

# **AUDIT COMMITTEE**

## **SUPPLEMENTARY AGENDA (4)**

**27 September 2016**

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

**6      REPORT OT THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL  
STANDARDS OF AUDITING -(ISA) 260 (Pages 1 - 36)**

Report attached.

**Andrew Beesley  
Committee Administration  
Manager**

This page is intentionally left blank

# London Borough of Havering

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

23 September 2016

Ernst & Young LLP



**Deliberately left blank for printing purposes**

## Contents

1. Executive summary .....	1
2. Responsibilities and purpose of our work .....	4
3. Financial statements audit.....	5
4. Value for money .....	9
Appendix A - Uncorrected audit differences .....	11
Appendix B - Corrected audit differences .....	132
Appendix C - Outstanding matters .....	133
Appendix D - Independence .....	144
Appendix E - Auditor fees.....	155
Appendix F - Draft audit report.....	166
Appendix G - Management representation letter .....	199
Appendix H - Required communications with the audit committee .....	23

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance - the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of the London Borough of Havering for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items which are also detailed in Appendix C we plan to issue an audit opinion in the form which appears in Appendix E:</p> <ul style="list-style-type: none"> <li>• receipt of bank, borrowing and investment confirmations</li> <li>• audit of the cashflow statement</li> <li>• final Director and Manager review of the accounts and audit work</li> <li>• review of the final version of the financial statements</li> <li>• completion of subsequent events review</li> <li>• receipt of the signed management representation letter</li> </ul> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p>
Whole of Government Accounts	<p>Alongside our work on the Council's financial statements, we review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.</p> <p>There was a significant delay in the issue of the Whole of Government Accounts (WGA) template that the Authority needs to complete and the NAO group audit instructions which we as auditors need to respond to. As a result, the deadline for completion and audit of the WGA template has been extended to 21 October 2016.</p> <p>We will undertake our work on the Whole of Government Accounts return following the completion of our work on the Authority's financial statements. We will update Members of the Audit Committee if there are any significant issues arising from this work</p> <p>We cannot issue our audit certificate closing the 2015/16 audit until we have completed our work on the Council's Whole of Government Accounts. We will conclude our work before the deadline of 21 October 2016 and report any significant findings to the Council in our Annual Audit Letter.</p>

Audit differences	<p>Subject to completion of the outstanding matters detailed at Appendix C, we have identified one unadjusted audit differences within the draft financial statements, which management have chosen not to adjust. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.</p> <p>We ask the Audit Committee to consider approving management's rationale as to why this correction has not been made and, if approved, include this in the Letter of Representation.</p>
Scope and materiality	<p>In our Audit Plan presented at the meeting of the Audit Committee on 10 May 2016, we communicated that our audit procedures would be performed using a materiality of £12,191k. We have reassessed this based on the actual results for the financial year and have reduced this amount to £11,045k as a result of the reduction in expenditure between years. The basis of our assessment is 2% of gross operating expenditure. The threshold for reporting audit differences which impact the financial statements has also reduced from £609k to £552k.</p> <p>We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas, the areas identified and audit strategy applied include:</p> <ul style="list-style-type: none"> <li>• <b>Remuneration disclosures including any severance payments, exit packages and termination benefits:</b> Our audit strategy was to check the bandings reported in Note 31 of the financial statements, test the completeness of the disclosure and compliance with the Code requirements. We sample checked transactions back to the payroll system and supporting documentation.</li> <li>• <b>Related party transactions:</b> Our audit strategy was to obtain and review declarations from senior officers and members of the Council and review for any material disclosures. We also confirmed that the disclosure in Note 35 complied with the Code requirements. We undertook a sample check of contracts included on the Council's contracts register against Companies House records to identify whether any key decision makers within the Council had an interest in the companies with which the Council had contracts.</li> <li>• <b>Members Allowances:</b> Our audit strategy was to test the completeness of the disclosures within Note 30 and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and other relevant supporting documentation.</li> </ul> <p>We carried out our work in accordance with our Audit Plan. We did not identify any issues we need to bring to the attention of the Audit Committee.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> <li>• risk of fraud in revenue recognition</li> <li>• risk of management override</li> <li>• valuation of investment property and property, plant and equipment</li> </ul> <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.</p>

Other reporting issues	We have one other matter we wish to report in relation to difficulties encountered in obtaining general ledger and payroll data to assist us in testing income and expenditure transactions and journal transfers. We will continue to work with the Council to improve this area for 2016/17, as use of this data will help with the delivery of our audit in shorter timescales.
Control observations	We have adopted a fully substantive approach and have therefore not tested the operation of controls. We have however during the course of our audit identified the two matters that we feel appropriate to report to you.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson  
Executive Director  
For and on behalf of Ernst & Young LLP



## 2. Responsibilities and purpose of our work

### The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of revenue recognition. We will undertake specific testing to address this risk.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> <li>▶ Reviewed and tested the Council's revenue and expenditure recognition policies.</li> <li>▶ Reviewed and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.</li> <li>▶ Developed a testing strategy to test material revenue and expenditure streams.</li> <li>▶ Reviewed and tested revenue cut-off at the period end date.</li> <li>▶ Tested capital expenditure on property, plant and equipment to ensure it meets the definition of capital expenditure as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).</li> </ul>	<p>We found that:</p> <ul style="list-style-type: none"> <li>▶ The revenue and expenditure recognition policies adopted by the Council were appropriate.</li> <li>▶ Estimates made by management when preparing the financial statements were appropriate; we found no evidence of management bias.</li> <li>▶ Our testing of material revenue and expenditure transaction streams identified no matters that we wish to bring to your attention.</li> <li>▶ Our testing of income and expenditure transactions at the period end identified no evidence of items being accounted for in the incorrect accounting period.</li> <li>▶ Our sample testing of capital expenditure on confirmed that expenditure met the definition of capital expenditure as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).</li> </ul>
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>During the course of our audit we have:</p> <ul style="list-style-type: none"> <li>▶ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>▶ Review accounting estimates for evidence of management bias.</li> <li>▶ Evaluate the business rationale for significant unusual transactions.</li> </ul>	<p>We found that:</p> <ul style="list-style-type: none"> <li>▶ Journal entries recorded in the general ledger, and other adjustments made on the preparation of the financial statements, were appropriate.</li> <li>▶ The revenue and expenditure recognition policies adopted by the Council were appropriate.</li> <li>▶ Our testing identified no significant or unusual transactions.</li> </ul>

### Valuation of investment property and property, plant and equipment

The Council undertakes an annual exercise to revalue property assets (including its social housing stock and investment property assets). The valuation of property assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements.

IFRS 13: Fair Value Measurement has been introduced into the Local Authority Accounting Code for the first time in 2015/16. This requires investment assets to now be valued at highest and best use based on what someone would pay for the asset. The Council will need to ensure that its investment assets have been appropriately valued in accordance with IFRS 13.

Our approach will be to:

- Test management's arrangements for assessing the work of its valuation expert, including the key assumptions underpinning valuations.
- Utilise the work of experts commissioned by the National Audit Office, and our own valuation specialists, to validate the work of the valuation experts engaged by the Council.
- Test the reliability of the information provided by the Council to its valuer.
- Test the accounting treatment applied to changes in valuation.
- Test how management has satisfied itself that the element of the property, plant and equipment portfolio not subject to a formal revaluation as at 31 March 2016 is materially correct.

We found that:

- We were able to place reliance on the work undertaken by management's valuation experts.
- Our audit identified that the Council had not assessed whether there had been any significant movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date. Following discussions with officers, additional work was undertaken by the valuer to determine the extent of any change in value over this period. This work identified that there had been an upward movement in values of around 10% and as a result it was estimated that the value for council dwellings in the draft accounts was understated by £44 million. Details of this error are set out at Appendix A.
- The information provided to management's experts was reliable.

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have one matter we wish to bring to your attention. At the planning stage of our audit, we requested general ledger and payroll data to assist us in testing income and expenditure transactions and journal transfers. Despite the assistance of the Council's finance team in this matter, obtaining the data from the Council's IT Provider (CapGemini) has been challenging and time consuming. Once obtained, reconciliation of the data with amounts recorded in the Council's general ledger has also been difficult.

While we were ultimately able to utilise the general ledger data we obtained, we were unable to rely on payroll data. The use of our analytics tools is a key element of our audit approach, and helps to

provide both greater audit assurance as well as a more efficient audit. We will continue to work with the Council to improve this area for 2016/17, as use of this data will help with the delivery of our audit in shorter timescales; an important consideration in the run-up to 2017/18, when statutory deadlines for the audit of the financial statements will be the end of July.

## Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have however during the course of our audit identified the following matters that we concluded are of sufficient importance to merit being reported to you.

Description	Impact
The Council used an internal valuer to undertake the valuation of certain property assets in 2015/16. Our audit work identified that the Council had not issued formal instructions to its valuer.	Non-compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 - while the Code permits the use of internal values, written instructions should be issued to the valuer.  Risk of non-compliance with relevant requirements - where valuers are not instructed formally, there is a risk that valuation work will not be undertaken in accordance with relevant guidance, including the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16
In testing expenditure, we noted that the transactions recorded in adult social care system were not reconciled to the general ledger.	Without these reconciliations, the Council is unable to demonstrate that expenditure recorded in underlying systems has been posted to the general ledger.  We noted that the reconciliations of transaction data to the general ledger in relation to adult social care commenced in 2016/17.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

## Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F. In addition to the standard representations, we have requested the following specific representations, for areas where cannot otherwise gain audit assurance:

- Use of a specialist
  - We have requested representation that Members and management did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and that Members and management are not otherwise aware of any matters that have had an effect on the independence or

objectivity of the specialists;

- Estimates
  - We have requested representations from Members and management that estimates made for property, plant and equipment, investment properties, pension liabilities and business rate appeals appropriately reflect their intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity; and
- Retirement benefits
  - We have requested representation from Members and management that the actuarial assumptions underlying the scheme liabilities are consistent with the knowledge Members and management of the business and that all significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

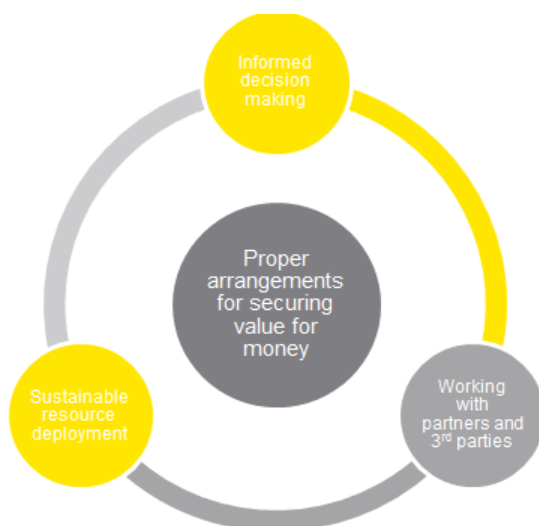
## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

There was a significant delay in the issue of the Whole of Government Accounts (WGA) template that the Authority needs to complete and the NAO group audit instructions which we as auditors need to respond to. As a result, the deadline for completion and audit of the WGA template has been extended to 21 October 2016.

We will undertake our work on the Whole of Government Accounts return following the completion of our work on the Authority's financial statements. We will report any significant findings in our annual audit letter.

## 4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

### Overall conclusion

We identified 1 significant risk in relation to our value for money conclusion. This related to sustainable resource deployment, and the need to achieve the savings over the medium term to balance the general fund budget.

We have performed the procedures outlined in our audit plan. As part of our work we considered the following areas and made the following observations:

- **We reviewed the medium term financial plan and the assumptions included within it:** The Council's latest Medium Term Financial Strategy identifies a cumulative budget gap in the financial years 2016/17 to 2018/19 of £6.7 million (rising to 10.8 million if the Council decide not to levy a 2% precept for Adult Social Care in 2017/18 and 2018/19). The Council set a balanced budget for 2016/17, with no unmet budget gap to be addressed, although this relied on the use of general fund reserves of £1.4 million. The assumptions made in the MTFS are reasonable, and work is ongoing to address the budget gaps in 2017/18 and 2018/19, and maintain reserves at minimum levels. The Council has established a process for the identification of savings and income generation proposals for 2017/18 and 2018/19; however, it will need to consider its approach towards the identification of savings in 2019/20 and beyond.
- **We assessed the level of reserves that the Council has at the 31 March 2016:** The level of useable general fund reserves held by the Council at 31 March 2016 is £78 million. Of these a number are earmarked for specific purposes, leaving around £11.8 million that could be used to support spending if needed. This is above the minimum level of £10 million recommended by the Chief Executive. We have therefore concluded that the Council has adequate levels of reserves.
- **We considered the Council's decision making processes and partnership working:** The Council has appropriate governance, performance and risk management processes in place. There is evidence of the Council working effectively with partners in key areas, for example

OneSource in the provision of back office services. A clear vision for the Council is included in the Corporate Plan and the Council has effectively managed significant projects such as the establishment of a wholly-owned subsidiary, Mercury Land Holdings, with a view to making a significant investment in housing development across the Borough.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

## **Other matters to bring to your attention**

We have no other matters to bring to your attention.

## Appendix A – Uncorrected audit differences

The following difference, which is greater than £552k, has been identified during the course of our audit and has not been considered material by management or by us for adjustments. We are bringing this to the Committee's attention to enable you to form your own view on this item.

Item of account	Balance sheet (Decrease) / Increase £[000/m]	Comprehensive income and expenditure statement (Decrease) / Increase £[000/m]
Expenditure - Children's and Education		(1,172)
General Fund reserves	1,172	
<i><b>Extrapolated error;</b></i> The Council was unable to provide us with an invoice relating to schools expenditure as the supporting paperwork was destroyed in a flood. We have therefore been unable to confirm that this expenditure is valid. We have extrapolated the potential impact of this issue over the population of expenditure.		
Cumulative effect of unadjusted difference	1,172	(1,172)



## Appendix B – Corrected audit differences

The following matters have been identified during the course of our audit and warrant communicating to you. These items have been corrected by management within the revised financial statements.

### Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease in asset) / Decrease in reserve £[000/m]	Comprehensive income and expenditure statement (Decrease in exp) / Increase in exp £[000/m]	Movement in Reserves Statement (decrease in reserves movement)/ increase in reserve movement £[000/m]
<b>Revaluation gain between valuation date and balance sheet date</b>			
Property, Plant & Equipment - Council Dwellings	44,391		
Revaluation reserve	(44,391)		
Movement in Reserves Statement (reduction in unusable reserves)			44,391
Surplus/deficit on revaluation in the CIES		(44,391)	
Cumulative effect of adjusted differences	0	(44,391)	(44,391)

## Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit and Standards Committee
Annual accounts	<ul style="list-style-type: none"> <li>Approval of accounts by Audit Committee</li> <li>Accounts re-certified by RFO</li> </ul>	EY, management and Audit and Standards Committee.
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Other outstanding work	Management and EY to work together to complete any outstanding work on: <ul style="list-style-type: none"> <li>outstanding bank, borrowing and investment confirmations</li> <li>the cash flow statement</li> <li>final Director and Manager review of the accounts and audit work</li> <li>review of the final version of the financial statements</li> </ul>	EY and management

## Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 28 April 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 27 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 - Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 28 April 2016.

## Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
<b>Total Audit Fee - Code work</b>	151,854	151,854
<b>Certification of claims and returns</b>	15,080	15,080

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix F – Draft audit report

### Independent auditor's report to the members of the London Borough of Havering

#### Opinion on the Authority's financial statements

We have audited the financial statements of the London Borough of Havering for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund; and
- Related notes 1 to 44 for the core statements, 1 to 8 for the Housing Revenue Account and 1 to 3 for the Collection Fund.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members the London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Chief Executive's Responsibilities set out on page 9, the Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the Financial Year 2015/16 to identify material inconsistencies with the audited financial statements and to identify any

information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Havering as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Opinion on other matters**

In our opinion, the information given in the London Borough of Havering's Statement of Accounts for the Financial Year 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

### **Conclusion on the London Borough of Havering's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### ***Authority's responsibilities***

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### ***Auditor's responsibilities***

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and

effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Havering had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Conclusion***

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, the London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

***Delay in certification of completion of the audit***

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

**Debbie Hanson, Executive Director**

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

September 2016

## Appendix G – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Debbie Hanson  
Ernst & Young  
400 Capability Green  
Luton LU1 3LU

Dear Debbie,

### London Borough of Havering - Letter of Representations

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Havering ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Havering as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.



5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet, and Audit Committee or summaries of actions of recent meetings for which minutes have not yet been prepared held through the to the most recent meeting on the following date: 27 September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such

parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment, Investment Properties, Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **H. Estimates for Property, Plant and Equipment, Investment Properties, Pension Liabilities and Business Rate Appeals, and bad debt provisions.**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the significant assumptions used in making these estimates appropriately reflect our intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events

### **Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours Sincerely,*

---

Chief Executive

I confirm that this letter has been discussed and agreed at the Audit Committee on 27 September 2016

---

Chair of Audit Committee

## Appendix H – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the London Borough of Havering's ability to continue as a going concern for the 12 months from the date of our report.
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report.
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have received all requested confirmations.
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have not identified any material instances of non-compliance with laws and regulations.
<b>Independence</b> Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and Audit Results Report
<b>Significant deficiencies in internal controls identified during the audit</b>	Audit Results Report
<b>Fee Information</b> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	Audit Plan Audit Results Report
<b>Certification work</b> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	We will report the findings from our certification work to the Audit Committee on 1 March 2017.

**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)

Andrew Blake-Herbert  
Chief Executive  
London Borough of Havering  
Town Hall, Main Road, Romford  
RM1 3BD

Debbie Hanson  
Ernst & Young  
400 Capability Green  
Luton LU1 3LU

**t** 01708 432201  
**e** Andrew.Blake-Herbert@havering.gov.uk  
Date 27 September 2016

**www.havering.gov.uk**

Dear Debbie

### **London Borough of Havering - Letter of Representations**

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Havering ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the London Borough of Havering as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify -nor necessarily be expected to disclose -all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, namely, us being unable to provide you with an invoice relating to schools expenditure due to the supporting paperwork being destroyed in a flood, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet, and Audit Committee or summaries of actions of recent meetings for which minutes



have not yet been prepared held through the to the most recent meeting on the following date: 27 September 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment, Investment Properties, Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **H. Estimates for Property, Plant and Equipment, Investment Properties, Pension Liabilities and Business Rate Appeals, and bad debt provisions.**

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

2. We confirm that the significant assumptions used in making these estimates appropriately reflect our intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events

## **I. Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

*Yours Sincerely,*

---

Chief Executive

I confirm that this letter has been discussed and agreed at the Audit Committee on 27 September 2016

---

Chair of Audit Committee

# Management Response to Issues Raised in the Ernst & Young Findings from the London Borough of Havering Audit Results Report -ISA (UK and Ireland) 260 for the year ended 31 March 2016 (Exception Basis)

## Section 3, Financial statements audit

### Addressing Audit Risks

- **Issue:** The audit identified that the Council had not assessed whether there had been any significant movement in the valuation of council dwellings between the valuation date of 1 April 2015 and the balance sheet date. Following discussions with officers, additional work was undertaken by the valuer to determine the extent of any change in value over this period. This work identified that there had been an upward movement in values of around 10% and as a result it was estimated that the value for council dwellings in the draft accounts was understated by £44 million. Details of this error are set out at Appendix of the Auditors' report.

- **Management response:**

The additional work carried out by the valuer identified a general increase in the value of Council dwellings not made clear in their original communication. The draft accounts have been amended and now include the revised valuation. The changes have no impact on the Revenue Out-turn or Useable Reserves as this is essentially a Balance Sheet valuation issue.

We will clarify the instructions for the Valuers with regard to our requirements for year end revaluation and impairment review and the related timescales for the receipt of valuation information.

### Other Matters – Other audit matters of governance interest

- **Issue:** At the planning stage of our audit, the auditors requested general ledger and payroll data to assist them in testing income and expenditure transactions and journal transfers. Despite the assistance of the Council's finance team in this matter, obtaining the data from the Council's IT Provider (CapGemini) has been challenging and time consuming. Once obtained, reconciliation of the data with amounts recorded in the Council's general ledger has also been difficult.

While the auditors were ultimately able to utilise the general ledger data they obtained, they were unable to rely on payroll data. The use of their analytics tools is a key element of our audit approach, and helps to provide both greater audit assurance as well as a more efficient audit. They will continue to work with the Council to improve this area for 2016/17, as use of this data will help with the delivery of our audit in shorter timescales; an important consideration in the run-up to 2017/18, when statutory deadlines for the audit of the financial statements will be the end of July.

**Management Response:** Management is working with the auditors and with CapGemini to ensure Change of Request is progressed in a timely fashion to meet the needs of the 2016/17 audit. This will include liaising with our six One Oracle partners to confirm how this issue is addressed in those authorities

## Control Themes and Observations

- **Issue:** The Council used an internal valuer to undertake the valuation of certain property assets in 2015/16. Our audit work identified that the Council had not issued formal instructions to its valuer

Non-compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 - while the Code permits the use of internal values, written instructions should be issued to the valuer.

Risk of non-compliance with relevant requirements – where valuers are not instructed formally, there is a risk that valuation work will not be undertaken in accordance with relevant guidance, including the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

### **Management Response:**

The requirements have been well established for a number of years and are clarified verbally on an annual basis. However, we accept that these instructions should be documented and this matter will be incorporated within our 2016/17 timetable.

- **Issue:** In testing expenditure, we noted that the transactions recorded in two feeder systems –relating to adult social care - were not reconciled to the general ledger.

Without these reconciliations, the Council is unable to demonstrate that expenditure recorded in underlying systems has been posted to the general ledger.

We noted that the reconciliations of transaction data to the general ledger in relation to adult social care commenced in 2016/17.

### **Management Response:**

We are seeking a response from the department concerned, however we understand that the reconciliations are being undertaken and steps will need to be taken to ensure that these are evidenced for 2016/17 closure and audit purposes.

## **Whole of Government Accounts**

- **Issue:** there was a significant delay in the issue of the Whole of Government Accounts (WGA) template that the Authority needs to complete and the NAO group audit instructions which the auditors need to respond to. As a result, the deadline for completion and audit of the WGA template has been extended to 21 October 2016.

The auditors therefore cannot issue their our audit certificate closing the 2015/16 audit until they have completed our work on the Council's Whole of Government Accounts. They will conclude our work before the deadline of 21 October 2016 and report any significant findings to the Council in their Annual Audit Letter.

**Management Response:** Noted

## **Section 4. Value for Money**

- **Issue:** We reviewed the medium term financial plan and the assumptions included within it: The Council's latest Medium Term Financial Strategy identifies a cumulative budget gap in the financial years 2016/17 to 2018/19 of £6.7 million (rising to 10.8 million if the Council decide not to levy a 2% precept for Adult Social Care in 2017/18 and 2018/19). The Council set a balanced budget for 2016/17, with no unmet budget gap to be addressed, although this relied on the use of general fund reserves of £1.4 million. The assumptions made in the MTFS are reasonable, and work is ongoing to address the budget gaps in 2017/18 and 2018/19, and maintain reserves at minimum levels.

### **Management Response:**

The Council established a "Star chamber" process for members and officers to carry out a review of services and to seek potential savings and income generation proposals. A draft MTFS is in the process of being prepared and it is expected that The Council will be able to set a balanced budget in both 2016/17 and 2017/18 without drawing on reserves. However, the Council does not under estimate the financial challenges beyond that period, given the on-going reductions in Central government funding allied to increasing demand for its services.

## **Appendix A. Uncorrected Audit Differences**

- **Issue: *Extrapolated error*:** The Council was unable to provide us with an invoice relating to schools expenditure as the supporting paperwork was destroyed in a flood. We have therefore been unable to confirm that this expenditure is valid. We have extrapolated the potential impact of this issue over the population of expenditure. The extrapolated sum is £1.172m

**Management Response:** Ravensbourne school flooded in the exceptional rainfall of June 2016. This was a one off incident and the consequential loss of auditable records has no material bearing on the integrity of the Authority's accounts.

## **Appendix B. Corrected Audit Differences**

Revaluation gain between valuation date and balance sheet date, £44.391m – see Section3. Adjustment between Property, Plant and Equipment and Revaluation Reserves

This page is intentionally left blank