance the lives of every individual; and a
- Goal for Value : to deliver high customer satisfaction and a stable council tax.

Underpinning the Vision are new Values, to which all officers will be expected to work, in order to build a more effective organisation. The Council's Values are:

- One Council
- Learning from experience
- Integrity
- You matter
- Can do
- Fair to all

To achieve the Council's Vision the Council is working with Partners and other organisations to ensure available resources are optimising the benefits to the community. This approach although essential to the Council's success going forward does pose new Governance issues for the Council and procedures are as a result subject to review to ensure that roles and responsibilities and the Council's expectations in terms of governance are clearly communicated.

The 'Living Ambition' was widely communicated both internally to officers and externally to the community via a number of events and presentations, using the Council's internet and intranet sites and within the publication 'Living' which is regularly distributed to the stakeholders in the Borough.

The Council's Goals have been integrated into the Council's business planning processes to ensure adequate resources are being applied in the pursuit of the Vision and the Council's Values are a key driver in the development of the new competency based appraisal framework which will be rolled out in 2009/10.

Performance Management

The performance management framework has several functions:

- Focussing priority setting around needs along with the priorities of the Council and the public;
- Maximising the effective delivery of the services and the efficient use of resources through the facilitation of joint planning both across Council services and with partner organisations; and
- Ensuring relevant, timely and accurate information is available to measure and monitor performance and on which to base decisions.

Performance management is carried out via a series of meetings individually and at team level across the services. Performance monitoring is undertaken as part of those processes and the information collected feeds into a report to all Members, through the Members Monthly Pack. The Improvement and Delivery Board, comprising both Members and officers, meet to review performance on a regular basis. The Overview & Scrutiny Committees also consider the performance reports – along with those that they have independently commissioned – and carry out their own reviews. Heads of Service also produce a quarterly pack which summarises their service performance and progress against objectives. The performance management process is currently undergoing changes as the Council moves towards an electronic reporting system, Havering Performs!, or HP.

An annual summary of performance against the statutory and key local performance indicators is published on

the website. An annual report, summarising performance and plans, is also available on the website and produced for distribution as hard copy.

The Council's strategy and policy and guidelines on data quality lay down clear guidelines to the effect that all performance measures must be produced to the same robust standard; any performance data that is to be considered for publishing can be subject to either internal or external audit.

The Council's financial management approach is led through its Medium Term Financial Strategy, which is produced in the summer, setting out the approach to financial planning for the subsequent three financial years. A series of Star-Chamber style sessions review performance, define the savings and spending targets for each Service area; these along with the results of market research into public opinion, studies of the needs in the Borough and the requirements of the Council's priorities go to define the objectives in Service Plans, which are linked to the Council's objectives via 'the Golden Thread'.

There are a number of strategies linked directly with the MTFs; this includes the Capital Strategy, the Corporate Asset Management Plan, the Risk Management Strategy, the ICT Strategy and the Workforce Planning Strategy.

Council's Constitution

The constitution sets out the roles and responsibilities of officers and Members and provides details of how decisions are made and who can make them. It also contains the rules for managing our finances and resources effectively.

Details of those functions remaining with full Council are set out together with full Cabinet and individual Cabinet Member powers. All the terms and references of the various Committees of the Council are set out. All these provide clear accountability and effective leadership and decision making. There is an extensive Scheme of Delegation to officers enabling them to manage their areas of responsibility on a day to day basis. Where a key decision is to be taken, the Council publishes details in the Forward Plan.

Codes of Conduct

The Council has Employee and Member Codes of Conduct supported by the requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade or who hold specific decision making and procurement positions. Officers and Members are required to decline gifts and hospitality to ensure that they are not inappropriately influenced. The Codes and related policies and procedures are communicated via induction sessions and are available via the intranet. Periodically awareness campaigns occur to remind individuals of their responsibilities. The relevant Corporate Management Team member is tasked with ensuring that appropriate arrangements are in place and the systems are reviewed at least every three years by internal audit.

Financial Rules and Regulations

The Council has Financial and Contract Procedure Rules and Financial and Procurement Frameworks along with other policy and procedural documents in place to guide officers in their every day duties and ensure appropriate process and controls are adhered to. Schemes of delegation are also in place along with authorised signatories lists to detail appropriate levels of responsibility. Compliance with the various financial rules and regulations is monitored by Management and considered during audits of systems and processes

Effective Audit Committee

The Audit Committee operates in accordance with the relevant CIPFA guidance. Its effectiveness is reviewed annually and an annual report is produced for the Committee. The Committee's terms of reference, outlined in the Constitution, contain responsibilities relating to internal control, external audit, and internal audit. Eight Members sit on the Audit Committee representing the Conservative and Residents Groups of the Borough. The Audit Committee meets five times per year. The Committee has an annual work plan and training programme and reports on its performance to Council annually.

Compliance with laws, regulations and internal policies

The Constitution sets out the legal framework for decision making and the publishing of those decisions. There is a scrutiny system in place to ensure that the work of the Council complies with all appropriate policies, laws and regulations. Overview and Scrutiny has the power to call in and challenge all decisions of Cabinet and individual Cabinet Members and key decisions of staff. Legal, Finance and Human Resources staff clear every Cabinet, Council and Committee report and every Lead Member decision, for compliance with laws, policies and regulations. The Statutory Officers also provide advice to Members at all appropriate times. Statutory

appointments have been made for Adults and Children and a Lead Member for Children has been appointed.

Internal policies and procedures exist to guide officers and ensure compliance with legislation and proper practice. Policies and procedures are reviewed at least annually.

Counter Fraud and Confidential Reporting

The Council has a corporate strategy for the prevention and detection of fraud and corruption. The effectiveness of the arrangements in place is reviewed annually and results reported to the Audit Committee. Ad hoc promotion of the strategy takes place throughout the year as part of the fraud strategy action plan. Integral to these arrangements is the Confidential Reporting, also known as Whistleblowing, policy which is communicated to staff via induction, the intranet and ad hoc awareness initiatives. The effectiveness of arrangements are reviewed annually and reported to Audit Committee. The results of fraud investigations are publicised to further promote the arrangements in place, as appropriate.

The Council also participates in the National Fraud Initiative (NFI), a computerised data matching exercise, led by the Audit Commission, designed to detect fraud perpetrated on public bodies. Havering has been praised on their efforts on this exercise.

Complaints

In 2008/09 a new Corporate Complaints procedure was implemented to ensure that all standard complaints are effectively recorded and dealt with in the same way. The new procedure is supported by the relevant technologies to ensure efficiency and requires officers nominated as 'Complaint Owners' to respond within set timescales. The process includes an escalation procedure where target timescales are not achieved. An extensive programme of training for officers has taken place during the year and it is anticipated that greatly improved results, in an area which was previously identified for improvement, will be evident in 2009/10.

Training and Development

The Council has a commitment that every member of staff has a review and annual appraisal to discuss performance, targets and personal development. It also has a commitment to provide a minimum of three days training. The Council provides a range of training opportunities for managers and staff to ensure they can deliver services effectively. These include a Leadership Programme, Leaders' and Managers' toolkit, recruitment and selection, Health and Safety, Project Management and IT training. It also provides training / briefing on procurement procedures, finance for non-financial managers and risk management.

The Council has a Member Development Charter and development programme to keep them up to date with changes and support their training needs. Training is supplemented by information through briefings, bulletins and it is planned to run a series of mini-conferences. Their training includes Finance and the Code of Conduct, Licensing and secure accommodation review.

Communication and Consultation

The Council strives to identify and develop new effective mechanisms to communicate and consult with the community. The Corporate Plan takes account of consultation as well as local and national priorities. The Council has adopted and implemented the Equality Standard, achieving level one and aiming to achieve level two by the end of 2008/09. A wide number of forums take place to consult with all Members of the community, particularly targeting hard to reach groups.

The Council maintains a website to provide information and a point of contact to the residents of the Borough. The publication 'Living' is also issued two weekly communicating information regarding Council activities.

An extensive consultation process is carried out as part of the development of the MTFs and detailed annual budget. Views are sought through various media and the budget itself is subject to scrutiny through Cabinet, Overview & Scrutiny and Area Committees.

Partnerships

There are seven theme areas and champions within the Havering Strategic Partnership (HSP) structure. These are:

- Community Participation;
- Community Safety;

- Environment;
- Prosperous Community;
- Older People;
- Health and Wellbeing; and
- Children and Young People.

Theme Delivery Champions, for accountability purposes, report to the Programme Board on progress against the Community Strategy Action Plan and any other relevant work for the theme. Delivery Champions relate the aims and progress of the theme area to the Assembly in very general and accessible terms making it accessible for smaller groups and businesses to be involved in local decision making and scrutiny.

Through the HSP structure elected Members and other community representatives can engage more fully in the work of the HSP. Each theme champion will work with Cabinet Members to develop and implement the LAA programme.

The HSP is not legally constituted, and the Council, as the accountable body, has to ensure clear and robust financial and performance monitoring arrangements are in place. The council's own performance management arrangements are strong and its performance team works closely with the HSP.

Changes in grant funding including an increase in the provision of 'Area Based Grants' brings new Governance challenges to the organisation.

A partnership toolkit has been developed by the Council to log and rank the partnerships to which resources are applied. The toolkit aims to promote a consistent approach to partnership working across the organisation and provide guidance and support to officers regarding the Council's requirements regarding Governance issues.

Review of effectiveness

The London Borough of Havering has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Governance Group within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based:

Constitution

The Monitoring Officer keeps the Constitution under continual review having delegated powers to make amendments arising from written reports, organisational changes, and legal requirements and to correct errors. Other amendments are considered by Governance Committee and Council. Following a Senior Management Restructuring in May 2008, a substantial part of the Constitution has been reviewed and amended to reflect the new officer structure.

Governance Group and Corporate Management Team

The Council's officer governance group is charged with reviewing the governance arrangements and monitoring any actions designed to improve the framework. Close links exist between this group and the Corporate Management Team (CMT), consisting of the Chief Executive, the Assistant Chief Executive, who has responsibility for Legal & Democratic Services, and the Council's three Corporate Directors overseeing Finance & Commerce; Social Care & Learning and Culture & Community, who take an active interest in Governance issues. The group have continued to monitor the action plan, derived from a self assessment against the six principles of good governance, throughout 2008/09. In March 2009 the group reported significant progress to deliver the action plan and improved scores, to the Governance Committee.

Governance and Audit Committees

The Council's Governance Committee, attended by the Leader of the Council, and other Group Leaders, is charged with overseeing the Council's governance arrangements and received a report outlining the on-going work of the governance group during the financial year in March 2009. The Governance Committee is

responsible for approving the code and the Annual Governance Statement and Members who attend both this and the Audit Committee, are responsible for monitoring the work of Internal Audit regarding internal control. This monitoring is integral in the process to produce a robust Governance Statement.

Standards Committee

The Standard's Committee is made up of nine councillors, other than the Leader and limited to only one Cabinet member, and three independent Members i.e. individuals who have not been councillors or employees of the Council in the last five years or are a close relatives or friends of anyone who has. This Committee has a role in promoting and maintaining high standards of conduct by all Members of the authority.

Overview and Scrutiny

The overview and scrutiny function reviews decisions made by Members. The focus of their role is to provide a challenge and to support the development of policies. At their meetings they have the opportunity to consider performance information; using such things as the quarterly Head of Service packs and monthly Members packs.

In 2008/09 specific key activities, for example Housing Benefit Fraud, were identified by overview and scrutiny and officers were asked to present performance and strategic information to task groups for discussion and challenge.

Internal Audit

Internal Audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In doing so Internal Audit supports the Group Director Finance and Commerce in her statutory role as Section 151 officer. Annually a Head of Internal Audit Opinion and annual report provide assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

Risk Management

The responsibility for the system of internal control sits with management therefore each Head of Service is required to complete their own assessment and declaration with regards to the arrangements in place within their respective areas. These declarations have been considered when compiling this statement. The Council has embedded risk management processes and relevant policies and the strategy are reviewed and approved annually by Audit Committee. Service Risk Registers are maintained as part of business planning process and reviewed as part of the audit planning process. In preparation for 2009/10 the service planning and risk management processes have been aligned and risk identified during the service planning process will be considered by Risk Management Group for inclusion in the Corporate Risk Register, which is reviewed and approved by Corporate Management Team bi-annually.

External Inspectors

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council's External Auditor, currently the Audit Commission, is reported to the Audit Committee. The Audit Commission provided an unqualified opinion for 2006/07 within their Annual Governance Report with regards to Value for Money. The Council's accounts are audited annually by the external auditor and an unqualified opinion was given for 2007/08 following similar opinions in previous years. The results of all external reviews have also been considered in the process of compiling this statement.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Management Team and the Governance Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

The issues identified in the 2007/08 Annual Governance Statement have been monitored by management throughout the year with review periodically to challenge actions and progress by both Corporate Management Team and the Governance Committee. Of the five issues highlighted in the 2007/08 Annual Governance Statement, one, relating to Community Engagement, had been fully addressed at the end of March 2008, the remaining four were issues with wide reaching implications and although significant progress has been made in each area it is felt that the issues remain open. The remaining four issues are therefore detailed below along with the further planned actions to ensure that focus on these areas is maintained throughout 2009/10.

Significant Issue and action already taken	Planned action	CMT Lead
<p>1. Complaints Handling.</p> <ul style="list-style-type: none"> ➤ New procedure went live September 2008; ➤ First complete set of management information reviewed November 2008, presented to Members January 2009. ➤ Review currently underway, anticipated completion by August 2009 	<p>Full review and evaluation commenced January 2009. Six month review planned to identify and feed in improvements. Report to Adjudication and Review in April. Internal Audit planned 2009/10.</p>	<p>Group Director Culture & Community</p>
<p>2. Partnership working including changes to funding arrangements.</p> <ul style="list-style-type: none"> ➤ Planned development of partnership toolkit reported to Corporate Management Team; and ➤ Internal Audit completed. 	<p>Further development of Partnership Toolkit. Review of Partnerships working. Extend Governance from Strategic Partnership to operational levels. Implement audit and locally identified action plans.</p>	<p>Group Director Culture & Community</p>
<p>3. Homes in Havering.</p> <ul style="list-style-type: none"> ➤ A number of meetings are held, on a monthly basis, between key Homes in Havering and Council officers; ➤ Monthly Performance Board to discuss PIs and Delivery Plan; and ➤ Some consultancy advice regarding the management agreement. 	<p>New programme of meetings and communication links to continue into new financial year. Agreement of revised management agreement.</p>	<p>Group Director Culture & Community</p>
<p>4. Data Quality – including Partner organisations.</p> <ul style="list-style-type: none"> ➤ Development of a data quality policy and review and refresh of the strategy; ➤ Implementation of an electronic performance management system that will enable timelier reporting by partners; ➤ Internal and External Audits. 	<p>Full roll out of Havering Performs. Training to all relevant officers. Review of system of control over data quality. Further planned audit work.</p>	<p>Group Director Finance & Commerce</p>
<p>5. Information Governance</p> <ul style="list-style-type: none"> ➤ Policies & Procedures are in place; ➤ Reviews by ICT officers to identify weaknesses in current systems; and ➤ Independent viewpoint provided by Internal Audit. 	<p>Make more explicit the Council's Corporate requirements regarding information Governance; Invest in new technologies to reduce risk; Raise awareness within teams and services and encourage identification of specific local risks and then action to address; Further audit work planned for 2009/10.</p>	<p>Group Director Finance & Commerce.</p>

In 2008/09 the Council, like many others, were affected by the collapse of the Landsbanki and Heritable Icelandic Banks. The resolution with regards the investments is not yet finalised, however as a result of the incident, both an internal and independent review of the Council's procedures was instigated to ensure, firstly, compliance with the approved procedures and secondly, to ensure going forward the procedures are robust enough to effectively manage the risks that the Council faces when investing public funds. The Council has also undertaken a major review of its Treasury Management Policy and Strategy and these were subsequently approved by Council in February 2009. This is in view of the current economic climate which continues to be reviewed.

The Council acknowledges that the needs of the community will be heightened by the country's economic downturn. The risks the Council faces due to the 'credit crunch' have been identified in the business planning processes and how services need to adapt to support those in the greatest need will continue to be considered throughout 2009/10.

In addition to those issues carried forward from 2007/08 the procedures to review and monitor Governance Arrangements to date in 2008/09 have highlighted one further issue:

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Lead Member

Chief Executive.....

Capital Transactions

Capital expenditure relates to the acquisition and enhancement of assets of long term value to the Authority, for example the purchase of land or major building works. The table below shows the Authority's capital expenditure in 2008/09 and how this was financed.

	2008/2009			2007/2008
	General Fund £'000	Housing Revenue Account £'000	Total £'000	Total £'000
Expenditure on Fixed Assets				
Council Dwellings	0	11,360	11,360	10,367
Other Land & Buildings				
- Schools & Other Education	11,291		11,291	11,356
- Public Offices & Depots	1,321		1,321	683
- Libraries, Leisure & Sport	3,148		3,148	1,425
- Social Services	10		10	55
- Other	530	1,268	1,798	2,092
Equipment				
- Schools & Other Education	1,952		1,952	1,778
- Public Offices & Depots	1,207		1,207	1,256
- Libraries, Leisure & Sport	170		170	366
- Social Services	96		96	4
- Other	202	182	384	976
Infrastructure				
- Roads & Lighting	6,898		6,898	8,150
- Environmental Improvements				2,034
- Libraries, Leisure & Sport	2,671		2,671	2,335
- Schools	201		201	937
- Other	377	684	1,061	275
Total Expenditure on Fixed Assets	30,074	13,494	43,568	44,089
Intangible Fixed Assets & Revenue Expenditure Funded From Capital Under Statute				
Renovation, Disabled Facility, Mobility & Other Grants	5,400	144	5,544	2,301
Computer Software & Other	763		763	2,024
Total Intangible Fixed Assets & Revenue Expenditure Funded From Capital Under Statute	6,163	144	6,307	4,325
Total Capital Expenditure	36,237	13,638	49,875	48,414
Total Capital to be funded	36,237	13,638	49,875	48,414
Financed by:				
Borrowing	2,271	2,114	4,385	4,785
Capital Grants	18,577	3	18,580	18,089
Capital Receipts	9,862	3,360	13,222	13,056
Contributions from Revenue	5,527	120	5,647	2,051
Major Repairs Reserve	0	8,041	8,041	10,433
Total Funding	36,237	13,638	49,875	48,414

ANNUAL TREASURY REPORT 2008/09

1. INTRODUCTION AND BACKGROUND

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by this Council and that the Council fully complies with its requirements.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

Treasury management in this context is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. THIS ANNUAL TREASURY REPORT COVERS

- ❖ the Council's treasury position as at 31 March 2009;
- ❖ performance measurement;
- ❖ the strategy for 2008/09;
- ❖ the economy in 2008/09;
- ❖ borrowing and investment rates in 2008/09;
- ❖ the borrowing outturn for 2008/09;
- ❖ compliance with treasury limits and Prudential Indicators;
- ❖ investment outturn for 2008/09;
- ❖ debt rescheduling.

3. TREASURY POSITION AS AT 31 MARCH 2009

The Council's debt and investment position at the beginning and the end of the year was as follows:

	31st March 2009 Principal	Rate/ Return	31st March 2008 Principal	Rate/ Return
Fixed Rate Funding:				
- PWLB	£38.0m		£38.7m	
- Market	£7.0m	4.82%	£7.0m	4.82%
Variable Rate Funding:	£45.0m		£45.7m	
- PWLB	£0m		£0m	
- Market	£1.3m	0.37%	£1.3m	5.13%
Total Debt	£46.3m	4.69%	£47.0m	4.83%
Investments:				
- In-House	£103.5m	4.1%	£103.1m	5.30%
- With Managers	£0m		£0m	
Total Investments	£103.5m	4.1%	£103.1m	5.30%

4. PERFORMANCE MEASUREMENT

One of the key changes in the revision of the Code in 1996 was the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (as incorporated in the table in section 3).

THE STRATEGY FOR 2008/09

The Sector recommended treasury strategy for 2008/09, (in January 2008), was based on their view of a declining rate of growth of GDP in the UK economy from the peak of 3.3% in Q3 2007 to 2% in 2008. Bank Rate was expected to continue falling from 5.75% in November 2007 to reach 5.0% in Q2 2008 and then stay there for the rest of the financial year. This was based around the dilemma facing the MPC of balancing the opposing risks of inflationary pressures driven by spikes in oil prices against concerns around the impact of the credit crunch both on the UK housing market and economy and even more so on the US housing market and economy and the knock on impact on world growth rates.

The effect on interest rates for the UK was therefore expected to be as follows:

- ❖ **Shorter-term interest rates** - The "average" City view anticipated that Bank Rate would be stable in 2008-09 at 5.25% based on a balance of risks around rising inflationary pressures on the one hand and falling growth rates and concerns over the impact of the credit crunch on the other hand.
- ❖ **Longer-term interest rates** - The view on longer-term fixed interest rates, 50 years, was that they would remain static around 4.45% for the whole of the year. The 25 year rate would also remain flat around 4.50 - 4.55%.

The agreed strategy put to the Council based upon the above forecast, was that:

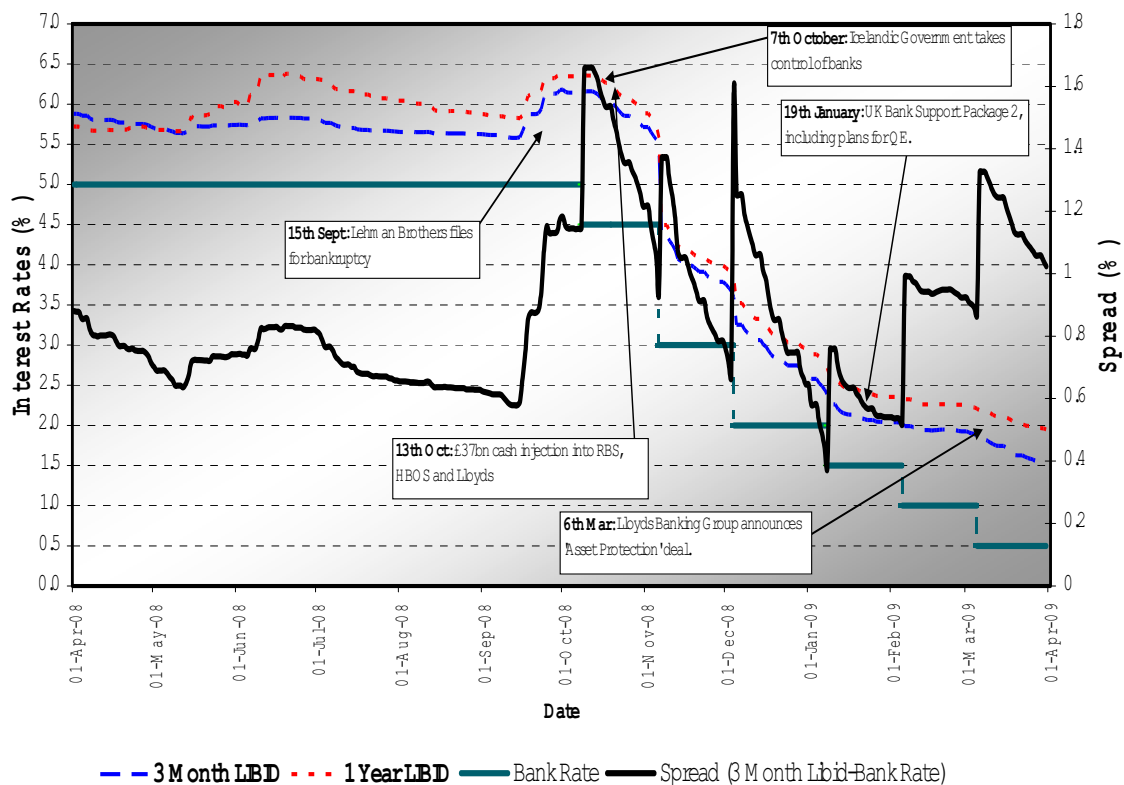
1. That the risks intrinsic to shorter term variable interest rates are such, when compared to historically low long term funding costs, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding.

The strategy adopted in the Treasury Management Strategy Report for 2008-09 approved by the Council was subject to major revision during the year due to the unprecedented impact of the credit crunch on world economies and the world banking system. This impact resulted in a rapid fall in central bank rates around the world during the year, including in the U.K.

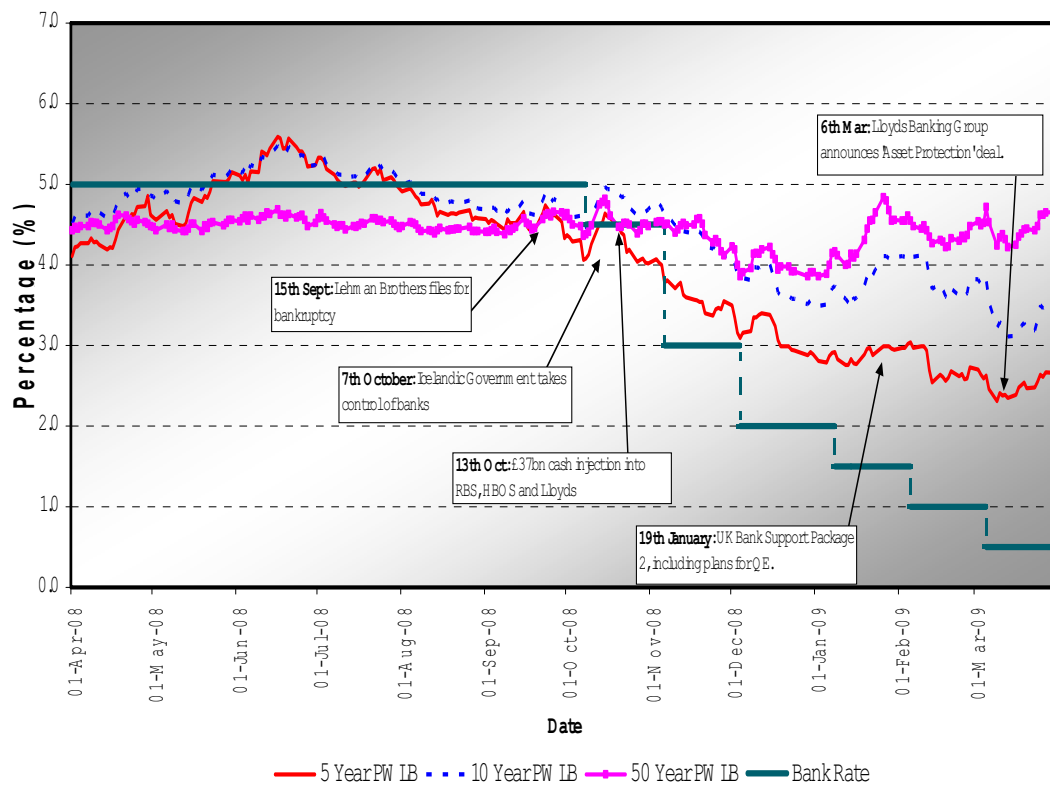
5. THE ECONOMY AND INTEREST RATES

In a year that can only be described as unparalleled and extraordinary the Annual Treasury Report for 2008/09 is summarised in the graphs below. These graphs show the major events of the financial year and the impact they had on both PWLB and investment rates. The financial crisis, commonly known as the 'credit crunch', had a major downward impact on the levels of interest rates around the world. Although interest rates initially fell sharply in the US they were followed, eventually, by the Bank of England.

Bank Rate vs. Investment Rates 2008-09 and Spread Between 3 Month Libid & Bank Rate



PW LB Borrowing Rates vs. Bank Rate 2008-09



On 1st April 2008 Bank Rate was 5% and the Bank of England was focused on fighting inflation. Market fears were that rates were going to be raised as CPI, the Government's preferred inflation target, was well above the 2% target (two years ahead). The money market yield curve reflected these concerns with one year deposits trading well above the 6% level. PWLB rates in both 5 and 10 years edged above Bank Rate during the summer as markets maintained the belief that inflation was the major concern of the monetary authorities. The money markets were reflecting some concerns about liquidity at this time and, as shown in the graph, the spread between Bank Rate and 3 month LIBOR was greater than had historically been the case.

This phase continued throughout the summer until the 15th September when Lehman Brothers, a US investment bank, was allowed to file for bankruptcy in the total absence of any other institution being willing to buy it due to the perceived levels of toxic debt it had. This event caused a huge shock wave in world financial markets and threatened to completely destabilise them. As can be seen from the charts this also led to an immediate spike up in investment rates as markets grappled with the implications this might have on other financial institutions, their credit standing and indeed their viability. On 7th October the Icelandic government took control of their banks and this was followed a few days later by the UK government pumping a massive £37bn into three UK clearing banks, RBS/HBOS/Lloyds, as liquidity in the markets dried up. The Monetary Policy Committee meantime had reduced interest rates by 50bp on 9th October. This had little impact on 3 month LIBOR, however, as the spread, or 'disconnect' as it became known, against Bank Rate widened out. On the other hand the short end of the PWLB fell dramatically as investors, very concerned about their counterparty limits post the Icelandic banks' collapse, fled to the quality of Government debt forcing yields lower.

Market focus now shifted from inflation concerns to concerns about recession, depression and deflation. Although CPI was still well above target it was seen as no barrier to interest rates being cut further. The MPC duly delivered another cut in interest rates in November, this time by an unprecedented 1.5%. Investors continued to pour money into Government securities across the curve, at the front end because of credit concerns and the longer end because of the economic consequences reducing inflation, driving yields in 10 year PWLB temporarily below 4% and 5 years to around 3.5%. In December as the ramifications of the 'credit crunch' became increasingly clear the Bank of England cut interest rates to 2%-a drop this time of 1%. The whole interbank yield curve shifted downwards but the 'disconnect' at the short end remained very wide, negating to some degree the impact of the cuts in Bank Rate. 50 year

PWLB rates dropped below 4% at the turn of the year, marking the low point, as it turned out, in this maturity.

The New Year of 2009 brought little relief to the prevailing sense of crisis and on 8th January the MPC reduced rates by 0.5% to 1.5%, a record low. More Government support for the banking sector was announced on 19th January 2009. The debt markets had a sharp sell-off at this stage as they took fright at the amount of gilt issuance likely to be needed to finance the help provided to the banks. There was also discussion about further measures that could be introduced to kick start lending and economic activity. These included quantitative easing by the Bank of England, effectively printing money.

In February 2009 the MPC adopted the traditional method of monetary easing by cutting interest rates again by 0.5% to 1%. Interbank rates drifted down with the spread in the 3 months still well above Bank Rate. In early March Lloyds Banking Group, which now included HBOS, took part in the Government's Asset Protection scheme. The MPC cut interest rates yet again to 0.5% and announced the quantitative easing scheme would start soon. This scheme would focus on buying up to £75bn of gilts in the 5-25 year maturity periods and £10 -15bn of corporate bonds. This led to a substantial rally in the gilt market, particularly in the 5 and 10 year parts of the curve, and PWLB rates fell accordingly. Finally at the end of March it was announced that the Dunfermline Building Society had run into difficulties and its depositors and good mortgages were taken over by Nationwide whilst the Treasury took on its doubtful loans.

The financial year ended with markets still badly disrupted, the real economy suffering from a lack of credit, short to medium term interest rates at record lows and a great deal of uncertainty as to how or when recovery would take place. Investment income returns have been badly hit but lower borrowing rates in short to medium periods had allowed indebted local authorities to benefit.

6. BORROWING AND INVESTMENT RATES IN 2008/09

12-month bid rates: One year LIBID fluctuated between around 5.7% to 6.4% with two peaks driven by credit crunch fears in June and September. Bank Rate had been held at 5.0% until October 9 when the first of a series of major cuts caused 12 month LIBID in 2008-09 to be on a rapidly falling trend to the end of the financial year, reaching 1.85% at the end.

5 (and 10 year) gilt yields:. These yields have been very volatile during the year. In April, they started at around 4.1% (4.4%) and peaked at around 5.5% (5.2%) during June before edging down again to around 4.4% (4.5%) in mid September. After Lehman's then collapsed, yields were on a generally falling trend although volatility was again pronounced with a mini peak in late January around 2.9% (3.0%) before finishing the year at around 2.3% (2.4%).

Longer-term interest rates – The PWLB 45-50 year rate started the year at 4.43% (25 year at 4.62%) and was then generally within a band of 4.3 - 4.6% (4.6% - 5.0%) until mid October when there was a spike up to 4.84% (5.08%) followed by a plunge down to 3.86% (4.03% late December) in early December. Further spikes of 4.84% (4.86%) and 4.72% (4.69%) occurred in late January and early February with the year closing out at 4.58% (4.28%). It was not uncommon to see rates fluctuating by 40-50 basis points within a few weeks during this year.

7. BORROWING OUTTURN FOR 2008/09

Treasury Borrowing

	Debt 31 March 2008	Finance Raised	Finance Repaid	Debt 31 March 2009
Public Works Loan Board	38,797		811	37,986
Market Loan	7,000			7,000
Total Long-term Debt	45,797	0	811	44,986
Short-term Borrowing	1,309	11,208	11,177	1,340
Total Loan Debt	47,106	11,208	11,988	46,326
Finance Leases	0			0
Total Borrowing/Finance	47,106	11,208	11,988	46,326

Debt Performance -The average debt portfolio interest rate has moved over the course of the year from 4.83% to 4.69%. The reason for the decrease in the debt portfolio was caused by falling interest rates meaning lower payments on our small amount of variable debt which is linked to base rate.

Maturity Structure of Long Term Borrowing

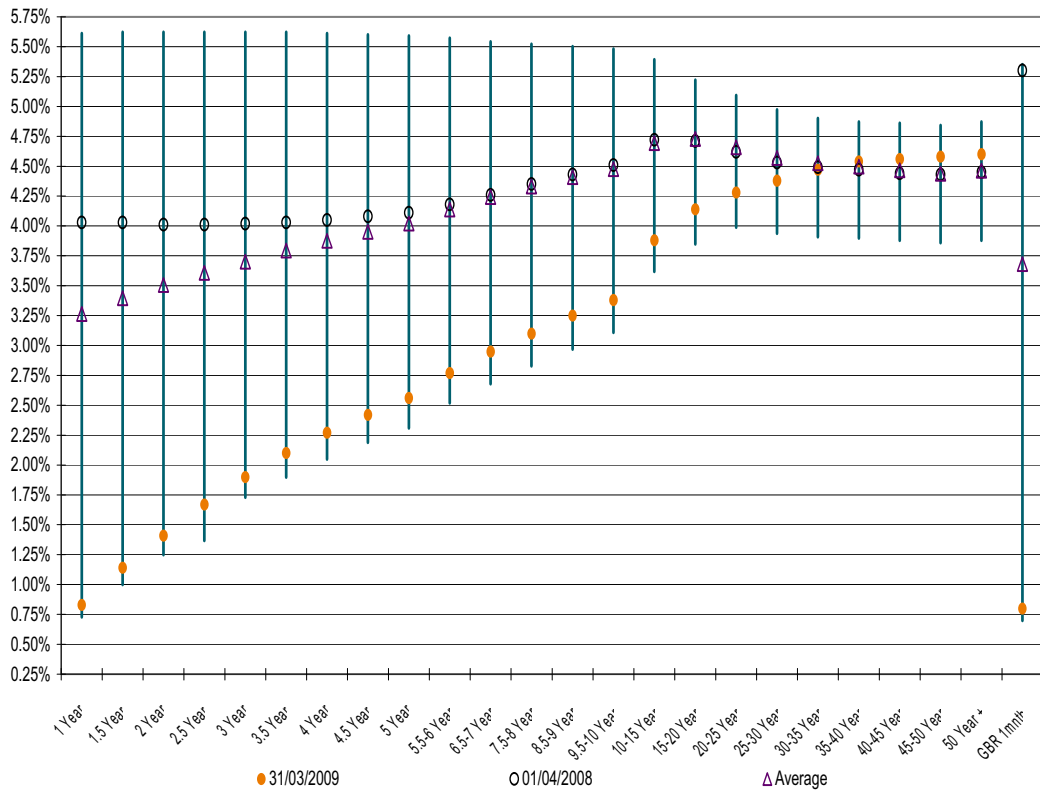
Years to Maturity	31 March 2008	31 March 2009
0 - 1		
1 - 2		
2 - 5		
5 - 10		
10 - 15	1,133	1,110
15 - 25	4,000	3,916
25 - 60	40,664	39,960
Total	45,797	44,986

There has been no additional borrowing in 2008/9 however as a guide, average PWLB maturity loan interest rates for 2008/09 were:

1 year	3.264%
9.5 - 10 year	4.477%
24.5 - 25 year	4.570%
49.5 - 50 year	4.438%
1 month GBR variable	3.682%

The graph below shows the range (high and low points) in rates for each maturity period during the year, and individual rates at the start and end of the financial year:

PWLB rates 2008/09



8. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators *is shown in appendix 1.*

9. INVESTMENT OUTTURN FOR 2008/09

Internally Managed Investments - The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council invests for a range of periods from overnight to 5 years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer.

Change in strategy and credit policy during the year

The strategy and policies adopted in the Treasury Management Strategy Report and Annual Investment Strategy for 2008-09 approved by the Council was subject to major revision during the year due to the unprecedented impact of the credit crunch on world economies and the world banking system. This impact resulted in a rapid fall in central bank rates around the world during the year, including in the U.K. and correspondingly in the Council's investment returns in the second half of the year.

In addition, the default of the Icelandic banks in October 2008 led to a major review of credit policy by this council in order to reduce exposure to credit risk. This also resulted in a significant reduction in investment earnings.

Throughout the last financial year the characteristic of market interest rates was set by the continuing lack of liquidity in the market place with banks remaining uneasy about lending. Continuing fears around the credit crunch, and so heightened credit spreads, forced the level of all market rates higher than in normal times. Whilst this was a desperate time for borrowers the flip side of the ensuing problems was that investors were the benefactors of these conditions, with deposit rates remaining inflated by high credit spreads and thus enabling an element of core funds to be lent in the longer term to secure good returns over the course of the next 12-24 months.

The collapse of Lehman's and the Icelandic banking system in September/October 2008 created an environment of fear, and the nationalisation and part nationalisation of many financial institutions was necessary to secure the global financial system in the face of hundreds of billions of pounds worth of toxic asset related losses. Governments commenced a series of stimulus packages aimed at kick starting the global economy and central banks, helped by a downturn in inflation and inflation expectations, and so began an aggressive policy of interest rate cuts which has seen interest rates, though maintaining elevated credit spreads, crashing to record low levels.

Investment Outturn for 2008/09 - Detailed below is the result of the investment strategy undertaken by the Council.

Manager	Book Cost at 31 March 2008 £'000	Book Cost at 31 March 2009 £'000	Rate of Return 2007/8 %	Rate of return 2008/9 %
External Manager	0	0	n/a	n/a
In-House Manager	103,115	106,243	6.03	5.48
Total Investments	103,115	106,243	6.03	5.48
Annualised Base Rate			5.54	3.63
3 month LIBID (benchmark)			5.92	4.49

10. ICELANDIC BANK DEFAULTS

This authority currently has the following investment(s) frozen in Icelandic banks:

£6.5 Heritable
£6.0m Landsbanki

The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. At the current time it is not possible to say with certainty that we will recover the entirety of our investment(s) or when reimbursements will be made to this authority. The Local Government Association is coordinating the efforts of all UK authorities with Icelandic investments. Members will be periodically updated on the latest developments on these efforts.

The English Government, the National Assembly of Wales and the Scottish Parliament have all issued regulations to allow local authorities to delay recognising any loss on these investments that may eventually be incurred until the financial year 2010-11.

11. DEBT RESCHEDULING

On 1st November 2007 the PWLB imposed two rates for each period, one for new borrowing and a new, significantly lower rate for early repayment of debt. The differential between the two rates ranged from 26bp (basis points) in the shorter dated maturities to over 40bp in the longer ones. They also introduced daily movements of 1bp instead of 5 bp and rates in half year periods throughout the maturity range (previously had been mainly in 5 year bands). These changes effectively prevented the Council from restructuring the portfolio into new PWLB borrowing.

APPENDIX 1: PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS	2007/08 £'000	2008/09 £'000	2008/09 £'000
	Actual	Forecast	actual outturn
Capital Expenditure			
General Fund	35,183	33,686	36,237
HRA	13,231	13,324	13,638
Total	48,414	47,010	49,875
Ratio of financing costs to net revenue stream			
General Fund	(2.90%)	1.58%	4.60%
HRA	15.58%	14.56%	17.24%
Capital Financing Requirement as at 31 March			
General Fund	38,014	38,652	38,474
HRA	13	2,306	2,127
Total	38,027	40,958	40,601
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	0.00	0.25	0.25
Increase in average housing rent per week	0.00	0.00	0.00

PRUDENTIAL INDICATORS	2007/08 £'000	2008/09 £'000	2008/09 £'000
	Actual	original	actual outturn
Authorised Limit for external debt			
borrowing	70,000	70,000	70,000
other long term liabilities	2,000	2,000	2,000
Total	72,000	72,000	72,000
Operational Boundary for external debt			
borrowing	57,500	57,500	57,500
other long term liabilities	2,000	2,000	2,000
Total	59,500	59,500	59,500
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	70,000	70,000	70,000
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments	70,000	70,000	70,000
Upper limit for total principal sums invested for over 364 days	90,000	90,000	90,000

Maturity structure of fixed rate borrowing during 2008/09	Upper Limit	Lower Limit
under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

APPENDIX 2: CENTRAL BANK RATE MOVEMENTS

	UK	UK	UK	US	EU	UK	US	ECB
	MPC	MPC Minutes	Inflation Report	FOMC	ECB	Bank Rate	Fed. Rate	Refi Rate
2007								
Jan	10-11	24		30-31	11	5.25%	5.25%	3.50%
Feb	7-8	21	14	21 (mins)	8	5.25%	5.25%	3.50%
Mar	7-8	21		20-21	8	5.25%	5.25%	3.75%
Apr	4-5	18		11 (mins)	12	5.25%	5.25%	3.75%
May	9-10	23	16	9, 30 (mins)	10	5.50%	5.25%	3.75%
Jun	6-7	20		28-29	7	5.50%	5.25%	4.00%
Jul	4-5	18		18 (mins)	5	5.75%	5.25%	4.00%
Aug	1-2	15	8	7, 29 (mins)	2	5.75%	5.25%	4.00%
Sep	5-6	19		18	6	5.75%	4.75%	4.00%
Oct	3-4	17		9 (mins), 30-31	4	5.75%	4.50%	4.00%
Nov	7-8	21	14	21 (mins)	8	5.75%	4.50%	4.00%
Dec	5-6	19		11	6	5.50%	4.25%	4.00%
2008								
Jan	-	-		22		5.50%	3.50%	4.00%
Jan	9-10	23		29-30	10	5.50%	3.00%	4.00%
Feb	6-7	20	13	21 (mins)	7	5.25%	3.00%	4.00%
Mar	5-6	19		18	6	5.25%	2.25%	4.00%
Apr	9-10	23		29-30	10	5.00%	2.00%	4.00%
May	7-8	21	14		8	5.00%	2.00%	4.00%
Jun	4-5	18		24-25	5	5.00%	2.00%	4.00%
Jul	9-10	23			3	5.00%	2.00%	4.25%
Aug	6-7	20	13	5	7	5.00%	2.00%	4.25%
Sep	3-4	17		16	4	5.00%	2.00%	4.25%
Oct	8-9	22		28-29	2	4.50%	1.50%	3.75%
Nov	5-6	19	12		6	3.00%	1.00%	3.25%
Dec	3-4	17		16	4	2.00%	0-0.25%	2.50%
2009								
Jan	7-8	21		27-28 (7 mins)	15	1.50%	0-0.25%	2.00%
Feb	4-5	18	11		5	1.00%	0-0.25%	2.00%
Mar	4-5	18		17	5	0.50%	0-0.25%	1.50%

APPENDIX 3: KEY DATES IN 2008-09

8.9.08 Nationwide takes over **Cheshire and Derbyshire Building Societies**

15.9.08 Lehman Bros went into liquidation

16.9.08 US Government nationalises AIG

17.9.08 LloydsTSB in advanced talks with **HBOS** to save it by merger after major collapse in HBOS share value.

19.9.08 US Government announces TARP - Troubled Assets Relief programme \$700bn

22.9.08 Last two US investment banks Goldman Sachs and Morgan Stanley give up investment bank status

25.9.08 Washington Mutual - fourth biggest US retail bank fails. Biggest bank to fail in US history

29.9.08

- **Bradford and Bingley** nationalised.
- US: Wachovia sixth largest bank fails .
- Germany: Hypo Real Estate (owner of Depfa Bank of Ireland) bailed out by consortium of German banks.
- Fortis: bailed out by Belgium, Netherlands and Luxembourg governments.
- Iceland: Glitnir - third largest Icelandic bank - 75% nationalisation
- US Congress refuses to approve TARP

30.9.08 Ireland announces guarantee on all Irish bank deposits to 28.9.10. Other EU countries concerned at lack of level playing field for banks across EU.

30.9.08 Landsbanki, Heritable and Kaupthing, Singer and Friedlander downgraded from F1 to F3, and Glitnir from F2 to F3.

3.10.08 FSA increases savings guarantee on all deposits from £35,000 to £50,000

7.10.08 Icelandic Government takes over banks

8.10.08 Coordinated emergency 0.5% rate cuts by UK, ECB, US, Canada, Sweden and Switzerland.

8.10.08 UK £500bn bank bailout package announced in principle. 8 named banks covered by bank recapitalisation scheme - they are to increase their tier 1 capital by £25bn in aggregate. £25bn available in exchange for preference shares or PIBS, £25bn in exchange for ordinary shares, preference shares or PIBS, £250bn to guarantee debt issuance by 8 banks, plus £200bn to be made available under SLS in short lending support. BoE to announce next week a permanent regime to underpin banking system liquidity including a discount window facility.

13.10.08 £37bn cash injection into RBS, HBOS and Lloyds TSB - £28bn as ordinary shares and £9bn as preference shares @ 12%. RBS takes up £15bn as ordinary shares, £5bn as preference shares = 63% nationalisation. HBOS £11.5bn, Lloyds £5.5bn = 43% of combined group. Barclays to raise £6.5bn from investors.

13.10.08 Germany, France and Spain announce E1 trillion package to support banks through state guarantees and bank recapitalisation.

22.10.08 **Barnsley Building Society** forced to seek a rescue merger with Yorkshire Building Society after facing up to £10 million in losses on cash it had deposited with Icelandic banks Kaupthing Singer & Friedlander and Heritable.

19.1.09 Bank support package 2

- RBS swaps £5bn preference shares for ordinary shares – now 70% nationalised
- £250bn Government guarantees (insurance scheme) for toxic assets clogging up bank balance sheets; insurance scheme putting a floor on the amount that banks can lose on them (will help to free up capital).
- £100bn Government guarantees for new bonds issued by banks to back fresh loans to consumers, homebuyers and businesses – aim to reopen the asset backed security market
- Extension of £250bn credit guarantee scheme October 2008 extended to end of 2009

- £50bn asset purchase facility to buy corporate bonds, commercial paper and other company debts
- Northern Rock to start lending to customers again and to stop repaying its loan from the Government (subject to EU approval). NR to be split into good bank (with new input of capital from the Government) and bad bank.
- FSA announced that capital buffers built in during the recapitalisations of banks can be allowed to run down during the downturn on the basis that they will strengthen again once the business cycle turns
- Bank of England's Special Liquidity Scheme due to close in January but will be replaced by the Bank of England's discount window to ensure banks have permanent access to long term liquidity
- Bank of England given the go ahead to embark on quantitative easing through purchasing assets from banks whose liquidity is currently impaired

13.2.09 Asset purchase scheme starts buying commercial paper

26.2.09 Asset Protection Scheme published – insurance of toxic assets

26.2.09 RBS – RBS lost £24bn in 2008. Government support increases from £20bn to £45bn. The surprise need for additional capital was necessary to facilitate RBS's participation in the Government's Asset Protection Scheme - under which the Treasury will guarantee the bank against losses on £325 billion of its problem assets. The Government will inject an immediate £13 billion into RBS in return for non-voting B shares. It will then make an additional £6 billion available at the request of the bank. Finally, it will pay £6.5 billion in fees to take part in the APS in the form of B shares, taking the total to up to £25.5 billion. The need for additional capital was because of RBS's agreement to shoulder the first £19.5 billion of losses on assets put into the APS. Losses larger than that will be shared 90 per cent by the Government and 10 per cent by RBS.

5.3.09 QUANTITATIVE EASING: twice weekly buying to start 11 March.

9.3.09 Lloyds puts £260bn into Asset Protection Scheme = £216bn from HBOS and higher than expected £44bn from LTSB. Following the preference share conversion, LBG will be 65%-owned by the UK government (assuming no take-up by existing shareholders) and this figure would rise to 77% assuming the government exercised an option to convert the GBP15.6bn 'B' shares issued to the UK government as the fee for participation in the APS. Upon completion of the APS transaction LBG's core Tier 1 capital ratio will increase sharply to around 14.5%, leaving it well-equipped to meet the mortgage and small business lending targets agreed with the UK government.

25.3.09 Governor of the Bank of England, King advises against any further fiscal expansion in upcoming budget – no more debt issuance affordable; leave it to BoE to do Quantitative Easing now.

25.3.09 Gilt auction fails; £1.75bn 2049 conventional – first failure since 2002.

30.3.09 **Dunfermline Building Society** taken over by Nationwide

30.3.09 Irish AAA sovereign rating downgraded by S&P to AA+ as debt to GDP expected to exceed 70% and will be difficult to get down again below that level.



MEETING	DATE	ITEM
AUDIT COMMITTEE	23 June 2009	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: AUDIT AND INSPECTION LETTER 2007/08

SUMMARY

This report updates the Committee on the Audit Commission's annual letter for 2007/08, and advises the Committee that Cabinet has considered the letter and requested that the Committee should monitor the implementation of the recommendations contained within it.

RECOMMENDATION

Audit Committee is asked to:

1. Note the Audit and Inspection Letter 2007/08.
2. Monitor the implementation of the recommendations through progress reports to future Committee meetings.

REPORT DETAIL

1. Each year the Council receives an Audit and Inspection Letter setting out a summary of Audit and Inspection results, which support the CPA process.
2. The Audit and Inspection Letter related to 2007/08 is attached. This letter was considered at Cabinet on 27th May 2009. The report to Cabinet is also attached at Appendix A.

3. Cabinet agreed to note the Audit and Inspection Letter, and requested that the Audit Committee monitor the implementation of the recommendations contained in the letter; a summary of these is included in the attached Cabinet report.
4. It is intended that an update on progress will be included in subsequent reports to Committee. This will indicate the progress made against the recommendations made within the annual letter, and any issues arising from them.

5. Financial Implications and risks:

The annual letter is a key summary of issues identified by the Council's external auditor during the course of a year, and reflects the culmination of a range of reviews by the auditor, including the CPA and the audit of accounts.

Recommendations may arise from any audit undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, managers are obligated to consider financial risks, the use of resources and the costs associated with the implementation of the recommendations. There are no other financial implications or risks arising directly from this report.

6. Legal Implications and risks:

None arising directly from this report

7. Human Resource implications and risks:

None arising directly from this report

8. Equalities and Social Inclusion implications:

None arising directly from this report.

Staff Contact:	Rita Greenwood	Cynthia Griffin
Designation:	Group Director Finance & Commerce	Group Director Culture & Community
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CHERYL COPPELL
Chief Executive

Background Papers List

There are none.

APPENDIX A



Havering
LONDON BOROUGH

MEETING	DATE	ITEM
CABINET	27 MAY 2009	5

<p>Cabinet Member: Leader of the Council</p> <p>Relevant Overview & Scrutiny Committee: Corporate Overview & Scrutiny Committee</p> <p>This is not a key decision</p> <p>This is not a strategic decision</p>

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: AUDIT AND INSPECTION LETTER 2007/08

SUMMARY

This report covers the Audit and Inspection Letter for 2007/08 from the Audit Commission.

RECOMMENDATION

1. Cabinet note the Audit and Inspection Letter.
2. Cabinet request that Audit Committee monitor the implementation of the recommendations.

REPORT DETAIL

1. Each year the Council receives an Audit and Inspection Letter setting out a summary of Audit and Inspection results, which support the CPA process.
2. The Audit and Inspection Letter related to 2007/08 is attached.
3. The main messages for the Council included in this report are:
 - The Council is a three star authority and improving well.
 - Improvements are required in adult social care services, particularly in relation to levels of delayed discharge of care.
 - Our auditor issued an unqualified opinion on the Council's 2007/08 accounts. The Council also maintained its level 3 score for use of resources, and responded positively to the new assessment methodology.
 - The Council has achieved significant improvement in the quality of its housing services, and continues to deliver good outcomes for children and young people.
 - Although the level of residents' satisfaction with services provided by the Council has improved, it remains below the London average.

Action identified as needed by the Council (*italics* indicates action being taken):

- Continue to monitor the impact of the economic downturn on demand-led services. *There is an action plan taking forward initiatives and key indicators are being monitored.*
- Build on joint work with the local NHS and other partners to further reduce levels of delayed discharges of care, and address other areas for improvement in adult social care services. *This is taking place.*
- Continue to work to further strengthen the arrangements for effective use of resources. *Arrangements continue to be strengthened where it is viewed as cost effective.*

Financial Implications and risks:

None arising directly from this report.

Legal Implications and risks:

None 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.

Reasons for the decision:

Cabinet need to receive and consider the Audit and Inspection results.

Alternative options considered:

None.

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E-mail:	rita.greenwood@haverling.gov.uk	Cynthia.griffin@haverling.gov.uk

CHERYL COPPELL
Chief Executive

Background Papers List

There are none.

Cabinet, 27 May 2009

Annual Audit and Inspection Letter

London Borough of Havering Council

Audit 2007/08

March 2009



Contents

Key messages	3
Purpose, responsibilities and scope	4
How is Havering Council performing?	5
The audit of the accounts and value for money	8
Looking ahead	11
Closing remarks	12

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Key messages

1 The main messages for the Council included in this report are:

- the Council is a three star authority and improving well;
- improvements are required in adult social care services, particularly in relation to levels of delayed discharge of care;
- your auditor issued an unqualified opinion on the Council's 2007/08 accounts. The Council also maintained its level 3 score for use of resources, and responded positively to the new assessment methodology;
- the Council has achieved significant improvement in the quality of its housing services, and continues to deliver good outcomes for children and young people; and
- although the level of residents' satisfaction with services provided by the Council has improved, it remains below the London average.

2 Action needed by the Council:

- continue to monitor the impact of the economic downturn on demand-led services;
- build on joint work with the local NHS and other partners to further reduce levels of delayed discharges of care, and address other areas for improvement in adult social care services; and
- continue work to further strengthen the arrangements for effective use of resources.

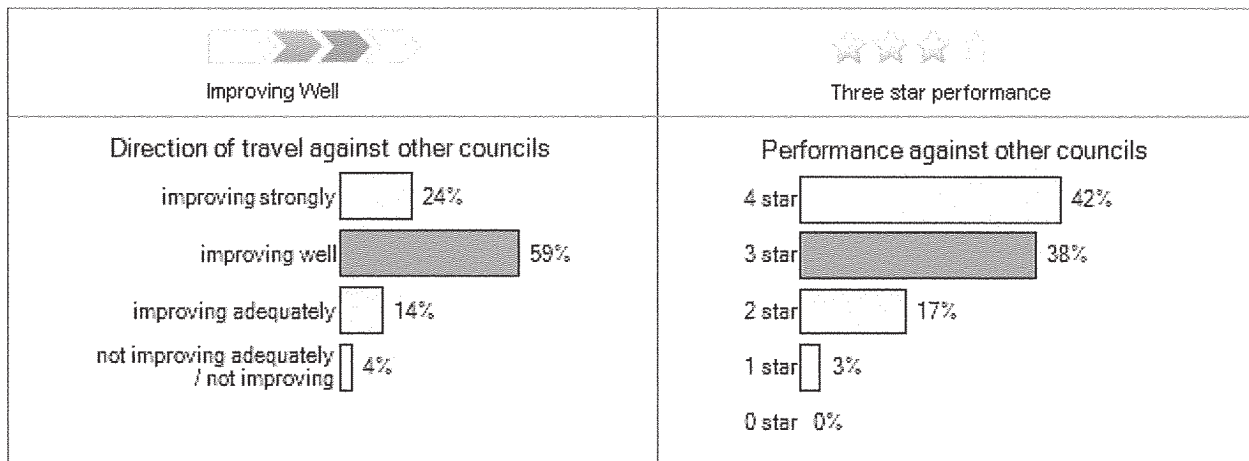
Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 6 As your appointed auditor, Jon Hayes was responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, he reviewed and reported on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Havering Council performing?

9 The Audit Commission’s overall judgement is that Havering Council is improving well and we have classified Havering Council as three star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1 Overall performance of district councils in CPA¹



Source: Audit Commission

¹ Percentage figures may not add up to 100 per cent due to rounding

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	
Corporate assessment/capacity to improve	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	2 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	2 out of 4
Benefits	3 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 10 The London Borough of Havering is improving well. Improved outcomes have been delivered in priority areas, including parks and street cleanliness, leading to increased levels of resident satisfaction. There has also been a significant reduction in crime. Access to services has been improved, for example through locating local advice centres in libraries, and opening new children's and community centres.
- 11 Improvement in housing services has been significant, with the Council achieving the highest rating this year. The Council continues to deliver good outcomes for children and young people including excellent levels of educational achievement. However, outcomes for users of adult social care are only adequate.
- 12 Delivery of good value for money has been maintained. The rate at which performance indicators have improved is in line with national averages as is the number of indicators in the best quartile. Appropriate action is being taken to address low overall resident satisfaction.
- 13 Improvement planning is robust ensuring that expenditure is aligned to priorities. The Council works well with partners to support improved performance, particularly in crime and housing, and to maximise resources, for example in successfully securing investment to help deliver regeneration schemes.

How is Havering Council performing?

Service Inspections

14 An important aspect of the role of the Comprehensive Area Assessment Lead (CAAL) is to work with other inspectorates and regulators who also review and report on the Council's performance. CAALs share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Ofsted

15 Ofsted has assessed the Council's services for children and young people as level 3 (out of 4). The Council achieved a score of 3 (good) in each of the 6 assessment judgement areas, with the exception of 'Capacity to Improve', in which it scored 4 (excellent). This means that it is consistently delivering good services, despite the fact that the budget for social services is per capita below the national average. The Council manages its services through extensive and well developed commissioning arrangements, drawing on private and voluntary sector expertise to meet the diverse needs of its residents.

16 Major strengths include the maintenance of good and above average educational standards across the borough and within different groups, low rates of re-offending, and a high number of young offenders engaged in full time education, training or employment, and good partnership work which is reducing anti-social behaviour in targeted areas. However, Ofsted also noted that the number of conceptions amongst 15 to 17 year olds is not reducing and that three schools have been placed in a category of concern.

Commission for Social Care Inspection

17 The Council's services for adult social care have been given an overall 1 star (out of 3) rating. The service has been assessed as delivering adequate outcomes with promising capacity to improve. It was reported that levels of delayed discharge of care increased during 2007/08, although some joint work with NHS partners led to a reduction later in 2008. Delays specifically attributable to the council reduced by a third during the year, and fell further later in 2008. The importance of this issue has been recognised within Havering's Local Area Agreement.

18 Key strengths and successes within the service include a strengthening of strategic commissioning, more people being helped to live at home, in part through increased telecare provision, and more effective support being provided for older people with dementia. Areas requiring improvement included the need to reduce staff turnover, to increase the influence of people using services on service development and quality assurance, and the need to reduce waiting times for assessment.

The audit of the accounts and value for money

19 Your appointed auditor reported separately to the Audit Committee on the issues arising from the 2007/08 audit and has issued:

- the audit report, providing an unqualified opinion on your accounts, the group accounts and the pension fund on 30 September 2008;
- a conclusion on your Value for Money arrangements to say that these arrangements are adequate on 30 September 2008; and
- a report on the 2007/08 Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

20 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.

- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
- Financial management (including how the financial management is integrated with strategy to support council priorities).
- Financial standing (including the strength of the Council's financial position).
- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

The audit of the accounts and value for money

- 21 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

Note: 1 = lowest, 4 = highest

The key issues arising from the audit

Accounts

- 22 The Council submitted its draft annual accounts in accordance with the timetable and in line with legislation. A material amendment was required to correctly disclose £32 million of impairment charges in the net cost of services in the HRA. In addition, a minor reclassification was made to improve the disclosure of the year-end debt owed by the Council to the Pension Fund. There were also a number of other non-trivial amendments. Following these adjustments, an unqualified audit opinion was given within the 30 September 2008 deadline.
- 23 Working papers provided to support the accounts were of a good standard and audit queries were generally answered promptly. Some delays were experienced with the provision of evidence for the cut-off testing and some amendments were necessary to enable the auditor issue a clean opinion on the Whole of Government Accounts return.

Value for money

- 24 Your auditor reviewed the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources against 12 criteria specified by the Audit Commission and he assessed the Council as having adequate arrangements for all areas.

Use of resources

- 25 The year's assessment introduced challenging new criteria, most notably in reporting to the public, asset management and probity and propriety. The Council responded positively to these new criteria, most notably achieving a level 4 score for the asset management element of the financial management theme.

- 26 The Council maintained its overall level 3 assessment score, achieving level 3 in four of the five themes. The score for financial reporting slipped from level 3 last year to 2 this year as a result of the issues referred to in the accounts section above.
- 27 Key areas for the Council to focus on in the future include:
- reviewing the financial statements to ensure all required disclosures have been made and ensuring sufficient resources are assigned to support the accounts audit process;
 - enhancing the Council's Medium Term Financial Strategy by including more financial information on funding agreements with partners and making greater use of different planning scenarios;
 - more completely documenting the assurance framework to demonstrate the links between the corporate risk register, the corporate objectives and the assurances obtained from various sources such as internal audit;
 - improving benchmarking and quality measures at a service level to drive performance improvement; and
 - further developing its approaches to procurement to secure additional efficiencies.

Data quality

- 28 Your auditor performed a spot check on five performance indicators published by the Council. Three of these, one from Environment and two from Housing, required amendment to ensure that they were fairly stated.

National Fraud Initiative

- 29 The NFI is a computerised data matching exercise designed to identify overpayments to suppliers and to detect fraud perpetrated on public bodies. The Council has been proactive in reviewing the output from NFI 2006/07. Internal audit co-ordinates the follow-up of matches, which is undertaken by the responsible department, for example, Council Tax, Payroll and Housing Benefits. As at the end of December 2008, the Council had identified over £183,734 of potential savings arising from the exercise.

Grants

- 30 This year, the Council had eight grant claims that required certification, compared to 12 in 2006/07. The estimated audit fee for this work is £47,000, compared to £53,000 in 2006/07. Our work has not identified any significant issues.

Looking ahead

- 31 The public service inspectorates have developed a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 32 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 33 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

- 34 This letter has been discussed and agreed with the Chief Executive and Director of Resources. A copy of the letter will be presented at the audit committee on 21 April 2009. Copies need to be provided to all Council members.
- 35 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
Annual Governance Report	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
[Final accounts memorandum	November 2008
Use of resources report	November 2008
Annual audit and inspection letter	March 2009

-
- 36 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 37 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Adewale Kadiri
Comprehensive Area Assessment Lead

31 March 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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www.audit-commission.gov.uk



MEETING	DATE	ITEM
AUDIT COMMITTEE	23 JUNE 2009	7

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: EXTERNAL AUDIT FEE LETTER

WARD: n/a

SUMMARY

The External Audit providers, appointed by the Audit Commission, are rotated after a maximum of seven years service to an organisation. The Council's External Auditor has now changed from the Audit Commission to PricewaterhouseCoopers (PWC).

A report was considered by the Committee in June 2008 setting out the work that was proposed for the 2008/09 audit, which includes the audit of the accounts commencing July 2009.

This report presents the fee for the 2009/10 audit, and asks the Committee to note that the audit plan for the year will follow in due course.

RECOMMENDATION

The Committee is asked to:

1. Consider and comment on the contents of the report and the fee letter.
2. Note that the 2009/10 audit plan will be presented at a subsequent meeting.

REPORT DETAIL

As explained in the letter from PWC, the Audit Commission has changed the arrangements for the production of Audit Plans with effect from 2009/10. This means that the detailed plan will now be received after the 2008/09 audit of accounts has been completed, although the fee for the work to be covered by the plan has been advised in advance of this.

The attached letter sets out how the fee for the 2009/10 audit has been arrived at, and shows a comparison to the fee for the 2008/09 plan.

The fee letter is presented for the Committee to review and make any comments on, taking into account that the plan covered by the fee will be presented to a subsequent meeting.

Financial Implications and risks:

The total audit fee from the 2008/09 plan was £342,450. The fee now proposed for the 2009/10 audit is £346,731. This represents an increase of 1.25%. In addition, a further change of £105,000 will be made for the certification of claims and returns, the same level as for 2008/09, and £38,500 for the pension fund audit.

A comparison of the elements making up the fee is shown in the table below:

Element	2009/10 Fee £	2008/09 Fee £
Audit of accounts	247,724	244,665
Use of Resources, Data Quality and Value for Money Conclusion	99,007	97,785
Total	346,731	342,450
Certification of claims and returns	105,000	105,000
Pension Fund	38,500	38,000

The fee does not include any additional time required to audit grants, any additional work requested by the Council, and any additional work generated outside any assumptions on which the fee is based. As the letter indicates, the quoted fee is an estimate and may change to reflect the actual content of the audit plan.

The fee and additional known charges outlined above are currently within the available budget. Any additional fee, however, would have to be managed within the overall approved budget.

Legal Implications and risks:

None 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.

Staff Contact: Rita Greenwood

Designation: Group Director Finance & Commerce

Telephone No: 01708 432210

E-mail address: Rita.Greenwood@haverling.gov.uk

CHERYL COPPELL
Chief Executive

Background Papers List

None.

Rita Greenwood
Group Director Finance and Commerce
London Borough of Havering
Town Hall
Main Road
Romford
RM1 3BB

31 March 2009

Dear Rita

Annual audit fee 2009/10

As you are aware the Audit Commission has changed the arrangements for the production of Audit Plans with effect from 2009/10. Hopefully receiving a detailed plan after the 2008/09 audit of accounts is out of the way will be helpful to the Audit Committee and prevent any confusion about the years involved.

In line with the Commission's requirements we are writing to confirm the indicative audit fee for London Borough of Havering's 2009/10 financial year. The fee:

- is based on the risk-based audit approach set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee (mid point) for London Borough of Havering is £320,825 based on the Commission's fee formula. The fee proposed for 2009/10 is 8 per cent above the scale fee. In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09. This assessment will be reviewed after we have completed our 2008/09 audit and amended then if required.

The total indicative fee for the audit for 2009/10 is £346,731 (exclusive of VAT) which compares to the planned fee for 2008/09 of £342,450. The fee represents a 1.25% increase on the 2008/09 fee in line with the Audit Commissions fee proposals for the year. As we have not yet completed our audit for 2008/09, the audit planning process for 2009/10 including the full risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

Audit area	Planned fee 2009/10	Planned fee 2008/09
Financial statements*	247,724	244,665
Use of Resources/VFM Conclusion (includes data quality)	99,007	97,785
Total audit fee (excluding Pension Fund)	346,731	342,450

Audit area	Planned fee 2009/10	Planned fee 2008/09
Pension fund audit**	38,500	38,000
Total audit fee – including Pension Fund	385,231	380,450
Certification of claims and returns	105,000	105,000

* Our fee for the financial statements includes work on whole of government accounts (which will be based on IFRS requirements from 2009/10), however we have not had details from the Audit Commission at this stage on the precise nature of this work.

** We will issue a separate audit plan for the 2009/10 Pension Fund audit to the Pensions Committee, as we have for 2008/09.

A detailed plan for the audit of the 2009/10 financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If we need to make any significant amendments to the audit fee during the course of the audit, we will first discuss this with the Group Director of Finance and Commerce and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

The audit fee is based on the assumption that detailed working papers, and other specified information, are provided to an agreed timetable. Where the Authority does not meet agreed timetables and/or provides poor documentation such that additional audit work is necessary, or our audit is delayed, we will charge additional fees to cover the costs incurred.

We will bill the fee in twelve equal monthly instalments on the 15th of each month, starting in April 2009.

Our work on use of resources, included in the above fee calculation, informs the 2008/09 value for money conclusion and the Use of Resources assessment which we will be completing in the early part of 2009/10. The use of resources assessments will be based upon evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme. We have currently not identified any significant risks in relation to the value for money conclusion.

However, we would like to discuss with you partnership working, workforce planning and the Council's approach to risk management as these may be areas in which we perform additional targeted work in 2009/10 to inform our work on Use of Resources in future periods. At present we have not included any fee in respect of these issues in our fee proposal. We will review this later this year after we have completed our 2009 use of resources assessment.

We will issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that we have agreed to undertake in addition to our audit under the Code of Audit Practice. Each piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Role	Name	Contact details
Engagement leader	David Braithwaite	020 780 42369, david.braithwaite@uk.pwc.com
Audit senior manager	Ciaran McLaughlin	020 721 35253 ciaran.t.mclaughlin@uk.pwc.com
Audit manager	Marisa Crook	020 780 48118 marisa.crook@uk.pwc.com
Team leader	Keeley Gibbons	020 721 23440 keeley.m.gibbons@uk.pwc.com

We are committed to providing you with a high quality service to meet your needs. If you would like to discuss how we can improve our service, or if you are dissatisfied with any aspect of our services, please contact me in the first instance.

Alternatively, you may prefer to discuss matters with Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Yours sincerely

David Braithwaite
Director

cc Group Director of Finance and Commerce

cc Chair of the Audit Committee

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Audit plan	December 2009
Annual Audit Letter (incorporating specific requirements of International Standard on Auditing 260)	September 2010
Auditor's report giving the opinion on the financial statements	September 2010
Value for money conclusion and Use of resources report	September 2009



MEETING	DATE	ITEM
AUDIT COMMITTEE	23 June 2009	9

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: HOUSING AND COUNCIL TAX BENEFIT FRAUD REPORT

SUMMARY

This report advises the Committee of the work and performance undertaken by the Benefit Investigation Section during the period 1 October 2008 to 31 March 2009.

RECOMMENDATION

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

This report contains four sections; the content of each section is outlined below:

Section 1. Background

Section 2. HB/CTB Fraud Work 2008/09

- A) Referrals
- B) National Fraud Initiative
- C) Types of Offences
- D) HB/CTB fraud overpayments
- E) Raising Fraud Awareness

Section 3. Direction of Travel

- A) DWP and Police partnerships
- B) Benefits Key Line of Enquiry
- C) HB/CTB Fraud Topic Group
- D) Successful Prosecutions
- E) Benchmarking

Section 4. Key Performance Indicators

In this section of the report the results for two fraud specific key performance indicators are presented in graphical format.

Section 1 Background

- 1.1 Local Authorities are empowered by S151 of the Local Government Act 1972 to undertake housing and council tax benefit (HB/CTB) fraud investigations and prosecute offenders. The Council has a dedicated Benefit Investigation Section responsible for the investigation of suspected abuse of the Housing Benefit and Council Tax Benefit scheme and any related Income Support and Jobseekers Allowance. The Section aims to investigate claims for HB/CTB and make recommendations about its findings to the Benefits Service and/or the Benefit Agency Decision-Maker for adjudication in accordance with the Benefits Service Sanctions Policy and the Corporate Strategy for the Prevention and Detection of Fraud and Corruption. In this way the Section maintains its independence.
- 1.2 At March 2009, there were 18,479 claims for housing and council tax benefit (HB/CTB) in payment. This is an increase of 530 claims since October 2008.
- 1.3 The Benefit Investigations Section is located within Benefit Services and consists of one Principal Investigations Officer, one Senior Investigations Officer, five Investigations Officers and one Investigations Assistant under the remit of the Head of Exchequer Services.
- 1.4 The cost of administering the Investigation Team in 2008/09 was £473,000. This was funded through the Benefit Administration grant and will continue through 2009/10.
- 1.5 Data and statistical information in relation to fraud work from April 2008 to September 2008 is also contained in this report for comparison purposes.

Section 2 HB/CTB Fraud Work 2008/09

A) Referrals

- 2.1 The table below provides the sources of fraud referrals for the Investigations Section during 2008/09.
- 2.2 The anonymous referrals make up 22% of all referrals. Although these types of referrals may appear malicious, this is only conjecture as there is insufficient information to validate this assumption. However, the information provided generally has elements of truth contained within it

- 2.3 The Housing Benefit Data Matching Service (HBMS) provides quality referrals for investigation that identify undeclared capital and changes in a customer's income such as Job Seeker's Allowance ending.
- 2.4 The National Fraud Initiative (NFI) generate a large number of investigations which lead to a very small number of prosecutions and sanctions which is due to the low quality of the data matched. To overcome this issue, filters are used to separate the low quality and low priority data matches for investigation. Consequently, less referrals have been generated from the NFI data match but the investigation of which are likely to be similar or exceed performance of the previous NFI data match exercise which commenced in 2007.
- 2.5 External organisation referrals are made up of HBMS and NFI data matches which total 19% of all referrals.
- 2.6 Referrals from internal departments contribute 59% towards the total referrals in 2008/09 with the majority as anticipated, coming from the Benefit Assessment teams.

Number of Referrals/Type	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total 2008/09
Anonymous	30	32	28	28	118
External Organizations	37	19	46	31	133
Internal Departments	76	161	89	64	390
Total	143	212	163	123	641

- 2.7 The table below shows the categories of the potential fraud referrals across 2008/09. There is a large percentage of 'Living Together' as husband and wife cases which is reflected in the statistics below. This can be attributed to greater staff and public awareness.

Potential Fraud Categories	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total 2008/09
Capital	11	54	10	4	79
Contrived Tenancy	7	3	4	6	20
Income from Other Sources	23	38	18	10	89
Living Together	36	53	52	49	190
Non-Dependant	16	9	13	5	43
Non-Resident/vacated	24	28	32	21	105
Other welfare benefits	1	1	1	0	3
Working	20	21	19	14	74
Non Commercial Tenancy	1	3	3	6	13
Other	4	2	11	8	25
Total	143	212	163	123	641

B) National Fraud Initiative

2.8 The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise that runs every two years and is designed to help participating bodies identify possible cases of fraud and detect and correct any consequential under or overpayments from the public purse. The core remit of the NFI is to match data to help reduce the level of housing benefit fraud, payroll and occupational pension fraud and tenancy fraud.

2.9 The current NFI exercise commenced in March 2009 where a total of 2,273 original matches involving housing Benefit and Council Tax Benefit were identified. These matches were filtered down to 114 for further investigation.

2.10 The first 27 cases of the 114 to be investigated are students and initial indications are that this will result in 8 cases for investigations.

C) Type of Offences

2.11 The severity of the sanction is determined by the circumstances surrounding the offence. Guidance to assist in determining the sanction is provided in the Council's Benefit Fraud Policy which considers a range of issues including:

- The factors surrounding the offence
- The amount defrauded
- The evidential test
- The test of public interest

2.12 The number of successful sanctions for 2008/09 totals 71 and is set out in more detail in the table below.

Sanction/ Offence Type	Administrative Penalties		Cautions		Prosecutions	
	Qtr 1 & 2	Qtr 3 & 4	Qtr 1 & 2	Qtr 3 & 4	Qtr 1 & 2	Qtr 3 & 4
2008/09						
Undeclared Capital	3	11	0	4	6	3
Working and Claiming	0	1	4	5	2	0
Contrived Tenancies	0	0	2	1	1	0
Living Together	2	2	0	3	1	7
Income from other sources	1	4	2	1	0	0
Vacated	0	0	1	2	0	0
Other	0	1	0	1	0	0
Totals	6	19	9	17	10	10

2.13 The table above shows a significant increase in sanctions during the second half of 2008/09. This can be attributed to the reintroduction of HBMS data matches resulting in successful sanctions and prosecutions.

D) HB/CTB Fraud Overpayments

2.14 Overpayments are identified and classified as fraudulent following a sanction. This can be a Caution, Administrative Penalty or successful Prosecution.

2.15 The Council's commitment to recovering overpayments is reflected in the authority's corporate strategy for the prevention and detection of fraud and corruption. With regard to subsidy and expenditure, fraudulent overpayments are recorded as an eligible overpayment and the Authority receive 40% subsidy from the DWP. For the purpose of overpayment recovery, any Housing Benefit overpayment that is fraudulent can be recovered at a higher rate from ongoing entitlement if the claimant has either:

- Been found guilty of an offence whether under statute or otherwise, or
- Made an admission after caution of deception or fraud for the purpose of obtaining relevant benefit, or
- Agreed to pay a penalty under section 115A of the Social Security Administration Act 1992

- 2.16 When recovering overpayments from ongoing entitlement, the standard maximum rate of recovery from housing benefit is £9.75 per week. If the overpayment has arisen as a result of fraud, this figure increases to £12.80 per week. The rate of recovery can increase even further if the claimant is working, in receipt of a war pension or receives income from a charity,
- 2.17 The value of fraud overpayments generated in 2008/09 totalled £711,574. A balance of £605,783 currently remains outstanding of which £257,367 is the subject of arrangements.

E) Raising Fraud Awareness

- 2.18 Raising awareness is an important tool in combating fraud in the benefit system and is a key objective for Exchequer Services and the Council. Benefit Services encourage employees and the public to be vigilant against fraud.
- 2.19 During 2008/09 fraud awareness training was delivered to all Homes in Havering staff. This has resulted in an increase in the number and quality of referrals.
- 2.20 A programme of fraud awareness training is also underway for staff within Benefits Services.
- 2.21 An advert has also been placed in the Havering Community Safety Handbook 2009 which invites callers to tell the Investigation team about suspected fraud. This publication is delivered to every home in Havering.
- 2.22 A fold out information booklet prepared by the Primary Care Trust will also contain an advert advising residents to report suspected fraud. The fold out document will be laminated and put up in every surgery, hospital and chemist in the borough. In addition, a copy will be delivered to every home in the borough.
- 2.23 Regular benefit fraud articles are also produced for the Financial & Commerce magazine, which is sent electronically to all staff in the Finance & Commerce directorate.
- 2.24 There is no obvious increase in referrals from the public when an advertisement or article appears in the press even though regular activity takes place. In view of this, monitoring the success of advertising campaigns is a new activity planned for 2009/10.

Section 3 Direction of Travel

A) DWP and Police Partnerships

- 3.1 From 7 April 2008 the Welfare Reform Act 2008 (WRA) gave Local Authorities powers to investigate and prosecute offences against certain national social security benefits alongside local ones. The WRA and associated regulations allow the Council to investigate both HB/CTB and national benefits together.
- 3.2 Currently, Havering Council are jointly investigating 45 cases with the DWP where HB/CTB and another benefit is involved.
- 3.3 For the period October 2008 to March 2009, there have been three cases where the DWP and Havering Council have worked together and prosecuted individuals for a fraud in relation to HB/CTB and another benefit. The most recent case being the prosecution of a woman who had fraudulently claimed almost £80,000.00 in benefits.
- 3.4 Havering is now working more closely with the Local Safer Neighbourhood Police. To date two benefit claimants have been arrested and removed to Romford Police Station to be interviewed by members of the Investigation team. It is envisaged that this type of activity will become embedded in the work of the team and once news of this new initiative spreads across the community, it will act as a deterrent.

B) Benefits Key Line Of Enquiry

- 3.5 The Benefit Investigation Team has now assessed its operation against the Audit Commission Key Line of Enquiry (KLOEs) for Benefits and in doing so have considered the following:
 - the service is combating fraud by continuing to reduce the amount of fraud and error entering the benefits system through raising fraud awareness and publicising successful prosecutions as a deterrent
 - improvements in the quality of benefit investigations can be seen such as the standard of evidence obtained
 - there is an opportunity for alternative ways of working
- 3.6 Areas identified for improvement have been included in the KLOE Improvement plan for action.

C) HB/CTB Fraud Topic Group

- 3.7 The Corporate Overview and Scrutiny Committee established a HB/CTB Fraud Topic Group in 2008 where it received a presentation from the Head of Exchequer Services and Benefits Manager. Members were pleased overall with the information on the HB/CTB Fraud and had no wish to scrutinise the topic further. The review was drawn to a close.

- 3.8 The Topic Group findings and recommendations were reported to Corporate Overview & Scrutiny Committee on 10 December 2008.
- 3.9 The Topic Group recommended that:
- a Financial Investigator be recruited to work alongside the criminal investigation
 - investigations into the possibility of working in partnership with another local authority who can provide fraud management services be continued
 - the possibility of recruiting a Manager for Fraud Services be reinvestigated in twelve months time
- 3.10 The first recommendation in 3.9 above is currently in progress. The East London Shared Services Group is dealing with the second recommendation above.

D) Successful Prosecutions

- 3.10 There were twenty cases presented to the court for prosecution in 2008/09. All defendants either pleaded guilty or were found guilty of benefit offences under social security legislation. Details of two of these cases are outlined below.
- 3.11 Case 1. The Investigation team claimed David Ham ran two flower shops in Hornchurch and Barking with his two daughters whilst claiming HB/CTB. It also came to light that David Ham had not declared capital from an inheritance amounting to £44,821. The flat above one of the shops was also rented out to a number of people.
- 3.12 Details from various credit companies and banks established a lifestyle incompatible with a family relying on state benefits. Mr Ham's wife, Lorraine had three cars registered in her name. Two of the cars had personalised number plates and the other one, a Nissan Navara 2.5L was worth £20,322. Lorraine Ham used £16,000 from Mr David Ham's inheritance to buy a caravan. Credit check reports revealed 27 accounts in the name of Lorraine Ham and seven in the name of David Ham with cash movements of over £74,000. The report also showed links to both flower shops.
- 3.13 The Investigation team was alerted to the fraud after David Ham's voice was recognised on Kiss FM radio show by an investigating officer. The caller, who said his name was 'Dave', said that it was his birthday and he had two shops - Liberty Flowers in Barking and Chubby's Farm Shop in Hornchurch. Mr Ham was caught after an investigation was mounted over a housing benefit claim into the flat above the flower shop.

- 3.14 David Ham pleaded guilty at Snaresbrook Crown Court to dishonestly failing to notify the Council of his inheritance. The amount overpaid was £25,308 between October 2003 and June 2006 as a result of the undeclared capital. The Council will be seeking to recover a total of £41,000 in overpaid benefits which date back to September 2001. David Ham was given a 20 week prison sentence suspended for one year and ordered to carry out 60 hours unpaid community work.
- 3.15 Case 2. Luciana Byrne claimed she had separated from her husband, Derek Byrne, in May 2005 and was entitled to claim housing and council tax benefit as she was a lone parent. In January 2007 an officer from the Investigations Team switched on their television and recognised Mrs Byrne appearing on the BBC programme.
- 3.16 The investigating officer then contacted the production company behind the show who confirmed Luciana Byrne had declared that she was married and had given her husband's name as the next of kin. Her husband's address and telephone number were also on the TV programme application form and it was confirmed that they were the same as her own. The same form was also countersigned by Derek Byrne, 15 months after his wife had claimed they had separated.
- 3.17 In an interview under caution Mrs Byrne admitted that she deliberately split up with her husband to obtain further benefits. She had been paid a total of £26,631 in benefits to which she was not entitled. Mrs Byrne pleaded guilty at an earlier hearing and was sentenced at Basildon Magistrates Court for three counts of dishonestly making false representations. Luciana Byrne was sentenced to 150 hours unpaid community service and an eleven months suspended sentence.

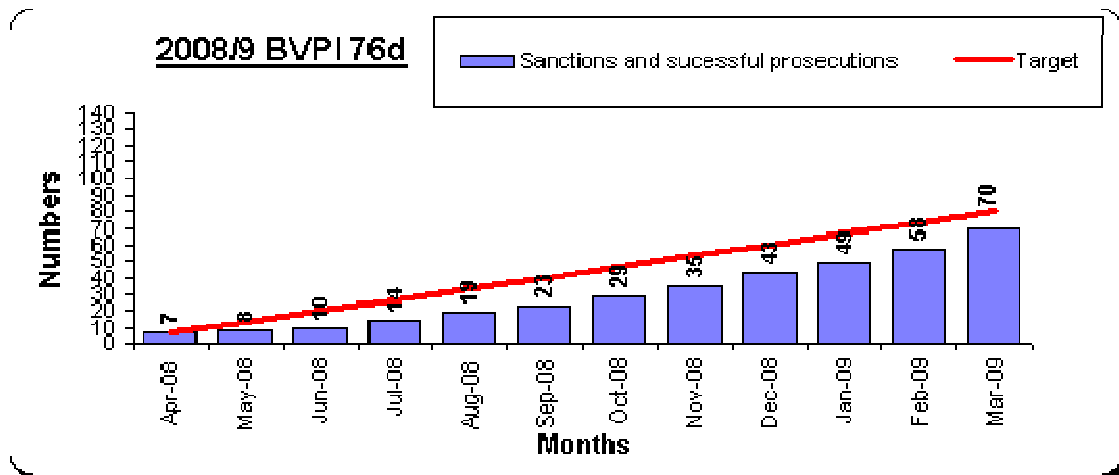
E) Benchmarking

- 3.18 Ordinarily, the DWP operate a website which would provide data for all authorities in relation to fraud performance. Unfortunately, information for 2008/09 has not been posted to the website, therefore a full comparison cannot be provided at this time.
- 3.19 The table below however, represents a small number of local authorities in London and also Thurrock Council who have shared information with the Investigations team regarding successful sanctions and prosecutions for the purpose of this report.
- 3.20 On the surface, Havering Council's performance appears low in comparison to the Council's mentioned below. However, these Councils have a higher HB/CTB caseload and also a larger complement of Investigating Officers.

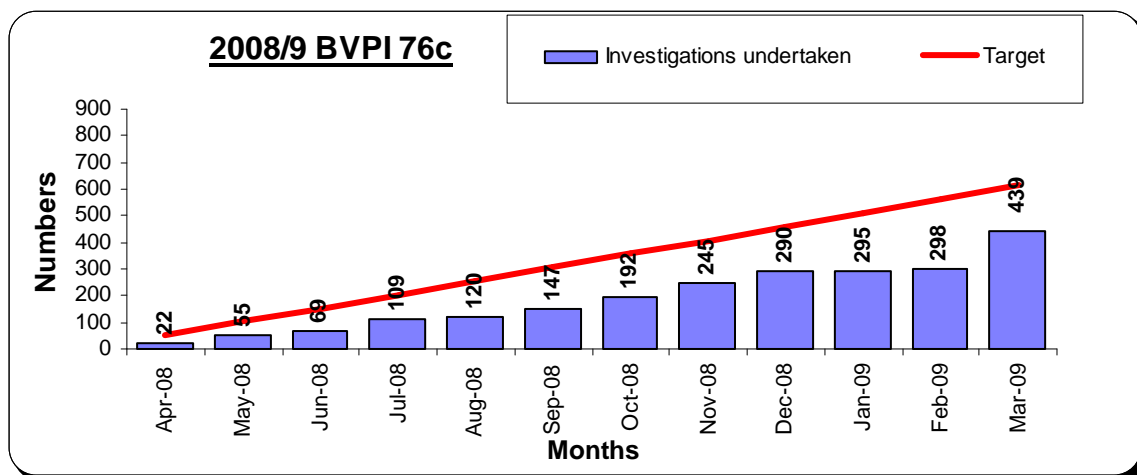
Council	Cautions	Administrative Penalties	Prosecutions	Total
Tower Hamlets	67	74	29	170
Lewisham	70	50	38	158
Newham	13	99	13	125
Hackney	46	37	37	120
Redbridge	45	34	18	97
Waltham Forest	40	25	15	80
Havering	26	25	20	71
Slough	28	18	24	70
Thurrock	18	15	19	53
Barking & Dagenham	12	21	16	48

Section 4 Key Performance Indicators (KPIs)

4.1 The graph below shows the number of sanctions and successful prosecutions in 2008/09.



- 4.2 The target for prosecutions and sanctions was not met in 2008/09. The period for which the HBMS data match exercise was suspended resulted in a reduction in the number of referrals, investigations and subsequent sanctions and prosecutions.
- 4.3 The investigation process has been reviewed and improved. The results of this process review should be seen in 2009/10.
- 4.4 The number of investigations undertaken in quarter 3 and quarter 4 reflect the growing complexity of investigations work . Performance did not meet target as can be seen in the graph below and this has also been compounded by a reduction in the number of quality referrals. Procedures have been reviewed and more quality referrals are being received so it is likely an improvement will be seen in the coming months.



Financial implications and risks:

The Benefits Service administers HB/CTB on behalf of the Department for Work and Pensions who provide the Council with 100% subsidy for the expenditure it occurs from payment of HB/CTB. However, subsidy is reduced where overpayments occur as there is an expectation that Councils will recover the overpaid HB/CTB. The DWP will allow 40% subsidy in the case of fraudulent overpayments.

Therefore the work of the Benefit Investigation Team regularly identifies losses which are to be recovered by the Council. There are however, no financial implications or risks arising directly from this report.

Legal implications and risks

There are none arising directly from this report.

Human Resource implications and risks

There are none arising directly from this report.

Equality and Social Inclusion implications

None arising directly from this report

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CHERYL COPPELL

Chief Executive

Background Papers List

None.



MEETING

DATE

ITEM

AUDIT COMMITTEE

23 June 2009

10

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: INTERNAL AUDIT PROGRESS REPORT

SUMMARY

This report advises the Committee of the 2008/09 systems work undertaken by the internal audit team during the period since 01 January 2009.

RECOMMENDATION

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

The progress report contains an update to the Committee regarding Internal Audit activity presented in four sections.

Section 1. Audit Work 01 January – 31 March 2009

A summary of the progress made to deliver the plan in quarter four is detailed in this section of the report. Key performance indicator information is excluded from this progress report to avoid duplication with the Annual Audit Report.

Section 2. Management Summaries

Summaries of all final reports issued in the period are included.

Section 3. Budget & Resource Information

The budgetary and resource position at the end of March are included for information.

Section 4. Outstanding Audit Recommendations Tables

The details regarding status, as at the end of March, of all outstanding recommendations are included within tables for information.

Appendix A & B. Corporate Risk Register

The Corporate Risk Register is appended for information following the recent full review and update by Risk Management Group and subsequent approval by Corporate Management Group.

Financial implications and risks:

By maintaining an adequate audit service to serve the Council, management are supported in the effective identification and efficient management of risks. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. There are no financial implications or risks arising directly from this report.

Legal implications and risks

None arising directly from this report

Human Resource implications and risks

Any HR implications arising from the implementation of these recommendations will be dealt with within the Council's existing HR policies and procedures.

Equality and Social Inclusion implications

None arising directly from this report

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Cheryl Coppell
Chief Executive

Background Papers List

None.

Section 1 Audit Work 1st January 2009 – 31st March 2009

At the end of March 95% of the audit plan had been delivered. Performance is 2% behind the profiled plan this is due to sickness in the team in quarter 4.

Schedule 1 details the final reports that were issued since January 2009. Details are listed in the table below and management summaries under Section 2 starting on page 4.

SCHEDULE 1: 2008/2009 Audits Completed To Final Report Stage

Report	Opinion	Recommendations				Ref below
		High	Med	Low	Total	
IT Security	Qualified	4	8	0	12	2(1)
Business Continuity	Unqualified	0	8	0	8	2(2)
Remote Access	Unqualified	0	8	0	8	2(3)
Telecommunications	Qualified	1	5	0	6	2(4)
Internet	Unqualified	0	6	1	7	2(5)
Housing Aid & Homelessness	Unqualified	0	2	0	2	2(6)
Trading Standards	Unqualified	4	2	0	6	2(7)
Deputyships	Qualified	1	6	1	8	2(8)
National Indicators	Unqualified	0	2	0	2	2(9)
Main Accounting	Unqualified	0	1	0	1	2(10)
Bankers Automated Clearing System	Unqualified	0	0	0	0	2(11)
Procurement & Leasing of Vehicles	Qualified	2	4	1	7	2(12)
Crime & Disorder	Unqualified	0	1	2	3	2(13)
Mobile Patrol	Unqualified	1	4	3	8	2(14)
Communication Centre	Qualified	2	4	3	9	2(15)
Cemetery & Crematorium	Qualified	2	4	6	12	2(16)
Meals on Wheels	Unqualified	1	3	0	4	2(17)
Departmental Budgetary Control	Unqualified	0	4	0	4	2(18)
Medium Term Financial Strategy	Unqualified	0	3	1	4	2(19)
Payroll	Unqualified	1	4	0	4	2(20)
Debtors	Unqualified	0	0	0	0	2(21)
Commissioning of Residential Placements	Qualified	1	2	3	6	2(22)
Child Protection	Unqualified	0	6	0	6	2(23)
Total		20	88	21	129	

Section 2 Management Summaries

IT Security	Schedule 2(1)
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2.1.1 Background

2.1.2 IT Security & Data Management are key factors within Information Governance and helps to demonstrate that organisations have embedded systems for managing and securing data. Recent data losses reported in the news have highlighted the need for public bodies to have data security policies in place to protect sensitive Council data. Appropriate data management practices allow organisations to better achieve their goals in an efficient and effective manner through the provision of secure management information and help in the compliance of relevant Data Protection and Information legislation.

2.1.3 Security management frameworks such as the international IT Security Management ISO27001 standard allows organisations to apply a systematic approach to security and demonstrate compliance with the standard allowing stakeholders the ability to place confidence on data held within an organisation.

2.1.4 The role of Information Security Officer within the London Borough of Havering has been assigned. Line management of the Information Security Officer role has recently changed due to management changes within the IT Business Systems section. The Information Security Officer has responsibility for Information Security throughout the entire Council.

2.1.5 The data management approach within the Council is devolved to individual services, the last Council wide data identification and assessment exercise was conducted in 2004 as part of Freedom of Information Act requirements.

2.1.6 Summary of Audit Findings

2.1.7 A Council wide IT Security risk assessment exercise should be conducted and maintained as changes to the existing IT infrastructure and project developments occur. No Council wide IT security risk assessment was found to have been performed.

2.1.8 A corporate information identification, classification and assessment exercise has not been performed to establish the different types of data being held by the Council, the security employed over different types of data especially with regard to its purpose and sensitivity. In addition it should also establish whether adequate retention periods have been implemented.

2.1.9 Network password controls should be enhanced to enforce a minimum of an 8 character password and require password complexity where alpha, numeric, and special characters are selected.

2.1.10 Unsuccessful password attempts should be limited to three unsuccessful attempts after which the account is locked out indefinitely requiring the

intervention of an administrator. It was identified that unlimited password guessing attempts can be made on the network account of users.

- 2.1.11 User access levels should be limited ensuring that administrator rights are not available to all users on local PCs. Users are currently given local administrator rights (or effective admin rights) to their PCs, this is due to the current mixed Novell and Windows operating system environment.
- 2.1.12 Portable data devices (i.e. USBs) should be managed to reduce the likelihood of a potential loss of data. This should ensure that encryption is in place and an inventory is maintained of all Council issued devices. Users currently obtain USB data devices as a stationery item, there is no formal standard in place specifying the minimum security requirement and there is no inventory maintained of USB devices in use.
- 2.1.13 Consideration should be given to adopting the principles of a security management standard such as ISO 27001 to help provide a framework for the Council to follow. Havering are not currently certified to ISO 27001 standards, more importantly there is no formal framework or methodology being followed to help facilitate the IT Security management process.
- 2.1.14 The guidelines that have been developed to help address recent concerns surrounding the loss of data and how best to approach data in transit should be approved and distributed to all users on a timely basis. It was identified that guidance had been written in January 2008 for staff within the Council. However, at the time of the audit no progress had been made in relation to approving and distributing the guidance.
- 2.1.15 A network enforced timed screen saver requiring entry of a password should be implemented for all PC's and appropriate devices. There is at present no network enforced screen saver that activates automatically after a period of inactivity; users are instead advised to manually lock work stations. The extent of this should also be linked to the sensitivity of the data accessed.
- 2.1.16 An adequately detailed IT Security policy should be in place ensuring that all key IT areas are covered, where it is not appropriate to include too much detail supplementary guidance, resources (intranet), e-learning and training should be provided in relation to IT Security. The single relevant policy in operation is the Business Systems Policy; the policy does provide details on some key areas but is of a summary nature and does not provide references to further guidance materials that are available.
- 2.1.17 The Business System Policy displayed on accessing the internet should be updated to reflect the most up to date 2008 version. It was found that users were presented with an outdated 2007 Business Systems Policy when accessing the internet.
- 2.1.18 Planned and systematic penetration and vulnerability scans both internally and externally should be conducted on a regular basis. It was identified that a penetration test had not been performed in excess of three years.

2.1.19 Audit Opinion

2.1.20 As a result of this audit, we have raised 4 high priority recommendations, and 8 medium priority recommendations.

2.1.21 Recommendations raised relate to:

- Completion of a Council wide IT security risk assessment (High).
- Completion of an exercise to identify, classify and assess corporate information (High).
- Enhancement of network password controls (High).
- Limits on unsuccessful password attempts (Medium).
- Restricting the permissions of users to ensure they do not have local admin rights on their PC (Medium).
- A review of the management of USB data devices and strengthened controls over their use and data encryption (High).
- Adoption of IT security against good practice such as the ISO 27001 (Medium)
- Timely approval and distribution of recently developed guidance regarding loss of data and data in transit (Medium).
- Introduction of a network enforced screen saver which activates after a period of time (Medium).
- Contents of the IT Security Policy (Medium).
- Regular completion of the planned and systematic penetration and vulnerability scans (both internally and externally) (Medium).

2.1.22 A **qualified** audit opinion has been given as the audit has found weaknesses in the system of internal control that may put the Council's objectives at risk.

Business Continuity	Schedule 2(2)
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2.2.1 Background

2.2.2 The London Borough of Havering has established a Business Continuity Management policy in March 2007 to identify and set out its approach to Business Continuity within the Council. The Civil Contingencies Act (2004) places a statutory duty on local authorities, and all Category 1 responders, to maintain Business Continuity Plans to help ensure that they can continue to perform their critical functions in the event of an emergency event which could threaten Council services and systems.

2.2.3 Business Continuity Management (BCM) has been defined as a process that:

- Identifies potential threats and the impact of those threats to the Council's operations;
- Provides a framework for building organisational resilience with the capacity for an effective response; and
- Safeguards the interests of the Council's key stakeholders, its reputation and the provision of services to its residents.

2.2.4 The Council have appointed an Emergency Planning and Business Continuity Manager (EP&BCM) who has responsibility for helping to ensure that BCM is embedded within the Council departments. The Council has also established a Risk Management group and this is used to discuss Business Continuity issues within the Council.

2.2.5 Responsibility for directorate BCM within the Council remains within the remit of each individual section. The planning and information collected from individual services is used to develop and inform the key priorities contained within the Corporate Business Continuity Plan.

2.2.6 In March 2008, the Council undertook a table top business continuity exercise to plan for the process of recovering Council services in the event of a simulated disaster event. The lessons learned from 'Operation Pegasus' are required to update the Council's Business Continuity Planning framework.

2.2.7 Summary of Audit Findings

2.2.8 Although the Council's critical services have been identified within the Corporate Business Continuity Plan and the Business Impact Analysis (BIA) database, the critical services within the Corporate Business Continuity Plan are not consistent with those identified within the BIA database.

2.2.9 There are currently no formal meetings for liaison between the Business Continuity Manager and key business continuity service representatives and this includes representatives from ICT on which the majority of BCPs rest.

2.2.10 Although the CEME site has been identified as the main offsite Business Continuity recovery site, there are currently no hard copies of the BIA

database and Corporate Business Continuity Plan kept at this site. It was, however, identified that there are seven laptops located across the Borough which all contain electronic copies of the BIA database and Corporate Business Continuity Plan. The EP&BCM is therefore required to update each laptop, on a monthly basis, with an up to date copy of the BIA database and Corporate Business Continuity Plan.

2.2.11 The new BIA database does not yet have the functionality to produce any corporate level summary reports that would help to determine the Council's critical services, key internal and external contacts and minimum people requirements for the timely resumption of Council services.

2.2.12 The essential staff that would be required in the event of a disaster to manage the immediate disaster scenario have not yet been formally identified and documented within the service Business Continuity Plans.

2.2.13 Although the 'Pegasus' Business Continuity testing undertaken in March 2008 identified that a number of the Service/Section Business Continuity Plans required review and/or updating, there was no evidence to confirm that the sample of plans selected had been reviewed since August 2007. Furthermore, the Corporate Business Continuity Plan does not contain any version history control table.

2.2.14 The contact details for the key internal and external contacts documented within the Service/Section Business Continuity Plans and the BIA database is incomplete and following review the contacts were found to be out of date.

2.2.15 The Council's salvage procedures have not been documented within the Corporate Business Continuity Plan and therefore in the event of a disaster, the Council may not be able to efficiently and effectively recover equipment, plant and/or buildings that are still intact.

2.2.16 It was identified that the Council's telecommunications network relies on one Group Switch which is located on the 5th Floor of the Mercury House building. The lack of resilience in the existing telecommunications network therefore poses a major business continuity risk to the Council and its ability to communicate effectively using telecommunications. This issue was highlighted in the recent 2008/09 Telecommunications Audit and therefore no further recommendations have been raised in this report.

2.2.17 Audit Opinion

2.2.18 As a result of this audit, we have raised eight medium priority recommendations.

2.2.19 Recommendations raised relate to:

- Alignment of the Council's critical services identified within the BIA database and Corporate Business Continuity Plan to ensure consistency.
- Regular meetings between the EP&BCM and key staff (including ICT) that have operational responsibility for business continuity within the Council.

- An up to date copy of the BIA database and Corporate Business Continuity Plan should be stored at the CEME site.
- The ability to produce corporate level summary reports from the new BIA database to identify the Council's critical services, external contacts and minimum people requirements.
- Identification and documentation of the essential staff/posts required in the event of a disaster.
- Completion of contact details for key internal and external contacts held within the BIA database and Service/Section Business Continuity Plans.
- Review of the individual service/section Business Continuity Plans to ensure that they are complete, accurate and up-to-date and that contacts are up to date.
- Salvage procedures are documented within the Corporate Business Continuity Plan.

2.2.20 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Remote Access	Schedule 2(3)
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2.3.1 Background

2.3.2 The Council has implemented arrangements to allow remote connectivity to the Council's network for users working from home or other remote locations, thus achieving greater flexible working practices. Furthermore, identifying new and innovative ways of working is helping to contribute to the Council's Property Strategy and Business Continuity Planning programme.

2.3.3 Network security and internet connectivity are vital components in ensuring the availability and confidentiality of remote access. The Council uses a number of technologies to provide users with remote access to the network including: Citrix Secure Gateway together with RSA authentication tokens; IPStream which connects homes via directly routed BT ADSL lines; 3G cards for laptop users; and the original dial-in / dial-back service. However, the dial-in / dial-back service is being phased out and users are being migrated to the other available options.

2.3.4 A Flexible Location Working Protocol has been drafted and is currently undergoing a detailed review process. This protocol sets out the proposed framework for the Council's approach to flexible working arrangements including the enabling technologies. Business Systems have also defined and published standards for remote and home working including appropriate use and health and safety considerations.

2.3.5 A pilot of home based working was recently undertaken in the Revenue and Benefits section. Results from this pilot will be used to feedback into the Flexible Location Working Protocols to resolve any issues prior to finalisation of policies and rollout.

2.3.6 Summary of Audit Findings

2.3.7 The draft Flexible Location Working Protocols is the key document which outlines the Council's approach to remote working. These protocols extend beyond the IT solution and are still waiting to be finalised. A number of policies and procedures have been developed by Business Systems governing the operation, management and use of remote access arrangements within the Council. Limited procedural documentation covering administration of IPStream is in place.

2.3.8 As part of corporate planning, Business Systems developed an Information Systems (IS) Strategy which is reviewed annually. This strategy, however, contains limited references to activities and developments impacting remote access arrangements. There is currently no complete and comprehensive strategic view point for the future and planning direction of each of the remote access technologies within the Council, though it is acknowledged that part of the Corporate Property Strategy considers the importance of implementing home based/flexible working arrangements.

- 2.3.9 There is no central risk register to record and manage risks relating to remote access. Risks and issues are being assessed when evaluating individual technologies as part of their development and implementation. Risks relating to remote working also extend beyond IT considerations. Health and safety risk assessments are required to be carried out for home based workers.
- 2.3.10 Resilience and disaster recovery issues related to remote access technology are being addressed as part of the Data Centre Migration project scheduled for completion in September 2009. This will be outsourced and form part of the managed service by AMIX.
- 2.3.11 Support and guidance for remote workers is provided by the Service Desk. The Council is not held responsible for the repair or maintenance of any computer equipment not owned by the Council. In the case of any faults, it is the responsibility of the user to transport this equipment to and from Council offices or contact their internet provider.
- 2.3.12 Two-factor authentication is in place for off-site access to Citrix with RSA tokens using one time passwords. Users authenticate using their network username and password. SMS cards for 3G are locked down to prevent voice and configuration of device properties. IPStream connections are managed centrally by British Telecom. Line managers are required to authorise user remote access requests. Detailed spreadsheets are maintained to track the issue and location of all remote access connections and related computer equipment. Responsibility for maintaining these spreadsheets resides with the Service Desk team. However, this is a time intensive task which creates an administrative burden for the Help Desk Manager. Furthermore, the spreadsheets contain sensitive data and are not password protected. Reviews of access to remote working technologies are not regularly performed.
- 2.3.13 Staff will be subject to ongoing performance monitoring to confirm agreed key objectives are achieved. Outcomes from the home working pilot will be used to help determine the appropriate methods for monitoring staff productivity. Staff performance will continue to be monitored through the staff appraisal process.
- 2.3.14 Users are required to formally accept their understanding of and confirm adherence to the Council's terms and conditions regarding protecting the computer equipment in their custody. The Business System Policy outlines that the Council terms and conditions apply to all users connecting to the network (including remote workers). However, staff are not provided with locks to secure laptops when working offsite.
- 2.3.15 All networked drives and folders are backed-up as part of the Council's corporate backup regime. Where staff are permitted to store data locally, the Council has not implemented any software/utilities to perform automated backup, nor is this data synchronised to the network.

2.3.16 Restrictions are applied to Council laptops and desktops to prevent the local storage of data. However, staff in Adult Social Care and Children Services are permitted to store data (i.e. word documents) locally on their machines while working offsite. Encryption software has been applied to these laptops, though not on other machines. Furthermore, laptops are individually configured creating difficulties for management to effectively administer and identify laptops that have not been appropriately secured with encryption software or locked down. It was also noted that the pre-boot passwords of laptops installed with the TrueCrypt encryption tool are not adequately protected to prevent unauthorised access.

2.3.17 Formal procedures are in place for the appropriate disposal of obsolete desktops, laptops, 3G cards and RSA tokens. The Council engages a third party to assist with the cleansing and disposal of data and provide reports which are audited to confirm the exercise has been completed.

2.3.18 Audit Opinion

2.3.19 As a result of this audit we have raised eight medium priority recommendations. In order to further improve the control environment, management need to ensure that:

- The Flexible Location Working Protocol is finalised and disseminated to all staff. Procedures should be developed for IPStream setup and administration.
- A consolidated strategy is developed to provide clear direction on remote access arrangements. Overall delivery of the flexible working solution within the Council requires clear and effective leadership / ownership to help drive the future direction of remote access technologies.
- Risks associated with remote access arrangements (including technologies used) are identified, recorded in a central register and appropriately mitigated.
- Alternative methods for the secure maintenance of remote access connection spreadsheets to reduce the current administrative burden on the Service Desk team are considered. Periodic reviews of users provided with remote access to the network should also be undertaken by management to ensure that user access remains valid.
- All remote access activity and access attempts are logged and a procedure is developed for regular review of the logs.
- Laptops are issued with locks to help ensure they are physically secure whilst used at offsite locations.
- The spreadsheet used to record laptop hard disk encryption passwords is password protected. The Council should also evaluate the effectiveness of existing hard disk encryption products and consider moving towards a single standard solution. Furthermore, mechanisms should be established for management to promptly identify those laptops which have been enabled to store data locally, but where this data is not encrypted. Consideration should also be given for all laptop hard drives to be encrypted.
- Automated backup routines are considered for laptops approved to store data locally (i.e. Adult Social Care).

2.3.20 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Telecommunications

Schedule 2(4)

2.4.1 Background

2.4.2 Telecommunications remains one of the most fundamentally important services for the Council. The loss of the system would adversely affect the Council's ability to communicate with its residents and other government departments, and would also severely impair communication within the Council.

2.4.3 Telecommunications within the Council is managed by Business Systems and two members of staff have responsibility for the management of the telecommunications infrastructure. The Council also has a support agreement with the external agency Damovo for engineering support and for assistance in administering the telecoms switch. The system is based on an Ericsson MD110 switch which was installed in Mercury House in 1998. The switch has multiple links to the Town Hall and to the Whitworth Centre and single links to a number of the Council's external locations. The majority of the Council's remote services have no link to the main switch.

2.4.4 The voice and data infrastructure at the Council still employs the traditional telecommunications technology. There is a need for an annual ongoing capital investment to allow for improvements and modernisation to enable efficiencies to be gained and provisions to be made for future enhancement to public services. There has been progress to date with installation of Voice over IP (VoIP) telephony at new Council sites, such as the libraries which combines data and voice communications on a single network. In addition, resilience has been increased in the network between the Town Hall, Scimitar House and Mercury House.

2.4.5 Summary of Audit Findings

2.4.6 Although the Council has documented the strategic direction of IT and this includes some references to telecommunications, there is currently no formal documented strategy for the use of telecommunications at the Council that details the key business drivers for telecommunications including areas such as business growth, future requirements, contractual service agreements and evaluations, telephony and data integration, and alternative strategies.

2.4.7 The call logger system reports all call charges made from the Council from a threshold charge limit of 8p per call. This call logger parameter was set 15 years ago by former management and has not been reviewed and evaluated since for the current business requirements and may be inappropriate.

2.4.8 There is a lack of clearly defined and documented user administration procedures governing the allocation, removal and review of user telephony facilities access permissions. These procedures would help enable the management of user telephony facilities and would allow an audit trail to be maintained of the use of telecommunications with the Council.

2.4.9 The Council is to move some of its existing server infrastructure to a dedicated off site Data Centre, however our audit identified that telecommunications equipment is unlikely to form part of this solution. There are currently no formal arrangements in place for a Telephony Disaster Recovery Solution for the Council. In the event of a disaster, the Council has no capability in place to restore the telecommunications infrastructure and resume key Council services in a timely manner with the minimum of disruption and delay.

2.4.10 There are currently inadequate environmental controls in place to protect the main telecommunications switch located in the Communications room, Mercury House in the event of a disaster involving fire or flooding.

2.4.11 There is currently no reconciliation carried out at the Council of the BT bill with the number of calls logged on the switch to ensure reasonableness of the accuracy of the bill.

2.4.12 Audit Opinion

2.4.13 As a result of this audit we have raised 1 high priority and 5 medium priority recommendations. In order to further improve the control environment, management need to ensure that:

- Management should develop a formal strategy document for the use of telecommunications within the Council (Medium);
- Consideration should be given to review and evaluate, in line with current business requirements, the call logger charge threshold limit of 8p to ensure this is still relevant (Medium);
- The user administration procedures governing the allocation, removal and review of user telephony facilities should be clearly defined and documented (Medium);
- Management should develop a comprehensively documented DR plan and procedures for its telecommunications network which are tested on a periodic basis to ensure that, in the event of a disaster, the Council will achieve business resumption in an anticipated timescale and to the Recovery Time Objective set by Council services (High);
- Consideration should be given to implementing an automated fire suppression system comprising of an inert gas for the Communications room that houses the group switch (Medium); and
- The need for Telephone bill reconciliation should be reviewed to identify if the bill received by the Council is of a reasonable nature (Medium).

2.4.14 A **qualified** audit opinion has been given as the audit has found weaknesses in the system of internal control that may put the Council's objectives at risk.

Internet	Schedule 2(5)
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2.5.1 Background

2.5.2 The Internet provides a key business tool for the communication of information for staff within the Council. Council Staff are provided with internet access as part of their standard network build.

2.5.3 The Business Systems Policy provides users with guidance relating to the acceptable use of the internet. When new employees commence their employment with the Council, users are required to state that they have read and agree to the Business Systems Policy.

2.5.4 There are two firewalls that protect access to Council systems and filter internet traffic and these are setup in a fail over configuration to provide for resilience in the event of failure of either device. The firewall provides a key line of defence against unauthorised access attempts. The Council also has an intrusion detection and prevention (IDP) system in place to monitor patterns of attack against Council hosts.

2.5.5 Internet usage is screened and monitored, the top user reports are produced and investigated. Additionally, a fraud awareness campaign is currently being delivered and includes a presentation on internet use.

2.5.6 Microsoft Internet Explorer is the Council's preferred web browser and is installed as standard on Council PCs.

2.5.7 Summary of Audit Findings

2.5.8 The Business Systems Policy should be updated to include a statement to the effect; 'the council will perform monitoring & screening of Internet usage'. Additionally, the policy should be reviewed in relation to the Human Rights Act 1998 (right to privacy) and Regulation of Investigatory Powers Act 2000(RIPA). Review of the Business Systems Policy (which is the key IT policy document in force), identified that there are no explicit statements relating to the monitoring and screening of internet usage.

2.5.9 Procedures should be developed to manage the firewall in the event of a major failure. No procedures for the recovery and management of the firewall following a major incident currently exist.

2.5.10 Internet Explorer browsers should be updated on a regular basis and following testing of updates. Consideration should be given to the implementation of an update server to manage all software updates. Updates should occur to both the Internet Explorer browser within the Citrix environment and the browser on the local machine. Additionally, we recommend that Internet Explorer browsers should be locked to restrict the changes that can be made to the browser. Users are able to access the internet through two browsers, one is the browser on the local PC and one in

the Citrix environment. Neither of the two browsers was found to be subject to regular update due to the lack of an update server.

2.5.11 Firewall logs should be maintained for a sufficient period of time to allow for regular review and investigation to identify any suspicious/unauthorised patterns of activity. Additionally, firewall rules should be reviewed on a periodic basis to identify any changes to the rule base.

2.5.12 Timely review of the monthly leavers list should be performed and access from the system removed as necessary. The Helpdesk Manager confirmed that due to staff shortages, the previous month's (January 09) leavers' list provided by Human Resources had not been reviewed and access removed, the Helpdesk Manager did identify the task as an item to do.

2.5.13 The primary firewall should be tested to ensure effective failover to the secondary firewall and timely recovery can occur. The previous test of the firewall fail over was approximately two years ago, however, no documentary evidence exists.

2.5.14 An up to date network diagram should be developed and distributed as necessary. The current network diagram is dated 2007.

2.5.15 Additional weaknesses in the control environment were also identified, however no further recommendations have been raised in this report as they have been included as part of the recent IT Security and Data Management audit report. The weaknesses identified are as follows;

- No regular penetration testing is performed on the network;
- Users have local administrator rights defined on machines;
- Lack of strong network password controls; and
- Lack of user account lock out after 3 consecutive invalid password attempts.

2.5.16 Audit Opinion

2.5.17 As a result of this audit, we have raised no high priority recommendations, six medium priority recommendations and one low priority recommendation.

2.5.18 Recommendations raised relate to:

- Update of the Business Systems Policy to include a statement relating to screening and monitoring of internet usage, and review in relation to relevant requirements and legislation (Medium).
- Development of adequate firewall recovery procedures (Medium).
- Updating of the Internet Explorer browser and ensuring that these are locked down to prevent users from making changes (Medium).
- A process for the retention and review of firewall logs, and the periodic review of the firewall rule base (Medium).
- Timely review of the staff leavers list and removal of their access should be performed (Medium).
- Testing of the firewall fail over and recovery should be performed on an annual basis and results documented (Medium).

- An up to date network topology diagram should be developed and distributed as necessary (Low).

2.5.19 An **unqualified** audit opinion has been given as Audit is satisfied that a strong control environment was established over the management of the Internet

Housing Aid & Homelessness	Schedule 2(6)
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2.6.1 Background

2.6.2 The Housing Act 1996, part VII lays out the duties and responsibilities of local authorities with regard to homeless people. The act requires local authorities to investigate cases of homelessness in the area and places a range of obligations upon the authority dependent on the outcome of the investigations. These obligations range from the provision of housing advice / assistance to direct provision of housing. In addition, the Homelessness Act 2002 gives discretionary powers to the authority to assist some classes of persons not detailed in the 1996 act and also sets out a requirement for the authority to formulate a homelessness strategy.

2.6.3 During the first part of 2009 new triage forms were implemented to improve the waiting times for members of the public in the Public Advice and Service Centre (PASC) for the Housing Advice and Homeless desk and ensure that legislation is complied with.

2.6.4 Summary of Audit Findings

2.6.5 Time consuming and manual processes are in place for some management reporting systems which could increase error and result in poor or untimely management information.

2.6.6 The staffing establishment is unclear and based on an old structure leading to an increased risk that the team is not set up in the most efficient and effective way which may impact on service delivery.

2.6.7 At the time of the audit information provided by Human Resources indicated that current Criminal Records Bureau (CRB) checks were not held for all the team members; however management provided evidence that local controls ensure this to be the case.

2.6.8 Budget monitoring meetings were not taking place with the Cost Centre Managers are finance directly but this is expected to change during 2009/10.

2.6.9 Audit Opinion

2.6.10 As a result of this audit we have raised two medium priority recommendations.

2.6.11 The recommendations relate to:

- The current systems interface and possible development opportunities.
- A need to review the current structure of the team.

2.6.12 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Trading Standards	Schedule 2(7)
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2.7.1 Background

- 2.7.2 The Trading Standard Service is required to enforce over 100 Acts of Parliament and 250 Statutory Instruments. The 'public' face of the service is around enforcement and consumer advice, however, extensive as these two areas are there are many other facets of the service. The work covers a wide range of activities from educating consumers and businesses through to major investigations and court cases involving money laundering. Their work also covers all kinds of illegal selling and health and safety issues for the community.
- 2.7.3 The Trading Standards Service is under the Management of the Trading Standards Manager and 17.5 Full Time Equivalent (FTE) posts of which one FTE is currently vacant.
- 2.7.4 The cost of the Trading Standards Service is £3.50 per year for each resident of the Borough (based on 2007/8 data).
- 2.7.5 The Service is split into two teams, Operational and Fair Trading, each with its own Team Leader.
- 2.7.6 Consumer Direct (CD) is a service funded by Central Government and is the direct interface between Trading Standards and the General Public for any areas of concern. If a member of the general public has a concern then they contact CD either by telephone or through the internet. Their enquiry is logged and advice given. If they think that Trading Standards need to take further action they notify the Authority concerned with the complaint.
- 2.7.7 At the close of the third quarter of 2008/09 the Trading Standards Service had carried out:- 390 reactive investigations; 304 Judicial Actions; and 1037 enforcement visits.
- 2.7.8 Over the last two years the Trading Service staff have been investigating a major international counterfeiting crime. This has taken a large proportion of several officers time and some routine administrative functions have been delayed. The Court hearing is planned for the Autumn of 2009 and the impact on the Service has been taken into account when carrying out this review.
- 2.7.9 In 2008 as part of the LBH Senior Management reorganisation Trading Standards Service was transferred from Public Realm to Community and Culture and is under the Management of the Head of Housing and Public Protection. It is planned to merge both the Trading Standards and Environmental Health staff to form a Public Protection Team. This will also involve a physical move for the staff from Langtons House in Hornchurch to Mercury House in Romford. The timescale for the move is summer 2009. The practicalities of this move are causing concern amongst staff and managers alike with regard to them being able to provide a professional service to the Community.

2.7.10 Summary of Audit Findings

2.7.11 Office Move

The main concerns regarding the imminent office move which have not been addressed separately in the main part of the audit are:-

2.7.12 Fireworks Licence

Currently there is secure storage at Langtons for retaining explosives and a requirement of this licence is that a responsible officer is on site during office hours (the same as is required by any other licensed premises). As LBH are the issuing Authority for Fireworks and explosives licences it would be appropriate that advice be sought from the Health and Safety Executive to ensure that the proposed storage arrangements are adequate for license arrangements following the relocation of the officers.

2.7.13 Working environment

The nature of the work carried out by Trading Standards Officers is incompatible with an open plan office environment. For example:-

There are many issues around sensitive and obscene material they have to review which would be unfair if not distressing for others to witness, plus that particular investigation could be compromised.

Confidentiality needs to be maintained especially during an investigation when staff who are to give evidence must not over hear any conversations that the manager of the investigation has with LBH's Counsel.

A secure area is required so that they can interrogate Personal Computers (PCs) which will become an ever increasing demand because most data is held electronically today. This will save, on average, £1,000 per PC subject to a routine check.

There needs to be secure storage for their work and equipment when the building is empty.

They need access to their working area and storage facilities almost on a 24/7 basis. They work at weekends i.e. Car Boot sales, one day sales etc. Also they can question suspects at a Police Station. In these and other instances the needs of the service are incompatible with normal office hours.

2.7.14 Loss of Identity

The Trading Standards Service has and is continuing to work hard to raise their profile in the Community and provide assistance and advice to Consumers and Businesses alike. It is now common in Government, at the Office of Fair Trading (OFT), Business Enterprise Regulatory Reform (BERR), Department of Innovation University and Skills (DIUS) and Local Better Regulation Office (LBRO) to refer to their partnerships with Local Authority Trading Standards Services. There is concern that the total removal of that name and a clear lead officer for the trading standards function could lead to a loss of identity and strategic focus. The service has been criticised in the past for using the term 'Public Protection' as it was perceived as 'anti' business. There is a concern that merging them into to a Public Protection Team means that they will lose their identity. Anything which serves to confuse the Public and potentially cause harm through lack of access to sound advice and assistance should be avoided.

2.7.15 Educational campaigns

There are many and varied activities designed to reach consumers who would not normally have contact or know about the Trading Standards Service. Different hard to reach groups have been identified and targeted information which is tailored to suit the audience, examples are:-

- Bogus callers for the elderly;
- Credit Cards and Credit Agreements for the young;
- Healthy eating and Sun aware information to School Nurses to pass on to the Students;
- Quizzes, games and competitions for the young and those with special educational needs;
- Responsibilities and rights for Businesses and Traders; and
- Information supplied in different languages.

There is a full, diverse, varied and extensive campaign which appears to target all parts of the Community and assists in meeting the Trading Standards Service Objectives.

2.7.16 Policy and Procedures for regulating statutory requirements

There are quality manuals, policy documents, procedure manuals and work instructions covering all the systems in place. A sample was reviewed which covered each area of the audit. The manuals and procedures are subjected to an annual review and an 'Audit Plan' of the reviews is completed in January of each year.

2.7.17 Appropriate provision for storing seized goods

The procedure for seizing goods was reviewed and the system was sound although the records are manual and paper based. This could prove problematical as vital information could be lost i.e. if there was a fire or other damage to the paperwork. It has been agreed that the system will be transferred onto an IT based database, which could then become part of the corporate IT data backing up process. The work has begun and two potential systems have been identified. The timetable to implement this should be a priority.

The storage of seized goods is constantly under pressure. Currently, there are storage facilities at three locations within the Borough in order to cope with demand.

The suitability, capacity and security of the storage facilities should be reviewed as part of the relocation of the Service.

2.7.18 Disposal and destruction of seized goods

Trading Standards have to make provision for disposing of seized goods in an effective, efficient and environmentally friendly way without compromising the security of the goods so that they do not end up in the supply network again. The method of disposal will depend on the nature of the goods and comply with the Judge's and trademark owners wishes. The system was tested and showed an innovative, environmentally friendly and compassionate sound system for disposal of seized goods.

2.7.19 The health and safety of volunteers

Volunteers are used in the fight against under age sales within the Borough. Goods which have restrictions on the age of sale ranges from the sale of: tobacco, knives, alcohol, solvents and lighter refills, fireworks, lottery tickets and scratch cards, caps, Party poppers and throwdowns, aerosol spray paints, air guns and pellets, imitation firearms and DVDs and video games, and more.

It is of paramount importance that the safety of these young volunteers is maintained at all times. They are trained before they leave the offices and can choose to be taken home at any time. Current procedures in place aim to provide a two person convoy of young people in relation to underage sales investigations. This together with the fact that there is always a Police presence during these operations means that the system is sound. However, only seven Trading Standards staff have had a Criminal Records Bureau (CRB) check and Trading Standards Management have stated that any officer within the team could be asked to assist in these events. In the current climate there is a reputational risk to the Authority if officers with access to young people have not been adequately checked.

It was agreed that all Trading Standards Staff should be CRB vetted as good practice. This is not a significant risk to the service area, as the procedures for the use of young volunteers' endeavours to ensure that no officer is alone with a young person. However, it would be best practice to ensure that all possible checks have been made and are up to date, in order to mitigate against unforeseen circumstances.

2.7.20 Consumer Direct (CD)

Since the launch of CD in April 2005, the roles of the advisory officers within the Complaints and Advice team have changed. Prior to CD, the advisory officers at Havering Trading Standards would deal with all levels of advice, from the simple enquiry, through to complex casework, however the sheer numbers of complaints and enquiries received (approximately 4,000 per year) would restrict the amount of casework that could be undertaken.

With the exception of any direct personal contact with the Council, CD deal with the initial advice to consumers and only refer complaints to trading standards that are: complex and require casework; involve a vulnerable consumer; or have an enforcement element. This means that the advisory officers have the capacity to deal with more casework, and also have the capacity to carry out fair trading investigations involving allegations of breaches of civil or criminal laws. This is suited to the current emphasis of consumer legislation to move toward voluntary and civil action to combat unfair trading and reserving prosecution for serious crime, persistent offenders and deliberate fraud.

Quality checks are carried out on CD referrals by the advisory officers who report problems to the Specialist Fair Trading Officer responsible for checking the quality of advice. The problems found are then reported to CD via a quality feedback form, and issues of a general nature are raised at the bi monthly CD Quality Group meetings attended by the Specialist Fair Trading Officer who is also the representative for the North East London Boroughs.

Quality checks are also carried out on advice and case work carried out by Trading Standards Officers cases on a monthly basis by the Specialist Fair Trading officer and any issues are raised with the Officer concerned.

These checks monitor and maintain a high quality advice, assistance and fair trading enforcement service to the Community which assists in the achievement of the Trading Standards Service Objectives.

2.7.21 Security of LBH staff and assets

The security of staff has and is assessed on a continuous basis depending on the work requirements at any given time. However, given the planned move to Mercury House during 2009 all further security assessments will be on a different basis.

2.7.22 Service performance measurement and reporting arrangements

Data is collected which monitors the performance of Trading Standards against their service objectives, local performance indicators and national performance indicators. This is used to manage the service and used in the 'one to one' meetings for the service manager and the Head of Service and again between the head of service and the Group Director. Head of Service Pack information is available to members.

2.7.23 Audit Opinion

2.7.24 As a result of this audit we have raised four high, and two medium priority recommendations.

2.7.25 Recommendations raised relate to:

- Relocation of the service and its impact on Service delivery (3 High / 1 Medium);
- Maximising the use of the I.T database (High); and
- CRB checks (Medium).

2.7.26 An **unqualified** audit opinion has been given as the audit found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Deputyships	Schedule 2(8)
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2.8.1 Background

2.8.2 The Deputyship and Appointeeship Service is managed by the Client Finance Management Team and the service charge an administration fee for providing the service.

2.8.3 All charges should be in line with the Court of Protection Directives which includes an annual management fee. The charges range from Category 1 to Category 4 and all charges will include Value Added Tax (VAT) element.

2.8.4 In previous years the service received an access and system grant from the government which totalled £64,060 per annum to help maintain the independence of older people living in the community. However, such funding came to an end 2007/2008 financial year leaving a base budget funded by the Council.

2.8.5 Summary of Audit Findings

2.8.6 An up to date procedures manual is not currently in place to provide formal guidance to the team.

2.8.7 Supervisory spot checks on work by staff have not been carried out consistently during the period, including the work of the Client Finance Manager.

2.8.8 Potential efficiency savings regarding methods of making payment of bills were noted.

2.8.9 No current authorised signatory list was available for review at the time of the audit.

2.8.10 The forecast income target for the service does not reflect current operation.

2.8.11 Large amounts of clients cash is retained within the office. It is held in a safe however there was insufficient evidence to demonstrate risk management arrangements are in place.

2.8.12 Audit Opinion

2.8.13 As a result of this audit we have raised one high, six medium and one low priority recommendation.

2.8.14 Recommendations relate to;

- Formal current procedures (Medium);
- Current authorised signatory lists (Medium);
- Efficiencies for the payment of clients' bills (Low);
- Accuracy of income forecasting (Medium);

- Opportunities for extra income for the service (Medium);
- Sign off of bank reconciliations (Medium);
- Assessment of risk regarding cash handling (High) ; and
- Supervisory spot checks (Medium).

2.8.15 A **qualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

National Indicators	Schedule 2(9)
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2.9.1 Background

2.9.2 Up to 2007/08 it has been a statutory requirement for the Council to report performance against the Best Value Performance Indicators (BVPIs) definitions. In 2008/09 BVPIs have been replaced by a new suite of Performance Indicators (PIs) known as National Indicators (NIs). Many of these may require that new data is collected and reported for 2008/09.

2.9.3 The list selected for audit is detailed below:

- NI 35 – Building resilience to violent extremism.
- NI 53 – Prevalence of breastfeeding at 6-8 weeks from birth.
- NI 70 – Reduce emergency hospital admissions caused by unintentional and deliberate injuries to children and young people.
- NI 71 – Children who have run away from home/care overnight.
- NI 88 – Percentage of schools providing access to extended Services.
- NI 103 – Special Education Needs – statements issued within 26 weeks.
- NI 111 – First time entrants to the Youth Justice System aged 10-17.
- NI 141 – Percentage of vulnerable people achieving independent living.
- NI 187 – Tackling fuel poverty - % of people receiving income based benefits living in homes with low energy efficiency rating.
- NI 191 – Residual household waste per head.
- NI 193 – Percentage of municipal wastes sent for refuse, recycling and composting.

2.9.4 Summary of Audit Findings

2.9.5 At the time of the audit risk assessments for NIs were not completed for all service areas. Inconsistencies were identified in the format of risk assessments that had been completed. This issue has since been addressed by Performance Management Group (PMG) and the process to formalise document and monitor risk assessments has commenced.

2.9.6 At the time of the audit there was no central monitoring of the progress of outstanding recommendations relating to Performance Indicators. The new performance system, Havering Performs (HP) will be used going forward to record and monitor recommendations, this system is in the early stages of implementation.

2.9.7 Audit testing found that there are no formal reporting lines centrally for monitoring the status of data collection and level of risk. This has also been addressed and PMG now have a log of NIs and risk assessments which will be monitored going forward.

2.9.8 The roles and responsibilities of the Council and the NI coordinators was not clear with regard to NIs collected by outside organizations. Internal Audit attended PMG to resolve this issue.

2.9.9 Compliance with the Data Quality Policy is not confirmed via the sign-off of NIs.

2.9.10 Audit Opinion

2.9.11 As a result of this audit two medium priority recommendations have been raised. The recommendations relate to:

- The need for centralised monitoring of data collection and related risks;
- Ensuring compliance with Council policies via sign off.

2.9.12 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Main Accounting	Schedule 2(10)
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2.10.1 Background

2.10.2 At the time of the audit the new e-procurement and e-invoicing systems had just gone live with a single transaction from one supplier. Once fully implemented, significant reductions in the number of paper items should be seen. Greater scrutiny of these e-systems will be undertaken in subsequent audits

2.10.3 Summary of Audit Findings

2.10.4 The Main Accounting system is sound. Although all requests for accruals and prepayments were found to be appropriate, to further strengthen controls more detailed supporting documentation should be retained.

2.10.5 Audit Opinion

2.10.6 As a result of this audit we have raised one medium priority recommendation. The recommendation raised relates to:

- Monitoring the improvement expected following the recent reminder as part of the 2008/09 CCM closure guidance issued by the Financial Services Manager to cost centre managers emphasising the appropriate evidence that should support prepaid and accrued items.

2.10.7 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Bankers Automated Clearing System
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Schedule 2(11)

2.11.1 Background

2.11.2 The BACS system is used for the automatic credit of many systems in the Council. The systems identified during the audit and charted are:- Payroll; Creditors Weekly refunds – IMAN (debt recovery), Housing Benefits, National Non Domestic Rate (NNDR) and Council Tax; Council Tax collection; NNDR collection; Debtors; Rents; Leaseholders; and Mortgages.

2.11.3 The systems identified are operated through the following I.T systems:- Cyborg; Payables; Academy; Nucleus; Anite; and ACL.

2.11.4 The total value of transactions made through these systems for the month of March 2009 was £77.5 million.

2.11.5 Summary of Audit Findings

2.11.6 There is a procedure manual for processing BACS payments. This is a step by step guide and was reviewed as part of the audit. The audit sample and its transactions followed the process in the procedure manual.

2.11.7 All transactions are checked and secondary authorised to ensure accuracy. There is an audit trail and copies of the signed documentation are retained for seven years.

2.11.8 The data sent to the Bank for payment through the BACS system is authorised before the monies are released which mitigates the risk of exposure to input or other errors and incomplete or untimely processing.

2.11.9 Reports are sent to authorised officers for approval and authorisation before data is transmitted to the Bank.

2.11.10 When the service user has authorised the payments to be made through BACS, their system e.g. Council Tax is automatically credited with the transactions. If there are any failed transactions these are treated separately by Finance and service area staff who also deal with reconciling each separate system to BACS payments made or received. This has not been tested as part of the audit as is included in individual systems audits.

2.11.12 The BACS PC is held in a secure location and there are secure access controls to the IT systems.

2.11.13 However, the Line Manager for both IT Operations and IT Control is the same person (the Configurations and Controls Manager). He is one of the officers who has access to the UNIX Box and BACS PC; he also transmits data to the Bank for BACS payments. This represents a control weakness and potential risk to correct payments made. However, there is a compensating control in that the service area users double check data that is about to be sent and also after it has been sent to the bank for BACS

processing. Even after the 'live' transmission has been made it is possible to retrieve data before it is posted to customer's accounts if the service area user discovered an anomaly and reported it timely. In the sample test for this audit only one transmission to BACS was made by the Manager and was for Supply Teachers.

2.11.14 A check of access to the IT applications was to be included in the audit. However, it needs to be noted that there is no electronic transaction log held for transactions on the BACS PC. It is not regarded as a significant risk but audit would expect management to have ready access to all transactions made. There are compensating controls for the individual systems processing data as they retain a paper record of the data transmitted and a corresponding paper record is maintained in IT Control. This of course only proves what would be expected to happen and may not necessarily be the complete picture.

2.11.15 The number of staff and their access levels to the UNIX box also could not be reviewed as part of this audit. The Auditor was advised that it would be a sizeable job and would require a special request for the information to be sourced. This will be carried out at a later date as part of another audit.

2.11.16 Audit Opinion

2.11.17 As a result of this audit we have not raised any recommendations

2.11.18 An **unqualified** audit opinion has been given as the audit found that the system of control is generally in place.

Procurement & Leasing of Vehicles
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Schedule 2(12)

2.12.1 Background

- 2.12.2 The Council procures a range of vehicles for transporting children, elderly and disabled persons and officers either to locations within the Borough or on school trips. The fleet comprises a mixture of general vehicles e.g. light vans, minibuses and specialist items e.g. street sweepers.
- 2.12.3 The Council owns and leases approximately 288 vehicles. A total of 172 of the vehicles are owned by the Authority, the remaining 116 are leased. There are also 136 items of plant, including those exceeding £4k.
- 2.12.4 The Authority's Fleet Management System is "Tranman". This system went live April 2008. The full reporting capabilities of this system are still being implemented.
- 2.12.5 Management had recognised the need for a complete review of all processes and controls within Transport and as a result changed reporting lines in 2008.
- 2.12.6 At the time of the audit the main focus had been at a strategic level therefore Management acknowledged that the system of internal control was not sufficiently robust. Around the time of the audit an Improvement Board was set up to take forward the issues the initial priorities were: Reduce overspend; Introduction of whole life costing; Fuel controls; and Future arrangements with the new depot.

2.12.7 Summary of Audit Findings

- 2.12.8 Financial limits in relation to the ordering of vehicles and payment of invoices was found to be insufficient for the service needs. Although no contravention of the Council's rules had occurred it was noted that adequate segregation of duties could not be practiced without excessive bureaucracy. This issue was resolved during the audit.
- 2.12.9 Controls were not in place to ensure that new vehicles are updated on the Motor Insurers Bureau database within the legal timescale. This issue was resolved during the audit.
- 2.12.10 There are no mechanisms in place to monitor whether Managers are compliant with corporate policy.
- 2.12.11 It was noted that historically vehicle replacements have not taken place, as instructed, a backlog has therefore occurred. This is now being addressed and going forward arrangements need to be strengthened to ensure the Transport Board can be confident on the robustness of business cases and that instructions to replace vehicles are being adhered to.
- 2.12.12 At the time of the audit there was limited evidence that a strategic review of the Authority's needs in relation to transport had been undertaken.

Discussions with Management have provided assurance that this review has commenced however it is acknowledged that whilst strategic consideration has been given there is a need for a more detailed assessment of future service needs.

2.12.13 Whilst reports from the new system, Tranman, are currently being designed and produced, their usefulness after a suitable period of time will need to be evaluated.

2.12.14 Systems could be improved, by increased support being provided by transport, to ensure that the most appropriate external funding is used both in terms of their charges and also in relation to the requirements of return within the terms and conditions.

2.12.15 The filing of duplicate documentation relating to the purchasing of vehicles / plant does not provide an effective audit trail.

2.12.16 Audit Opinion

2.12.17 As a result of this audit we have raised two high, four medium and one low priority recommendation.

2.12.18 Recommendations raised related to the:

- Reminding Managers of their responsibilities in relation to the use of vehicles / plant (Medium);
- Monitoring of compliance with corporate requirements (Medium);
- Gaining assurance regarding robust vehicle replacement processes (1 High/1 Medium);
- Ensuring the strategic needs of the future vehicle requirements of the Authority are sufficiently reviewed and detailed (High);
- The need to review the usefulness of management information being issued to service areas (Medium);
- Implementing an efficient system for storing documentation (Low).

2.12.19 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising.

Crime & Disorder	Schedule 2(13)
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2.13.1 Background

2.13.2 The role of the Crime and Disorder Committee (now Crime and Disorder Overview & Scrutiny Committee) was established within the Police and Justice Act 2006 [part 3, S19]. This further defined the Local Authorities duty within the Crime & Disorder Act 1998 [S17] that required Police and Local Authorities to develop strategies to tackle problems in their areas.

2.13.3 The Community Safety Service falls within Legal & Democratic Services, and consists of three sections: the Community Safety; Road Safety and the CCTV & Mobile Patrol.

2.13.4 The Community Safety Service is responsible for the strategic development and implementation of work to address crime and disorder in Havering. This strategic role functions via Council and partnership activity through the Havering Community Safety Partnership (Crime and Disorder Reduction Partnership), which is a multi agency group of representatives from the statutory, business and voluntary sector. The Service includes:

- The day to day management, support and development of the Havering Community Safety Partnership (HCSP) through the facilitation of partnership meetings, reporting on progress, keeping partnership members up to date on new and emerging legislation and policy and co-coordinating local delivery.
- Leading on the Councils response to its statutory responsibilities under the Crime and Disorder Act 1998, and other associated legislation, advising and enabling services and co-coordinating joint service activity.
- Conducting the annual Strategic Assessment which is a review of the levels and patterns of crime, disorder and drugs misuse drawing on both quantitative and qualitative data.

2.13.5 Summary of Audit Findings

2.13.6 Havering Council and partners have made good progress in delivering the crime & disorder reduction strategies themes of the community safety plan.

2.13.7 Public perception of the crime & disorder service have improved greatly, with the service being fully accessible to those from minority and other disadvantage groups within Havering.

2.13.8 The Council has consulted widely to inform the public about its community safety priorities using face to face road shows and the 'Living in Havering' publication, and has sound understanding of crime and disorder issues.

2.13.9 The Council and partners have developed a robust structure for managing, identifying and responding to the particular needs of diverse communities in the borough on crime & disorder issues.

- 2.13.10 The Council's policies and procedures were found to have been defined more clearly through the Crime & Disorder Act 1998. This Act places a duty on Havering Council to work jointly with the police and other partners to reduce crime & disorder. The partnership appears to be working effectively.
- 2.13.11 The Lead Member attends the bi-monthly meetings of the Havering Community Safety Partnership.
- 2.13.12 There is evidence to indicate that Community Safety Officers carry out monthly budget monitoring to identify any overspend. In addition the officers also hold regular meetings with the different Crime and Disorder groups. There is however no documented process that indicates that the use of financial resources were formally agreed within the Overview and Scrutiny Committee on a project base cost basis.
- 2.13.13 The service maintains and provides accurate, complete and timely management information. The crime statistics are supplied by the Metropolitan Police and these are then passed to the Government Office for London (GoL), via the HCSP meetings, as GoL have the task of monitoring all crime statistics.
- 2.13.14 There is a good formal structure in place for the effective delivery of crime & disorder reduction strategies. This involves the Havering Community Safety Partnership followed by the Implementation Group, the different Crime & Disorder strategic themes groups. This structure led to Havering being awarded a Beacon Council status within the "After Dark" category on 3rd March 2009.
- 2.13.15 The audit review did not identify any duplication in the delivery of crime & disorder issues amongst strategic partners.
- 2.13.16 There is a well maintained assets register within the service, however, there is no disposal policy. There has also been no regular reviews to ascertain the existence of the equipment bought by the service.

2.13.17 Audit Opinion

- 2.13.18 As a result of this audit we have raised one medium and two low priority recommendations. Recommendations relate to;
- Formal grant funding budgetary monitoring by the Overview and Scrutiny Committee (Medium);
 - Develop a policy on disposal of equipments (Low); and
 - Annual inventory checks (Low).
- 2.13.19 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Mobile Patrol	Schedule 2(14)
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2.14.1 Background

- 2.14.2 In October 2007 the Council began piloting a Mobile Support Service within three of the Borough's 20 Sheltered Housing Schemes.
- 2.14.3 The scheme provides housing related support from Mobile Support Workers and / or emergency alarms connected to the Council's Communication Centre.
- 2.14.4 The aim of the scheme is to enable older people to maintain their independence whilst still receiving the services they need.
- 2.14.5 At the time of the audit two Mobile Support Workers were supporting 195 clients, carrying out visits to a total of 37 of these clients.
- 2.14.6 The audit has looked at the current system of control but also considered the impact of increased service provision on expansion of the pilot.
- 2.14.7 Homes in Havering collect the income generated by the scheme, however currently much of the service is funded from the Supporting People Grant.

2.14.7 Summary of Audit Findings

- 2.14.8 The procedures in place at the time of the audit related to the previous Sheltered Housing service and were being updated to reflect new processes.
- 2.14.9 Formal checks are not undertaken to match the information retained by Homes in Havering against the information retained by the Mobile Support Service.
- 2.14.10 A debt recovery process has not been agreed with Homes in Havering.
- 2.14.11 Information contained with leaflets setting out the varying support levels is incorrect in relation to the actual service being provided as three month review periods, rather than six, were communicated.
- 2.14.12 Due to the small team working on the pilot, formal spot checks by management are not in place. When the service goes live this control will need to be introduced, in particular the need to ensure support packages are being fulfilled; that there is a consistent approach to the completion and retention of documentation and that information is communicated to all necessary services.
- 2.14.13 Original documentation for each of the service users is not adequately safeguarded from fire. In the event that service user files were lost in a fire, all needs assessments, support plans and visit records would need to be re performed. When the service expands, management should consider identifying alternative storage solutions for the increase in customer numbers.

2.14.14 The system of internal control will need to be strengthened to correspond with any increase in service delivery. Implementation of a management recording system would allow the efficient recording and reporting of sound management information.

2.14.15 Audit Opinion

2.14.16 As a result of this audit we have raised one high, four medium and three low priority recommendations. Recommendations related to the need for:

- Checks to be undertaken to ensure sound management information is in place (High);
- A debt recovery process to be established (Medium);
- Review of communication information for accuracy (Low);
- Sound information communication processes between teams (Low);
- A checklist to be developed to ensure all necessary documentation has been completed and reviewed (Low);
- The need for supervisory checks going forward (Medium);
- Consideration regarding a management system (Medium); and
- Safe storage of key documents (Medium).

2.14.17 As the risks will increase as the service expands and a number of recommendations have been raised with this in mind, a further review of the system of internal control implemented by management will be completed once the pilot has gone live.

2.14.18 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Communication Centre	Schedule 2(15)
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2.15.1 Background

2.15.2 The Communications Centre provides an out of hours service to the Borough covering all aspects of Council services. Calls may relate to issues from Social Services to Streetcare. Calls may also be received from vulnerable residents in need of support / assistance or emergency medical attention.

2.15.3 Summary of Audit Findings

2.15.4 A log of all correspondence received by the Communications Centre is not maintained. As a result it is not possible to establish whether any complaints had been received in relation to service provision.

2.15.5 Evidence is not retained to support that supervisory spot checks have been carried out in relation to the updating of customer information.

2.15.6 No assurance can be placed on the base information in relation to Careline customers due to the lack of a robust process for communicating changes across various departments.

2.15.7 There is a risk that with the back up system for service provision being in such close proximity to the main Communications Centre, in the event of a major disaster affecting both sites, no provision has been made to set up the service outside of the Borough / away from the centre of town.

2.15.8 No reconciliations are undertaken to ensure that the information retained by the Communications Centre and Homes in Havering in relation to Careline accounts and income are correct.

2.15.9 A protocol for dealing with non payment of Careline service charges has not been established. Housing Needs and Strategy are aware of this issue and are working closely with Homes in Havering to rectify this issue.

2.15.10 Audit Opinion

2.15.11 As a result of this audit we have raised two high, four medium and three low priority recommendations relating to:

- Implementing a log of all correspondence received by the Communications Centre to identify and monitor complaints received (2 Low).
- The evidencing of supervisory spot checks carried out (Low).
- The need to establish a robust process for communicating changes to customer accounts to all relevant departments (High).
- The lack of a comprehensive disaster recovery plan (High).
- Ensuring that information retained by the Communications Centre and Homes in Havering is correct and up to date (Medium).

- The need to develop a protocol for dealing with debt in relation to Careline services (3 Medium).

2.15.12 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising including the failure to detect error or fraud.

Cemetery & Crematorium	Schedule 2(16)
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2.16.1 Background

2.16.2 The London Borough of Havering is responsible for one crematorium and four cemeteries: South Essex Crematorium; Upminster; Romford; Hornchurch; and Rainham.

2.16.3 In 2007/2008 592 burials were performed across the four cemeteries. Between April and December 2008 373 burials were carried out. Currently there are no available grave sites remaining at either Hornchurch or Rainham cemeteries.

2.16.4 South Essex Crematorium is the only crematorium within the borough. In 2007/2008 a total of 3511 cremations were performance and between April and December 2008 a total of 2340.

2.16.5 The 2008/2009 net budget for Cemeteries and Crematorium was £880,790.

2.16.6 Summary of Audit Findings

2.16.7 There is not a centrally collated list of works, identified via inspections and resulting reports, to be carried out. There is therefore a risk that some works are missed or not completed in a timely fashion.

2.16.8 Evidence is not retained to provide assurance that supervisory checks, to confirm compliance with families wishes, have been carried out prior to the funeral taking place.

2.16.9 The five year Property Condition Survey carried out in 2007 did not include the Upminster Cemetery site. No assurance has been obtained on the condition of the property on this site. Management also advise that the surveys undertaken omitted some aspects.

2.16.10 A sufficient audit trail is not in place to ensure all complaints can be adequately matched to supporting documentation / responses. Additionally, the current system does not allow for frequent complaints of a similar nature to be identified.

2.16.11 The process for requesting and monitoring outstanding works across all sites needs to be formalised.

2.16.12 At the time of the audit the service did not hold a full set of site maps as required by legislation

2.16.13 Segregation of duties are not always demonstrated when income is sealed for banking.

2.16.14 The need for a more formalised budget monitoring process between Finance and the service manager.

2.16.15 There is a lack of business continuity planning to ensure that the service provision is not over reliant on key individuals.

2.16.16 Management need to ensure that with the changing economic climate, that procedures for dealing with debt should be more robust given the increased potential for non payment.

2.16.17 Audit Opinion

2.16.18 As a result of this audit we have raised two high, four medium and six low priority recommendations. Recommendations raised related to the:

- Need for all works required, raised through various reports and inspections to be monitored to ensure progression (High).
- Evidence to be retained to support supervisor checks have been carried out (2 Low).
- Assurance on the condition of property located at Upminster Cemetery (Medium).
- An ineffective audit trail of complaints (Low).
- Formal process for requesting and monitoring works across all sites (2 Low).
- The need for all necessary maps of the cemetery sites to be retained in order to comply with legislative requirements (Medium).
- Inadequate segregation of duties and security of income (1 Low / 1 Medium).
- The need for more comprehensive budget monitoring processes (Medium).
- Lack of adequate succession planning (High).

2.16.19 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising including the failure to detect error or fraud.

Meals on Wheels	Schedule 2(17)
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2.17.1 Background

- 2.17.2 The Meals on Wheels Service is provided under Section 29 of the National Assistance Act 1948 and Section 2 of the Chronically Sick and Disabled Persons Act 1970.
- 2.17.3 The service primarily provides subsidised appropriate hot meal lunches to vulnerable people who would otherwise be placed at risk and consequently be unable to live independently in the community. There is also an unsubsidised 'tea time' service that supplements the lunch provision. A secondary service, currently in its infancy is the supply / delivery of frozen meals on a direct purchase basis.

2.17.4 Summary of Audit Findings

- 2.17.5 The Meal on Wheels Service computer systems were purchased some 10 years ago under advise at the time as the best product then available but are not directly linked to the council mainstream accounting systems. It therefore does not fully comply with Section AA of the Council's Financial Framework, and may require over-hauling to ensure compliance and financial quality.
- 2.17.6 The Service has little ability to segregate its financial functions of invoicing, debt collection and banking.
- 2.17.7 Many in-house systems are reliant on manual operations or recordings, and do not supply or align information with other associated Council systems.
- 2.17.8 Currently there is no system of adequate arithmetic stock control or reconciliation over meals delivered and dispatched.
- 2.17.9 The current collection mechanisms are highly labour intensive, given the relatively small size of the sums involved, and provide unacceptably high levels of credit to the Service clients, to the detriment of the Council.

2.17.10 Audit Opinion

- 2.17.11 As a result of this audit we have raised one high level recommendation and three medium priority recommendation. The recommendation raised relate to:
- The lack of segregation of duties in the financial accounting (High).
 - Disparity between the actual provision of meals by the Service and the levels budgeted and commissioned by the Council's Social Care (Medium).
 - The absence of an adequate stock control system, providing an inventory recording of the quantities received, used and remaining that can then be physically verified against actual stock held (Medium).
 - An unacceptable high level of credit provided by the current manually based systems of account collection (Medium).

2.17.12A **qualified** audit opinion has been given as weakness have been identified in the systems of control or compliance, which could result in key risks materialising including failure to detect error or fraud.

Departmental Budgetary Control

Schedule 2(18)

2.18.1 Background

2.18.2 The effective management of budgets is critical to ensure that expenditure falls within the level of funding available both in year and in future years to account for additional financial pressures.

2.18.3 The audit focused on departmental budgetary control within the Housing, Environment and General (HE&G) Services Finance section which includes budgets within Housing and Public Protection, Streetcare, Culture and Leisure, Business Systems and Finance among others.

2.18.4 The HE&G Services Finance section comprises approximately 20 staff managing a budget across directorates of approximately £70 million.

2.18.5 Summary of Audit Findings

2.18.6 A lack of consistency across the service area was identified in the arrangement and recording of budget monitoring meetings with Cost Centre Mangers (CCMs).

2.18.7 The current structure in HE&G services finance does not provide adequate support for all finance staff.

2.18.8 Profiling for high risk budgets was found not to reflect the pattern of spend in all cases.

2.18.9 A specific issue regarding an overspent budget was highlighted to audit at the start of the fieldwork for this review. Investigation of the factors contributing to the overspend will be investigated but this is outside of the scope of this assignment which looked at the strength of the system of internal control generally in the area.

2.18.10 Audit Opinion

2.18.11 As a result of this audit we have raised four medium priority recommendations.

2.18.12 The recommendations relate to:

- Consideration of specific issues when agreeing the proposed restructure of HE&G services finance (2);
- Arrangement and recording of budget monitoring meetings; and
- Profiling of service budgets.

2.18.13 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Medium Term Financial Strategy

Schedule 2(19)

2.19.1 Background

2.19.2 The MTFFS summarises the Council's budget and looks forward over a three year period to identify the resources which are likely to be required as well as those currently available to make savings.

2.19.3 Heads of Service and Service Managers have primary responsibility for the achievement of savings within their budget. Finance officers support the managers with the management of budgets and are independent of the day to day decision making. This independence allows Finance to be key in the system of internal control however risks can not be mitigated by the actions of Finance alone; services are accountable for their budgets and must ensure appropriate actions and controls are in place.

2.19.4 The restructure of the Council services has impacted on the work of the Finance Teams during 2008/09 and it is noted that this may have impacted on the findings below.

2.19.5 Summary of Audit Findings

2.19.6 Some anomalies were noted in the detail reported with regards to the achievement of savings. Despite the fact that Heads of Services have a responsibility for ensuring performance in achieving savings are accurately reported, it is felt by strengthening the quality control checks by finance officers the system of control would be improved.

2.19.7 Delivery plans for MTFFS savings could not be provided by some Cost Centre Managers (CCMs).

2.19.8 Discussions with a sample of CCMs indicated that they were not all fully aware of savings to be made against their budgets.

2.19.9 Savings held in a holding code had not been permanently allocated in-year causing the saving to be rolled over, with a potential risk of non-achievement.

2.19.10 Audit Opinion

2.19.11 As a result of this audit we have raised three medium priority recommendations and one low priority recommendation.

2.19.12 The recommendations relate to:

- The checks on the information reported to Corporate Management Team (CMT)(Medium);
- The role of Services Finance (Medium);
- Allocation of savings to cost centres (Medium);

- Reminders to Service Managers and Heads of Service regarding communication and understanding of savings (Low).

2.19.13 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place.

Payroll	Schedule 2(20)
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2.20.1 Background

2.20.2 Havering Council's total payments for Salaries and Wages for 2007/08 amounted to £188,937,336.

2.20.3 Summary of Audit Findings

2.20.4 Assurance regarding the compliance with financial rules, of an overtime claim, comes from the officer's declaration and the authorising manager's signature. There is no further assurance available before the payment is processed. Paper-based processes in operation for overtime recording and claims make it impractical to implement central monitoring controls. Annual proactive audit work is undertaken to provide additional assurance to management but this is costly and not an effective long term solution.

2.20.5 The need for an Electronic Human Resources (EHR) system is recognised within the organisation and a business case is currently being worked on.

2.20.6 Signature lists are not currently up to date.

2.20.7 Issues regarding communication and control of data flow between the Human Resources (HR), Schools, and Payroll teams were noted.

2.20.8 An individual was found to be working in excess of 65 hours per week on a regular basis and regularly receiving more in overtime than their basic salary.

2.20.9 A number of manual processes were found to be in place within the section, increasing the potential for errors to occur, although testing highlighted no specific issues.

2.20.10 Out of date forms were found to still be in use. However, HR had introduced a new, standardised Notification of Leaving form (PAMS 99) at the time of the audit.

2.20.11 Audit Opinion

2.20.12 As a result of this audit we have raised one high priority and four medium priority recommendations.

2.20.13 The recommendations relate to:

- Reminder to managers regarding authorisation responsibilities (High);
- A review of excessive overtime report (Medium);
- Update of quarterly claim form (Medium);
- Update of signatory lists (Medium); and
- Review of information flows (Medium).

- 2.21 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Debtors	Schedule 2(21)
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2.21.1 Background

2.21.2 The Debtors process involves the raising of invoices relating to services provided by the Council and the subsequent cash collection and debt management activity.

2.21.3 A central team of five officers is in place. The function is not fully centralised as invoices are also raised by departments.

2.21.4 25750 invoices were raised in 2008/09 with a value of £157,901,380.

2.21.5 Robust debt management arrangements are key in the effective management of the Councils financial resources at both a corporate and service level. The current economic climate heightens the risk the council faces with regards non payment of debt.

2.21.6 A Debt Management Board monitors performance over debt recovery.

2.21.7 The new Oracle Debtors system was due to go live on the 6th April 2009; delays in the project mean that the anticipated go live date is now June/July 2009.

2.21.8 Summary of Audit Findings

2.21.9 No issues arose with regards the work undertaken on debtors.

2.21.10 Audit Opinion

2.21.11 As a result of this audit no recommendations has been raised.

2.21.12 The new system will be reviewed following its “go live” date once the new processes have bedded in to provide assurance to management and the Council’s External Auditors.

2.21.13 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Commissioning of Residential Placements	Schedule 2(22)
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2.22.1 Background

2.22.2 The Strategy and Commissioning Service within Social Care and Learning provides commissioning and contracting functions for services for vulnerable adults and older people as well as a range of support services.

2.22.3 In 2007 Central and Local Government in conjunction with the Social Care Sector introduced a new way of delivering adult social care with the introduction of "Putting People First: A Shared Vision and Commitment to the Transformation of Adult Social Care".

2.22.4 The aim was to deliver a more personalised adult social care system. This has now become known as "Personalisation". Through personalisation service users will be given the choice and control over the services they receive. In turn users will receive individually tailored care packages instead of block contracted services.

2.22.5 Whilst the audit review looked at the commissioning of residential placements in care for the elderly, it is evident from the work completed that the service is focused on delivering the Governments aim of personalised care packages and therefore giving service users more choice in the support that they receive.

2.22.6 Summary of Audit Findings

2.22.7 Reviews of service users cases, either four to six weeks after placement or annually thereafter are not currently being completed on time and a backlog has built up.

2.22.8 No evidence could be provided at the time of the audit that management undertake spot checks on quality of financial assessments completed.

2.22.9 Target timescales on which performance is measured, regarding time taken to financially assess a case after it has been approved by placement panel have not been documented within the income procedures.

2.22.10 Debt recovery procedures are in place, they are not fit for business.

2.22.11 Formal processes have not been established to monitor and communicate the ratings of providers outside of the borough. As a result declines in provider performance outside of the borough may not be identified and placements within these providers not reviewed;

2.22.12 Formal processes to record and progress training issues identified through the placement panel process in relation to the completion of assessments have not been established; and

2.22.13 Given the direction the service is moving in, in relation to personalisation, it may be beneficial for the service to forge links with new initiatives within the Council such as the new Mobile Support Service to maintain regular links with service users in between annual reviews.

2.22.14 Audit Opinion

2.22.15 As a result of this audit we have raised one high, three medium and two low priority recommendations.

2.22.16 Recommendations related to the need for:

- Backlog of reviews to be cleared (High);
- Documented timescales for the completion of financial assessments (Low);
- Evidence of supervisory checks to be retained (Low);
- The debt recovery process to be reviewed to ensure fit for business (Medium);
- Formal process for recording training needs identified during placement panel (Medium); and
- Clear processes for monitoring out of borough provider performance and sound information communication between teams (Low).

2.22.17 A **qualified** audit opinion has been given as weaknesses have been identified in the system of control, which could result in key risks materialising including the failure to detect error or fraud.

Child Protection	Schedule 2(23)
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2.23.1 Background

2.23.2 Child Protection is a particularly high profile area following the press coverage of the Haringey Baby P investigation.

2.23.3 As would be expected this area is identified as a risk on the directorates risk register and also features on the Council's Corporate Risk Register.

2.23.4 The audit resources within Social Care and Learning equate to one 0.5 fte member of staff as an Auditing Officer, five fte reviewing officers and the Service Manager – Safeguarding and Service standards. In addition there is also one London Safeguarding Children's Board (LSCB) Business Manager, one Family Group Conference Manager and one Child Protection Officer – Education Setting.

2.23.5 Summary of Audit Findings

2.23.6 The audit / quality team within Social Care and Learning has been affected by the corporate and service related restructures that took place in 2008/09. Additional resources have been brought in to the team however the period of disruption and the resources applied to developing the service standards has impacted on the audit work undertaken during the year.

2.23.7 The work of the teams within Children's Services is firmly based on legislative requirements. Management have acknowledged that there is currently no set operational resource with responsibility for policy. A business case for such a post (Policy Officer) has been drafted.

2.23.8 Service Standards have been developed during 2008/09 to strengthen audit work in place and link between process / procedure and legislative requirements. These will provide guidance to social workers regarding key actions when dealing with a case and will be the basis for the quality audit work going forward.

2.23.9 There are corporate directions with regards data security and information governance however risks and controls need to be considered locally and awareness amongst staff raised.

2.23.10 A lettings protocol outlining safeguarding children responsibilities has not been issued to all areas of the Council where it may be required. Steps have been made to issue detailed guidance to schools but other sections where lettings are made have not yet been notified. The LSCB has issued some guidance but a need remains for local guidance to be distributed.

2.23.11 An Integrated Children's System is being implemented and transfer of information from hard copy files is in progress. This will be an area of focus in the 2009/10 audit work.

2.23.12 Management information is generated from systems and currently there are insufficient checks and balances.

2.23.13 There are currently no spot checks on mobile workers and safeguarding of the mobile working packages they are responsible for.

2.23.14 A positive Commission for Social Care Inspection (CSCI) report and Joint Area Review (JAR) report was issued in 2007 providing assurances over Child Protection at Havering.

2.23.15 Audit Opinion

2.23.16 As a result of this audit we have raised six medium priority recommendations.

2.23.17 The recommendations relate to:

- Pursuing the business case for a dedicated resource for policy and legislative management.
- Full implementation of a checklist for cases files and issuing of Service Standards.
- Re-introduction of peer reviews of case files.
- The need for a formal, annual review of achievements against planned objectives.
- Full distribution of lettings protocol for safeguarding children.
- Introducing management spot checks for mobile working packages.

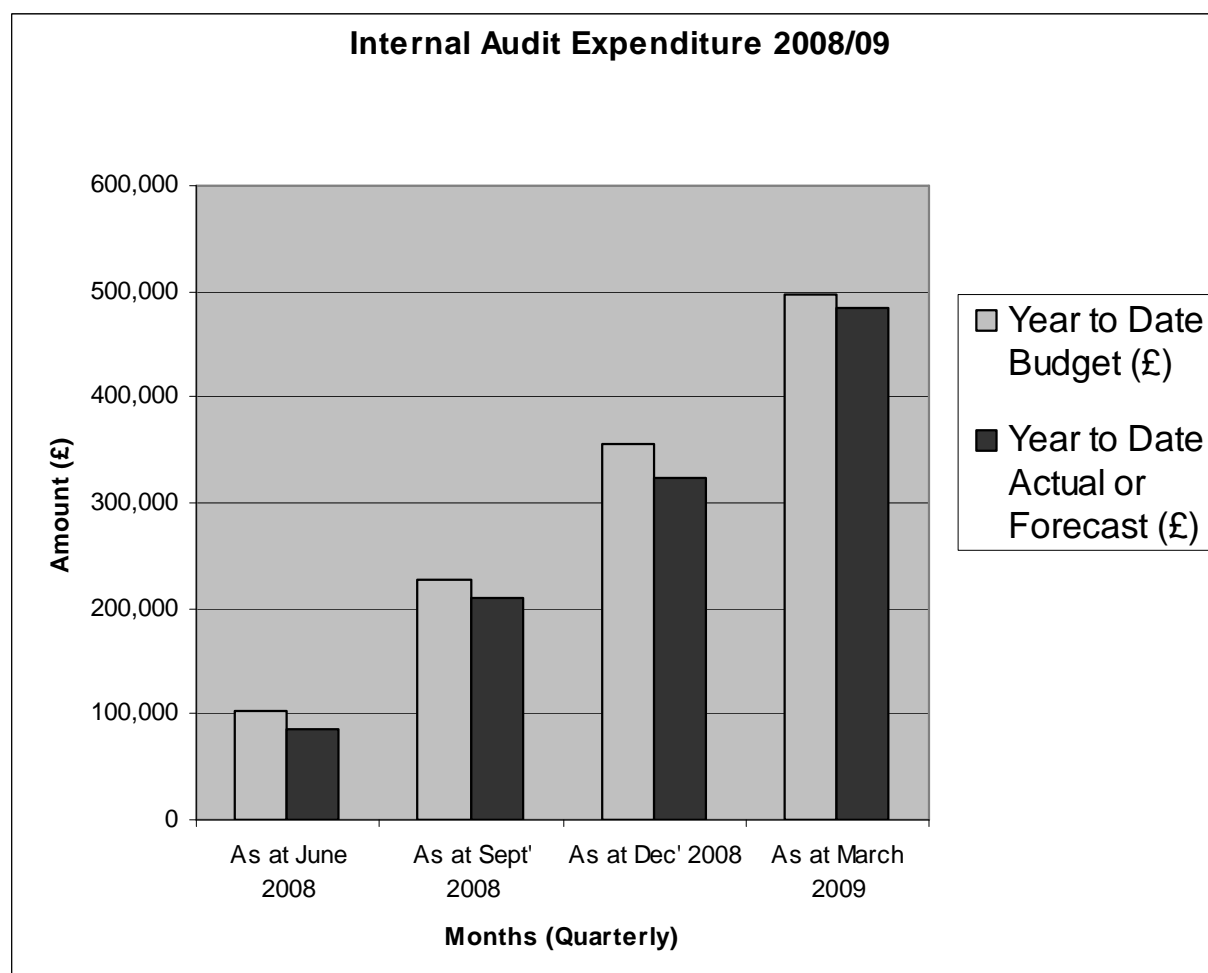
2.23.18 An **unqualified** audit opinion has been given as the audit has found that the system of control is generally in place and any recommendations being made are to enhance the control environment.

Section 3 Budget & Resource Information

2008/2009 Budget Analysis

Internal Audit (F620) 2008/09 Expenditure

	As at June 2008	As at Sept' 2008	As at Dec' 2008	As at March 2009
Year to Date Budget (£)	102,014	227,314	355,300	497,700
Year to Date Actual or Forecast (£)	86,444	208,965	323,747	483,610
Variance (£)	-15,570	-18,349	-31,553	-14,090



Section 4 – Outstanding Audit Recommendations Tables

Categorisation of recommendations

High: Fundamental control requirement needing implementation as soon as possible.

Medium: Important control that should be implemented.

Low: Action pertaining to best practice.

Outstanding Internal Audit Recommendations – 2006/07

Review in 2006/07	HoS Responsible	Outstanding			Position as at end March 09		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Providing Services for the Physically Disabled	Adult Social Care	1	1		2		
Governance	Housing & Public Protection			1	1		
Liquidated and Ascertained Damages	Streetcare			1	1		
	Total	1	1	2	4	0	0

Liquidated and Ascertained Damages has a revised deadline of August 2009, Governance has a revised deadline of June 2009 and Providing Services for the Physically Disabled now has a revised deadline of June 2010 for both recommendations. These actions are included in the planned 'Fairer Charging Policy Review' which has been delayed due to resource funding issues.

Outstanding Internal Audit Recommendations – 2007/08

Review in 2007/08	HoS Responsible	Outstanding			Position as at end March 2009		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Street Lighting	Street Care		1		1		
Asbestos Management	Asset Management	1	2		3		
Register of Interests	Asset Management		2		2		
Cash and Bank	Asset Management	4	2		6		
Civil Contingencies	Development & Building Control		1		1		
Pensions	Exchequer Services			1	1		
Petty Cash	Finance & Performance		1		1		
Total		5	9	1	15	0	0

The Street Lighting has a revised date of August 2009 while Civil Contingencies and Petty Cash have a revised date of June 2009. Asbestos Management recommendations are due for implementation by June 2009.

Outstanding Internal Audit Recommendations – 2008/09

Review in 2008/09	HoS Responsible	Outstanding			Position as at end March 09		
		High	Medium	Low	In Progress	Not Started	Position Unknown
Small Works Project	Adults Social Care		1		1		
E Payments	Business Systems	1	5	1	7		
Commissioning of Works	Asset Management	3			3		
Registrars	Customers Services		1	2	3		
Total		4	7	3	14	0	0

The progress with the registrars recommendations has been hindered due to the refurbishment at Langtons.

All other 2008/09 recommendations currently have target dates of June 2009 and beyond. A full report of all outstanding recommendations will be presented at the September meeting.

GRAPHICAL SUMMARY OF CORPORATE RISKS

APRIL 2009

Impact	4	5. Causing harm to people we owe a duty of care (Christine Dooley)	12. Housing (Cynthia Griffin) 10. Partnerships (Cynthia Griffin)		
	3		8. Adult Transformation (Andrew Ireland) 1. Recruitment and Retention (Rita Greenwood) 6. Children's Act: Every Child Matters (Andrew Ireland) 4. Community Engagement (CC or CG)	13. Credit Crunch (Rita Greenwood) 7. Lack of Infrastructure Development (Cynthia Griffin) 14 Information Governance/Data Quality (Cynthia Griffin)	3. Organisational capacity/capability (Cheryl Coppell)
	2		11. Financial Arrangements (Rita Greenwood)	9. Business Continuity and Emergency Planning (Rita Greenwood)	
	1			2. Succession Planning (Rita Greenwood)	
		1	2	3	4
Likelihood					

Risk			Counter Measures			Assessment		
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
1	<p>Recruitment and Retention</p> <p>In London and the South East. Havering is in competition with all other employers for quality staff and Local Government is not always seen as an attractive, compelling career and environment for quality people. Havering's workforce is mainly locally based which restricts the potential catchment for new employees. The impact of the Regional Agenda will also feature</p>	Havering fails to attract and retain quality staff	<ul style="list-style-type: none"> - Key post is not filled - Key post not filled with the right calibre staff - Quality of implementation of major activities or projects is put at risk - Pool of Quality employees diminishes - Dutch auction of salaries to attract new people - Risk of Quality staff moving on to greener pastures - High standards of council not maintained - Objectives not achieved - Member criticism of officers - Image of council damaged 	<ul style="list-style-type: none"> - Staff development (PDPAs, 1 to 1s, induction) - Some recruitment and retention packages - Reassessment achieved for corporate IIP - Further expansion of management development programme - Workforce Strategy team in place and a team of recruitment advisors to plan and deliver innovative recruitment solutions - Recruitment and Retention Strategy in place - Workforce Plan in place and embedded as part of service planning process - Regular Review of reward strategies e.g. consideration of market supplements - IIP health check - Agency Review - Competencies Framework being rolled out - CEME as a dedicated training site - Training and Development standards set - Apprenticeship scheme in place 	2/4	3/4	6/16	↓
	Risk Owner: Rita Greenwood							
2	<p>Succession Planning</p> <p>The Council has an</p>	Significant numbers of staff retire /	<ul style="list-style-type: none"> - Loss of key skills / experience - Difficulties recruiting staff 	<ul style="list-style-type: none"> - Workforce Strategy team works with services - Business Continuity Plans in place - Talent Strategy Manager in place developing 	3/4	1/4	3/16	↓

Risk			Counter Measures			Assessment		
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	<p>increasing age profile across its workforce. There is little new blood and succession planning. Budget constraints may inhibit capacity to develop staff.</p>	<p>leave simultaneously</p>	<p>with same levels of experience/skills/qualifications</p> <ul style="list-style-type: none"> - Gaps appear in the organisational structures - Pressures on existing staff - Loss of corporate 'memory' - Adverse impact on service delivery - Service failure - Adverse publicity - Stability of Corporate Leadership Team 	<p>solutions and Talent Management Strategy in place</p> <ul style="list-style-type: none"> - Recruitment and Retention Strategy in place and In place - Procedures documented for all key activities - Recruiting and marketing earlier - Work placements career service link - Workforce Planning embedded into service planning activities - Recruitment contract in place - Developed 14-19 Strategy (working with schools and colleges) - Youth network established 				
3	<p>Risk Owner: Rita Greenwood</p> <p>Organisational capacity/capability</p> <p>(i) The Council undertakes a variety of long term projects, which require effective overall project programming</p> <p>(ii) A proportion of managers have proven technical expertise but lack the more general management skills such as people and business management</p>	<p>(i) Project programming is ineffectively managed</p> <p>(ii) Some managers are unable to deal with, for example, a sensitive personnel/management competency issue. Some managers are</p>	<ul style="list-style-type: none"> - Projects not managed to time or budget - Projects fail to deliver objectives - Project planning called into question - Ineffective use of resources - Failure to deliver value for money and resources cost more - Officers feel demoralised/vulnerable/frustrated - Partners are disillusioned - Adverse effect on performance/ineffective 	<ul style="list-style-type: none"> - Monthly monitoring of key projects - Post implementation reviews - Monitoring of contractor/contract performance - Contract monitoring responsibilities defined - Training and Development - Management - Staff Performance management and development (PDPA's, 1 to 1's, induction) - Sickness monitoring, including RTW's and reviews - IIP accreditation - Legislation tracking - Competency Framework - Council restructure and creation of Assistant Directors - Increased electronic arrangements eg HP 	4/4	3/4	12/16	↑

Risk			Counter Measures			Assessment		
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	(iii) Absence management. Having manages a substantial human resource and levels of absence have historically been too high. Significant research has been undertaken to understand this issue and a programme is in place to deal with the issue.	unable to show effective leadership or business skills (iii) The programme is unsuccessful and levels of staff absence remain high, or increase	<p>services</p> <ul style="list-style-type: none"> - Image of Council suffers/adverse publicity - Failure to directly challenge poor performers - Culture does not encourage staff to progress and develop - Lack of confidence in managers - Excessive pressures placed on these staff who are at work to fill gaps - Tensions between managers and staff, who struggle to deliver - Good staff leave to join better run organisations 					
	Risk Owner: Cheryl Coppel							
4	<p>Community Engagement</p> <p>Our latest CPA rating is 3 stars.</p> <p>CPA is now replaced by CAA.</p> <p>The Council must both communicate and consult with residents</p>	<p>Lower than expected scores for CAA</p> <p>The public are unsure of what the Council does (well) and only hears bad news about the Council.</p>	<ul style="list-style-type: none"> - Council's external reputation damaged - Council uses more resources fire fighting the fallout from CPA - "Eye taken from strategic objectives" - Threat of intervention increases - Ability to access funding damaged - Disappointment amongst 	<ul style="list-style-type: none"> - Successful CPA report and 3 star rating - Performance Management in place - Monitoring of inspections/audit recommendations - Improvement & Delivery Board and other formal processes to manage performance in place - High Corporate engagement in CAA - Communication and consultation strategies - Press Office - Local Offices/PASC - "Living" now fortnightly 	2/4	3/4	6/16	=

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	<p>and service users but does not publicise itself effectively and does not have a systematic approach to communication embedded across departments.</p> <p>Havering has been a predominantly White Christian community. However the demographics are changing and will continue to change. This is impacting upon the settled White working class community in particular.</p> <p>Havering has one of the largest shopping centres with 10,000 visitors to the market on a Saturday alone. It has pockets of serious deprivation and a fast changing demographic landscape, which may be viewed as a potential location for</p>	<p>Breakdown in community relations, intergenerational issues and political activism may all impact negatively.</p> <p>Socio-economic factors may also contribute, as negative preconceptions may increase further.</p> <p>Breakdown in community relations, intergenerational issues and political activism may all impact negatively.</p> <p>Socio-economic factors may also contribute, as negative preconceptions may increase further.</p>	<p>staff and members leading to morale problems</p> <ul style="list-style-type: none"> - Staff criticised - Recruitment and retention problems - Public perception of the Council diminishes and therefore overall user satisfaction - Complaints outweigh compliments - Staff morale suffers - Front line staff do not act as advocates - Council suffers low self-esteem - Plans difficult to implement - Council struggles to move forward - Key opinion formers in the community not engaged - Poor coverage in media - Lack of understanding of council services and value for money - Community tension increases and result in unrest or riots - Political agendas are used to impact upon tensions - Local politicians raise concerns 	<ul style="list-style-type: none"> - Provision of appropriate training (general and/or specific) for staff/officers/members - Provision of information for partners - Communications with media/community - Promotion and publicity - Internet and intranet development - Enhanced internal communications: Back to the shop floor etc - Communications Champions - New structure has been agreed and is being filled - Staff focus groups - Ipsos - MORI annual survey - Carefully managed community consultation and engagement (through ICAN) - Capacity building and succession planning in local marginalised communities - Activities to raise awareness and break down barriers between communities - Intergenerational work - Work with Governors and schools - Training of staff and members on E&D and cohesion issues - Achievement of Equality Standard - DSG and "Diverse Havering" - 6 point Diversity Strategy and E&D Performance Framework - Crime and Disorder Strategy - Regeneration Strategy - Business Continuity Plan 				

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	violent extremist activity.	also contribute, as negative perceptions may increase further. With tighter security in Central London, Outer London Boroughs may be potential targets for maximum effect. Havering having a predominately White, Christian community further impacts upon this.	<ul style="list-style-type: none"> - Havering becomes a focus for local/national media - Issues are highlighted on a national platform - Havering's image is tainted - Council's reputation is at stake - Council has significant and negative issues to manage - Divisions are difficult to heal - Cohesion agenda overall becomes unmanageable locally - Community tensions increase and result in attack. - Political agendas are used to impact upon issues negatively. - Local politicians raise concerns. - Havering becomes a focus for local/national media. - Issues are highlighted on a national & international platform. - Havering's image is tainted. - Council's reputation is at stake. - Council has significant and negative issues to manage. - Divisions within local groups are difficult to heal. - Agenda overall becomes 					

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
			unmanageable locally.					
	Risk Owner: Cheryl Coppel or Cynthia Griffin							
5	<p>Causing harm to people we owe a duty of care</p> <p>Havering provides high profile and high risk services and employs a significant number of staff.</p>	<p>Serious injury or fatality to staff member/Service User leading to sustained media, legal and audit attention</p>	<ul style="list-style-type: none"> - Someone is hurt or dies - HSE prosecution - Service is frozen - Financial penalties incurred - Negative impact on rest of organisation - Loss of confidence in management - Criticism of officers - Reputation of council damaged - Recruitment is inhibited - Loss of quality staff - Loss of confidence in council - Loss of public trust 	<ul style="list-style-type: none"> - Health and Safety Management System agreed and in place - H & S budgets in place - H & S action plans in place - Risk assessments - Management inspections - Directorate and corporate H&S advisors - Insurance in place - Corporate Health and Safety Group and coverage - Risk Management Group and coverage - Auditing and Compliance Plan - Training Plan/Programme - Award of Legionella Contract and monitoring arrangements in place - Improved asbestos management - Smart log fire management system - Corporate Manslaughter risks briefed - CDM risks briefed to Corporate Group 	1/4	4/4	4/16	↑
	Risk Owner: Christine Dooley							
6	<p>Children's Act: Every Child Matters</p> <p>Implementation of the Children's Act involves</p>	<p>Project is ineffectively managed</p>	<ul style="list-style-type: none"> - System fails and a child dies or is injured - Delays in implementation - Resources wasted - Costs increase 	<ul style="list-style-type: none"> - Strategy for Implementation and Action Plan agreed at Cabinet - Model of workstreamed with designated HoS as Leads - CYP Plan sets out priorities. Plan has been 	2/4	3/4	6/16	↑

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	major strategic, cultural and operational changes for the Council. Children's Services represent a significant proportion of the Council's overall budget and manage some of the most high profile services delivered by it. ECM must be joined in with the Corporate issues, e.g. health housing		<ul style="list-style-type: none"> - Opportunities missed - Lose confidence of key stakeholders - Staff morale declines - Objectives not achieved - Vision of Children's Act not achieved - Adverse inspection - Adverse publicity - Failure to progress Children's Trust 	<ul style="list-style-type: none"> renewed and reported to Overview and Scrutiny. - Operational plans in place to ensure delivery - Monitoring by GOL, DfES. APA grading was high - JAR inspection October 2006 - High rating - JAR Action Plan - CYP plan reviewed and implemented - Capacity not affected by JAR and CPA inspections 				
7	<p>Risk Owner: Andrew Ireland</p> <p>Lack of Infrastructure Development</p> <p>The east of London and Thames Gateway will be subject to massive housing development. This will assist in meeting affordable housing targets which are a challenge. Key concerns however are that:</p> <p>(i) increased levels of</p>	<p>Infrastructure development does not match housing development levels e.g. road improvements, hospitals, schools.</p> <p>Land for development is not available and homes</p>	<ul style="list-style-type: none"> - Demands on services increase - Infrastructure and transport, including congestion, is put under pressure - Borough becomes less attractive to employees/residents - Risk of unemployment - Unsustainable/lack of community development - Residents complain - Image of Council damaged - Many people in the borough 	<ul style="list-style-type: none"> - Operation of London Thames Gateway Development Corporation - Continued involvement in Thames Gateway "family" - Establishment of Planning Framework - Maximising of borough influence with CLG/LTDC/GLA/Housing Corporation etc - Development of detailed proposals for area action, e.g. Rainham, Rainham Marshes - Implementation of Romford and Hornchurch Urban Strategies - Develop partnership with PCT and bringing forward primary health facilities - Agreement of clear Havering Regeneration 	3/4	3/4	9/16	↑

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	housing must be accompanied by improved levels of infrastructure within the Borough, e.g. transport; (ii) new housing meets the targets.	developed fall well short of targets. CLG/LTGDC/G LA/Housing Corporation do not prioritise Rainham for investment.	are unable to afford to buy their own house - Young people/key workers leave the district - Increased recruitment/retention issues for public bodies including Havering - Local economy declines/property threatened - Council target on affordable housing not met - Havering does not benefit from improved transportation - Havering misses out on job opportunities/flow of goods created by improved transportation - Borough is marginalised in economic development of region	Strategy - Ensure S106 agreements are delivered, including LTGDC area - Use of LDF to guide development - Use of Planning Delivery Grant although reducing to improve planning processes - Development of wider Rainham Strategy				
8	Risk Owner: Cynthia Griffin Adult Transformation There is a whole change programme incorporating on service improvement, budgetary control, and service transformation.	Inadequate systems Service overspends budget Non delivery of	- Budget instability and overspends - Needs being met inappropriately - Services are not appropriate - Failure to meet performance and transformation target.	- Budget monitoring system brought in line with Council model - Local action plan is monitored and reported - Strategic review of service delivery - Continue with the system integrity project and improve control and information - Improved income systems - Overall improvement plan in place by interim	2/4	3/4	6/16	↓

Risk			Counter Measures			Assessment		
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	to the Personalisation of self-directed care model within Adult Social Services	aspect Delays.		management support (moved from Further actions planned) - Identifying and tracking demand and cost of provision - Contracts being looked at Transformation Project Board in place				
	Risk Owner: Andrew Ireland							
9	Business Continuity and Emergency Planning The Council is required to respond to both external and internal business continuity issues.	Ineffective response to an incident (or business continuity plan fails)	- Services disrupted - Staff unaware of correct procedures - Decision-making in the heat of the moment - Resources wasted reacting - Information lost - Loss of revenue - Increased cost of providing back-up services - Council seen as being ineffective - Council is challenged over its lack of preparedness - Council unable to demonstrate correct procedures - Operating in contravention of legislation	- Major Emergency Plan which is regularly reviewed - Regular exercises - Emergency rota in place and schedule of call-out officers established - BC Strategy in place and tested regularly - Overall Business Continuity Plan formulated and database in place - Service Business Continuity Plans - IT strategy being implemented - IT back ups taken and off site Disaster Recovery now in place - Risk Management/Business Continuity Group - Website advice in place - Increased awareness being undertaken - Flu spend protocol (moved from Further actions planned) - BC now part of all system audits - Emergency spend protocol	2/4	2/4	4/16	↑

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
			<ul style="list-style-type: none"> - Censure by audit/inspection - Adverse publicity 					
	Risk Owner: Rita Greenwood							
10	<p>Partnerships</p> <p>Partnerships are a high profile and fundamental part of the Community Governance role which Havering plays. It has identified a number of aspirations and priorities for the improvement of the borough</p>	Partnership members work to different priorities/objectives and the partnership struggles to deliver	<ul style="list-style-type: none"> - Failure to deliver community strategy - Failure to deliver robust LAA - Tensions between partners over roles and responsibilities - Governance is inadequate or ineffective - Risks to partnership are not identified and managed effectively - Partners rely on local authority for delivery - Partnership fails to influence local and regional agendas - Failure to deliver good CAA results - Data quality amongst partners is inconsistent and performance against targets cannot be verified thereby jeopardising claims for reward grant 	<ul style="list-style-type: none"> - Having Strategic Partnership acts as umbrella for partnership development - Key partnerships identified and mapped - HSP reviewed - Community management team meets regularly and reviews overall partnership activity - Positive feedback from CA - Partnership toolkit relaunched - Awareness of financial issues - Split risk HSP and partnerships - LAA 2 in place - Closer working with PCT and health developed. 	2/4	4/4	8/16	↓
	Risk Owner: Cynthia Griffin							
11	Financial Arrangements	Overspends/failure to meet	- Negative impact on balances/Council Tax	- MTFS and budgetary process - 3 year financial settlement	2/4	2/4	4/16	=

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	<p>(a) Some services have lacked a robust financial management system and budget management and ownership have been weak. This has led to overspend and an inability to deliver the budget on target for some services.</p> <p>(b) Hovering faces challenging financial times; one of the highest Council tax levels, but lowest levels of Government aid.</p> <p>(c) Council fails to set a robust budget and/or fails to set an appropriate level of reserves and contingency</p> <p>(d) Central Government offers streams of funding for some key projects and local authorities must bid for these.</p> <p>(e) There is a concern</p>	<p>targets continue.</p> <p>Council fails to take some tough/innovative decisions on spending plans for the future.</p> <p>There is an unexpected financial burden with significant consequences. This may be caused by poor financial management.</p> <p>Council misses a possible external funding opportunity.</p>	<ul style="list-style-type: none"> - Political fallout - Service reductions - Increased uncertainty - Lack of VFM demonstrated - Harder and harder to make efficiency savings targets - Improvement goals in key services are not met - Business investment withdrawn - Risk of service failure or inappropriate/unlawful action - Capacity is further stretched - Staff disillusionment, stress and absenteeism - Council criticised publicly and through audit - Additional funding is lost - Additional projects/initiatives cannot go ahead - Residents do not understand why Council does not have access to this funding - Image of Council damaged - Services overspend without prior warning - Need for material in-year savings or S114 notice 	<ul style="list-style-type: none"> - Risk assessment of savings proposals and budget areas - MTFS Meetings - Financial controls - Financial procedures and manuals which are reviewed - Monthly monitoring - Longstop review arrangements - Out-turn reviews - Central Government lobbying - Grant spending plans - Grants co-ordination role - Grant protocol - Fraud and corruption strategy - Adequacy of reserves/contingencies - Audit reports - Staff training - LAA Financial procedures - Debt recovery policy and procedures 				

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	that there is a lack of a joined up approach to funding, and funds may be available and the organisation is not aware of these.							
	Risk Owner: Rita Greenwood							
12	<p>Housing</p> <p>The Council is required to meet the decent homes standard for its housing stock in 2010.</p> <p>The route it has chosen to achieve this is an 'Arms Length Management Organisation'</p> <p>The ALMO has financial difficulties</p>	ALMO does not achieve 2* status	<ul style="list-style-type: none"> - Investment in transfer process wasted - Staff demoralised - Members and officers in conflict over outcome - Council must review its options with time running out - Decent homes may not be achievable - Council is seen to have failed community 	<ul style="list-style-type: none"> - ALMO Delivery Plan - Commitment of Senior Management across the Council - Mardyke Delivery Plan completed 1 April 2008 and follow up work in hand 	2/4	4/4	8/16	↓
	Risk Owner: Cynthia Griffin							
13	<p>Credit Crunch And Economic Climate</p> <p>The current economic climate is challenging in</p>	<p>Lack of Funding</p> <p>Partner/supplier financial</p>	<ul style="list-style-type: none"> - Increased community as users eg employment, financial hardship, debt - Financial strain on country - Delay on ceasing of capital 	<ul style="list-style-type: none"> - Bridge funding to provide capital support - Monitoring of Dashboard indicators assessing Community impact - Action plan in place covering 	3/4	3/4	9/16	=

Risk			Counter Measures			Assessment		
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
	a variety of ways for the Community and Council	collapse	schemes	<ul style="list-style-type: none"> • Industrial support • Business support • Coping within the Council due to increased demands on services - Website launched - Risk Assessing and monitoring key suppliers - Regular review matters against other authorities - One off Council investment in a number of initiatives - Council wide meetings taking place to discuss issues				
	Risk Owner: Cynthia Griffin							
14	Information Governance/Data Quality The quality of data is inadequate to underpin the Council's performance management and decision-making processes	National Indicators are qualified by external/internal audit Poor use of resources assessment	Information is uncontrolled and used inappropriately Information for decision-making is unsuitable, leading to poor/unsupported decisions being reached Qualifications via external agencies which feature in CAA	- Data quality strategy/policy in place - Performance Management Group in place - HP system in place - Unqualified audit opinion on NIs received from internal audit - Processes in place to collect NI data - Data quality training provided as part of HP implementation - Finance and performance monitoring linked through service planning process, HP system and corporate monitoring through CMT and I&D board - ICT Policy reviewed to consider further implications on information governance, security and records management - Records management policy available giving guidelines on document retention for all	3/4	3/4	9/16	new

Risk		Counter Measures			Assessment			
No.	Vulnerability	Trigger	Consequence	Existing Controls / Actions and Where	Likelihood	Impact	Risk Rating	Change since last time
				<p>services.</p> <ul style="list-style-type: none"> - The Council's Information Governance policies will be further reviewed by audit to assess further actions to be taken 				
	Risk Owner: Cynthia Griffin							



MEETING	DATE	ITEM
AUDIT COMMITTEE	23 June 2009	11

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: ANNUAL HEAD OF INTERNAL AUDIT REPORT 2008/09

SUMMARY

This report provides the Committee with a summary of the Internal Audit activity for the financial year 2008/09 and includes an opinion from the Head of Internal Audit regarding the system of internal control within the Council.

RECOMMENDATION

Note and comment on the Annual Report.

REPORT DETAIL

The report contains a statement of assurance from the Head of Internal Audit and outlines the work that supports this opinion including a brief summary relating to: systems, contract, computer audit work, reactive and proactive fraud work, follow up work, schools and arrangements relating to risk management.

It provides the Audit Committee and management with a good degree of assurance that the Council has adequate levels of internal control.

Key Performance Indicators and performance against target is also included in this report.

Service improvements are also highlighted.

Financial Implications and risks:

The annual report summarises the work of the internal audit service over the past financial year and highlights key performance achievements. The findings from individual audits are reported to the Audit Committee as part of

the quarterly reporting cycle. Thus, any audit recommendations arising from audits undertaken, and the audit opinion, have previously been considered by the Committee. Any internal control issues identified as part of this process will have been raised with managers, who have the opportunity of commenting on these before they are finalised. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit. There are no financial implications or risks arising directly from this report.

Legal Implications and risks:

None 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

None.



Havering
LONDON BOROUGH

INTERNAL AUDIT ANNUAL REPORT

2008 / 2009

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1. PURPOSE

- 1.1 The purpose of this report is to provide Members and senior managers with a formal opinion as to the adequacy and effectiveness of the Council's internal control environment and to report on the performance of the internal audit service for the year.

2. BACKGROUND

- 2.1 The Accounts and Audit (Amendment) (England) Regulations 2006: Regulation 6 Section 10 requires the Council to review, at least once a year, the effectiveness of its systems of internal control in accordance with proper practices and for the Chief Executive to personally state the adequacy or otherwise of these systems. The proper practice which an audit service should act in accordance with is the 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006'.
- 2.2 The Chief Financial Officer relies on the work and findings of Internal Audit to provide assurance as to the adequacy of the systems currently in place. The report and the opinion of the Head of Internal Audit, set out below, therefore form an important part of the Council's review of its systems of internal control. The work that supports this report along with many other sources of assurance have this year informed the Annual Governance Statement process.

3. ANNUAL REPORT AND OPINION

3.1 Introduction

3.1.1 The role of the Internal Audit Service

Internal Audit's role is to fulfil the Authority's responsibilities under the Accounts and Audit (Amendment) (England) Regulations 2006 of 'maintaining an adequate and effective system of internal audit in accordance with proper practices'. The responsibility for the system of internal control rests with management therefore the Internal Audit Service provides a service to management to support them in satisfying their responsibility.

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, which as stated above is deemed to be proper practice, defines what the role of Internal Audit should be and also what should be contained within the Head of Internal Audit's formal Annual Report. This report has been produced in accordance with this guidance.

3.2 Work that Supports the Opinion

3.2.1 The Audit Plan

The original plan for 2008/09 contained 1620 days of audit work. This plan was approved by the Audit Committee in March 2008. The plan is resourced mainly via an in-house team, made up of permanent and agency. The computer audits, within the plan, were completed by Deloitte and Touche Public Sector Internal Audit Ltd.

To ensure the audit service meets the needs of the organisation during the year minor amendments are required new risk areas are included on the request of management and areas where risk profile has reduced or where overlap with other assurance activity is identified are removed. Changes are agreed by the Internal Audit & Corporate Risk Manager and significant changes are reported to Audit Committee.

The final plan for 2008/09 totalled 1600 days.

Table 1 details the 2008/09 work completed by the 31st March. At that date circa 60 days remained to be delivered. This was reflected in how the plan had been profiled and therefore only represented circa 10 days slippage on the expected delivery at this date.

The Audit Committee receives updates regarding progress against the plan quarterly as well as a summary of the findings of each audit. This has enabled the Members of the Committee to play an active part in ensuring that there are effective systems of internal control and Members have the opportunity to raise questions or challenge the relevant Head of Service at the Audit Committee meetings.

This section of the report therefore acts as a high level summary of the year and does not report again the findings of specific audits.

TABLE 1 – Original v Revised Plan and Days Delivered

Table 1 details the days in the original and revised plans and the progress towards completing the plan at the 31st March 2009 and 31st May 2009.

	Totals
Days in original plan	1620
Days In revised plan	1600
Days delivered by 31st March	1540
Days delivered by 31st May	1595

* 5 days remain relating to finalising of draft reports.

3.2.2 Systems & Contract Audit

550 days of the plan were allocated to systems and contract audit.

A new audit approach and working papers have been implemented during 2008/09 to improve the efficiency of the performance of the team. The reliance on Agency staff has also reduced during the year. Two agency auditors have been used to cover while vacant posts were recruited to. One agency auditor remains in the team but when this contract ends at the end of June.

40 opinions were issued for these audits; ten or 25% of these were qualified.

3.2.3 Computer Audit

2008/09 was the third year of a three year Strategic Audit Plan to be delivered by Deloitte and Touche Public Sector Internal Audit Ltd.

Ten audits were completed in year with three or 30% of these being qualified.

All reports with the exception of one were presented in draft by the 31st March 2009.

The Audit Committee has received the management summary for all finalised reports relating to systems, contract and computer audit.

3.2.4 Fraud Work

Reactive Work

At the commencement of the year a contingency of 390 days was provided to carry out investigations into suspected fraud or issues that management requested specific assurance on. This was an increased plan from previous years as a third post, previously trialled was permanently introduced to the team in year. Due to sickness in the team there was small reduction in capacity and 20 days were outstanding at the end of March. 72 cases were completed during the year and a further 13 were on-going at the 31st March 2009.

The Fraud Hotline has once again generated investigations and there have been 20 cases reported.

The Confidential Reporting (Whistleblowing) Hotline has also generated 13 issues for investigation during the year.

Results and progress regarding fraud reactive assignments are reported quarterly to Corporate Management Team and Audit Committee. An annual review of Whistleblowing is also reported to the Audit Committee.

Pro-active

At the commencement of the financial year 195 days were assigned to pro-active audits. A risk based pro-active audit plan has been devised.

16 proactive audits were undertaken on 2008/09. All but three were issued by the end of the financial year. Summaries of the results of the audits are reported to Audit Committee as part of the fraud progress reports.

Annual Review of Anti Fraud and Corruption Arrangements

During the year the anti fraud and corruption arrangements were reviewed, no issues arose, and the corporate strategy to prevent fraud and corruption was refreshed. Audit Committee approved the updated strategy and noted the results of the review in December 2008.

The increase in the size of the team will not only allow increased flexibility in the approach to investigating cases and should realise efficiencies in delivery going forward. The Senior Auditor has completed the Cipfa investigators course during 2008/09 and this has strengthened the knowledge and expertise within the team whilst also identifying new techniques and best practice to be implemented.

3.2.5 Follow Ups

For each of the qualified reports from 2007/08 a follow up audit was undertaken and the results reported to Audit Committee. In each case sufficient action had been taken, within target deadlines, to conclude that the systems could be given an unqualified opinion.

Progress to improve the implementation of audit recommendations has been noted in year by the Audit Committee. Information regarding outstanding recommendations is reported as part of the quarterly report to Audit Committee.

3.2.6 Schools

The audit of schools within Havering does not form part of the in house audit plan and the service is provided through a combination of a risk based triennial audit by auditors appointed through competitive tender (currently Deloitte and Touche Public Sector Internal Audit Ltd) and an annual health check audit provided as part of Children's Services' School Funding and Assurance section.

As in previous years a full report for 2008/09 will be presented at the September Audit Committee meeting to advise the Committee of the results of all audits undertaken within the period.

In addition an internal review regarding the schools audit arrangements in place has been undertaken; this includes comparisons with other Boroughs regarding results of audit work and also consideration of the robustness of internal and external reporting arrangements. The results of this work will be reported to management in June 2009 and to Audit Committee in September 2009.

3.2.7 Other Outside Assurances

The National Non Domestic Rates administrative processes are undertaken by the London Borough of Barking & Dagenham under the shared service agreement. An audit assurance has been provided to the services Project Board, which comprises representatives from both organisations, from the London Borough of Barking & Dagenham's auditors and this assurance has been considered when providing this opinion.

The Internal Audit Service for Homes in Havering is provided by Bentley Jenison and links have been established to gain assurances regarding the controls within that organisation as shared risks are present. Issues have arisen during 2008/09 regarding timely communication of relevant assurances; however these have been addressed via the Council's process to produce the Annual Governance Statement and additional procedures have been put in place for 2009/10.

3.2.8 Risk Management Arrangements

During 2008/09 management, driven by the officer Risk Management Group, chaired by the Group Director Finance and Commerce and attended by Heads of Service, continue to maintain and further embed robust risk management processes within the authority.

An annual review of risk management arrangements was undertaken and reported to Audit Committee in December 2008. No significant issues arose from this review.

As part of the 2009/10 service planning process risks to objectives have been identified and the results of this exercise fed into the service risk registers. The risks contained in service risk registers have been analysed by Risk Management Group as part of the recent review of the Corporate Risk Register.

Statement of Assurance

3.3.1 Introduction

As stated above the Internal Audit Service is required to provide the Chief Financial Officer with assurance on the overall adequacy and effectiveness of the Council's internal control environment. In giving this opinion it should be noted that assurance can never be absolute. The

most that the internal audit service is able to provide is a reasonable assurance that there are no major weaknesses in the whole system of financial internal control. In assessing the level of assurance to be given the following have been taken into account:

- all audits undertaken during 2008/09 and assurances from other bodies;
- the results of follow-up action taken in respect of audits from previous years;
- whether any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risk;
- the effects of any material changes in the Council's objectives or systems;
- matters arising from previous reports to the Council;
- whether or not any limitations have been placed on the scope of internal audit; and
- whether or not there have been any resource constraints that may impinge on internal audit's ability to meet the full needs of the Council.

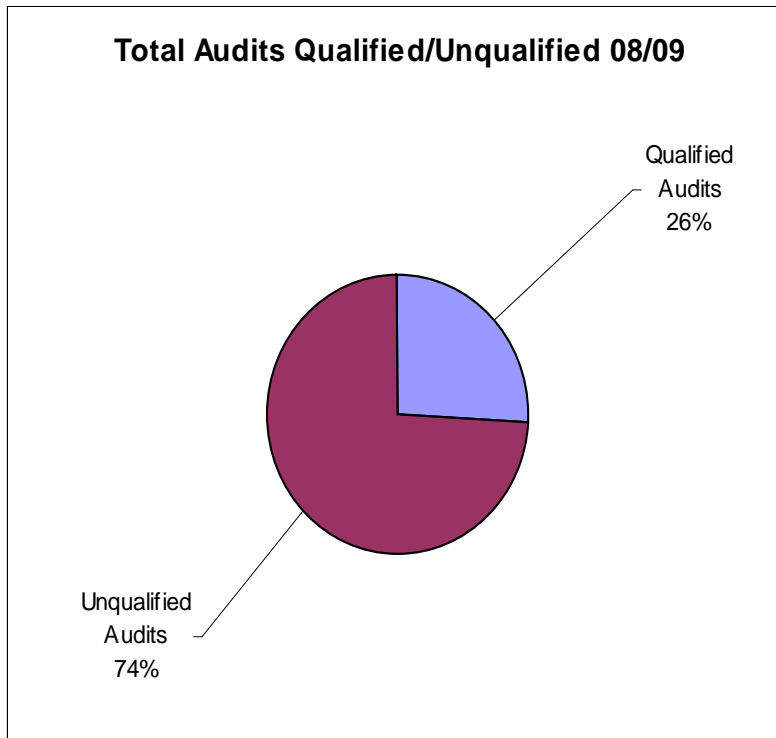
3.3.2 Operational Assurance

Audit examined systems operating to achieve objectives set by management and agreed as part of the annual audit plan. There were no major weaknesses found during the audits which would affect the materiality of the accounts, prevent the Council from achieving its objectives or bring its reputation into account.

Where issues were found which could impact in other areas these were reported to the Directorate Audit Representatives Group, Risk Management Group and to the Corporate Management Team so that all services would be made aware of potential system weaknesses, and therefore gain assurance on the controls in their own areas.

Management continue to have robust procedures in place to ensure that recommendations are regularly "tracked" both within the Heads of Service reports and by Corporate Management Team (CMT). If action has not been taken by the implementation dates agreed at the time of the audit then the Audit Committee are informed and Senior Managers are required to provide explanations as to why they have not been implemented.

The pie chart below details the % of Qualified vs. Unqualified reports issued in 2008/09.



Details of the individual audit reports have been presented to the Audit Committee throughout the year which has included the opinion statements and Members often ask questions about the reports which again demonstrates the review process of the work of internal audit.

The following themes appeared within audit reports:

- Lack of compliance with Council wide and local procedures;
- Lack of central control to identify and rectify non compliance;
- Out of date local procedures;
- Failure to demonstrate adequate segregation of duties;
- Out of date Criminal Records Bureau checks;
- Lack of data verification or reconciliation;
- Systems access controls;
- Quality and reporting of management information; and
- Lack of management control and independent review.

3.3.3 Overall assurance opinion

Based on the audit work set out 3.2 of this report it is felt that it is possible to give a good degree of assurance that there are adequate levels of internal control within the authority and that robust arrangements to identify risk and implement / maintain appropriate controls are present.

3.3.4 Computer Audit assurance opinion

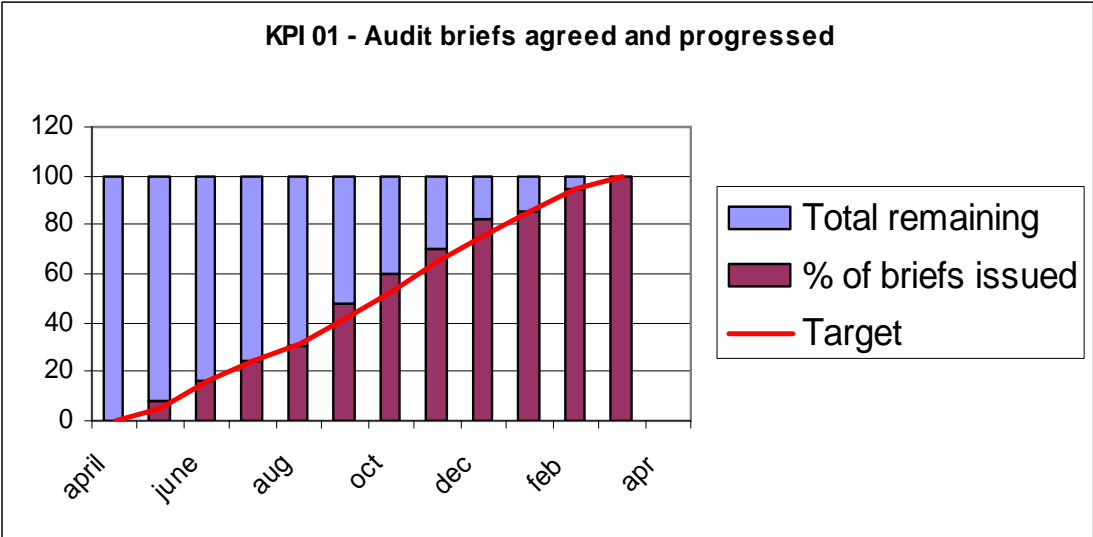
Based on the audit work set out 3.2.3 of this report it is felt that it is possible to give a good degree of assurance that there are adequate levels of internal control with regards the IT infrastructure. Risks are considered by Management and finite resources prioritised accordingly.

4. Internal Audit Performance

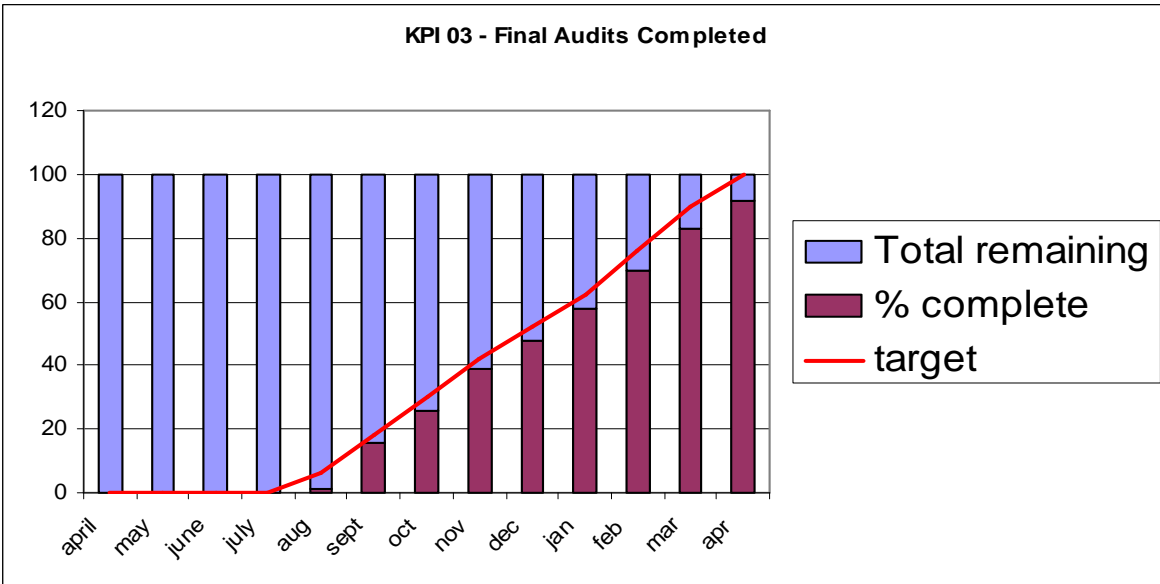
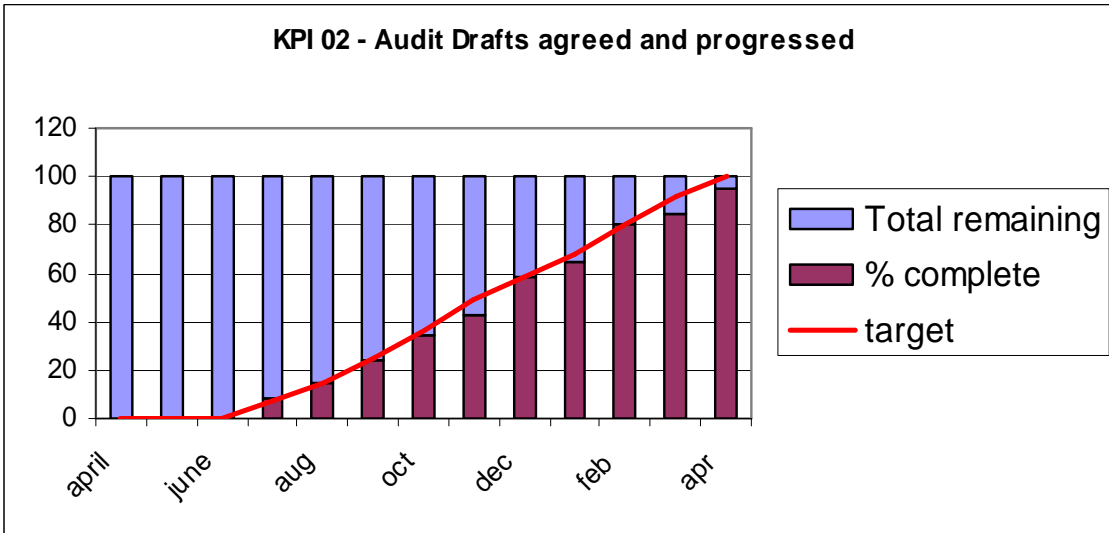
4.1 Key Performance Indicators (KPIs)

Within the 2008/09 Internal Audit Service Plan seven KPIs were identified in order to measure the performance of the team. These KPIs are reported via the Corporate Management Team reports and contained within the progress reports presented to Audit Committee during the year.

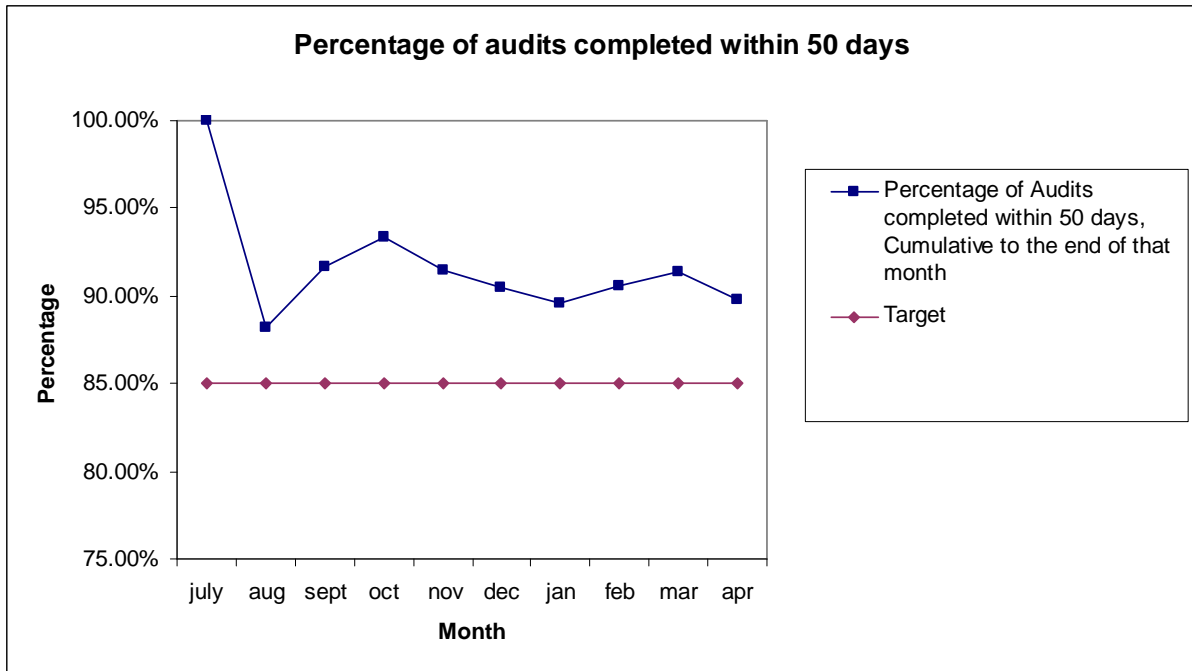
Outturn figures for 2008/09 are presented below.



Due to sickness in the team in quarter four some audits were delayed and briefs issued in early April this meant that some draft reports have been issued later than was profiled in the plan. It is hoped that the increased stability from having a more permanent team in place will ensure that profiled targets are achieved in 2008/09.



Issue of final reports lagged as a result of numbers of drafts not meeting targets.



Although performance dropped to 91% this still exceeded the target of 85% for the year. Reasons for delays in completion of work can be attributed to auditor or key staff absence, prioritisation of other tasks or widening of the scope to cover additional areas, where issues have arisen.

KPIs 05. Systems audit survey forms assessed (%).

KPIs 06. Fraud audit survey forms assessed (%).

KPIs 07. Management Satisfaction Survey forms results above average/satisfactory (%).

Systems and Fraud forms assessed are 80% and 100% respectively for the period. Work to chase missing responses is part of our month end process within the team now that an Audit Technician has been appointed.

All feedback received at the time of preparing this report was above average/satisfactory.

KPI 08. % of plan delivered against target.

The target for quarter three was to have 97% of the plan completed. Actual performance at the end of December was 95%.

KPI 09. % of audit recommendations agreed by management.

A target of 90% has been set for this KPI. Overall acceptance of recommendations is 92% had been agreed by management. There are no specific issues to bring to the managers attention regarding the recommendations not accepted by management.

4.2 Service Improvements

The Audit Service is continually striving to improve its service. The approach to this in 2008/09 has included:

- Feedback via the Audit Representative Group is documented and appropriate action taken;
- Feedback questionnaires from each audit are reviewed and discussed;
- Specific feedback from Head of Finance & Performance and Group Director Finance and Commerce received during year;
- Self assessment and peer review, by a neighbouring authority, against CIPFA standards;
- Participation in IPF benchmarking club;
- Performance appraisal of team;
- Team meeting agendas include recent issues identified and new general issues for auditors to consider; and
- Local training and new approach and working papers rolled out.