



Haverling

L O N D O N B O R O U G H

PENSIONS COMMITTEE AGENDA

7.30 pm

**Wednesday
27 June 2012**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

**Labour Group
(1)**

**Independent
Residents' Group
(1)**

Melvin Wallace
(Chairman)
Becky Bennett (Vice-
Chair)
Roger Ramsey
(Vacancy)

Ron Ower

Pat Murray

Jeffrey Tucker

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(No Voting Rights) (1)

(Vacancy)

**For information about the meeting please contact:
James Goodwin 01708 432432
email: james.goodwin@haverling.gov.uk**

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce 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

(if any) - receive

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 any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 27 March 2012 and authorise the Chairman to sign them.

5 EXTERNAL AUDIT PLAN 2011/12 - PENSION FUND AUDIT (Pages 7 - 24)

Report attached.

6 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.

7 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

8 INTERNAL PENSION CASH MANAGEMENT POLICY (Pages 25 - 34)

Report attached.

9 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2012 (Pages 35 - 66)

Reports attached.

10 UBS TRITON PROPERTY FUND (Pages 67 - 88)

Presentation by Investment Manager.

11 RUFFER LLP (Pages 89 - 106)

Presentation from Investment Manager.

**Ian Buckmaster
Committee Administration &
Member Support Manager**

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Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
27 March 2012 (7.30 - 9.50 pm)**

Present:

COUNCILLORS

Conservative Group	Eric Munday (Chairman), Damian White (Vice-Chair), Roger Ramsey and Georgina Galpin (In place of Melvin Wallace)
Residents' Group	Ron Ower
Labour Group	Pat Murray
Independent Residents Group	Jeffrey Tucker
Trade Union Representatives	John Giles (UNISON) and Andy Hampshire (GMB)

Apologies were received for the absence of Councillor Wallace.

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

50 MINUTES OF THE MEETING

The minutes of the meeting held on 20 December 2011 were agreed as a correct record and signed by the Chairman.

51 PENSION FUND AUDIT 2011/12

The Committee were advised that notification had been received from PricewaterHouseCoopers (PWC) that they would be submitting details of the Pension Fund Audit Plan for 2011/12 to the next meeting of the Committee on 27 June 2012.

The report was **noted**.

52 EXCLUSION OF THE PUBLIC

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

53 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2011**

Officers provided the Committee with details of how the Pension Fund had performed in the quarter ended 31 December 2011. The net return represented an under performance against the combined tactical benchmark, and an underperformance against the strategic benchmark.

The overall net return for the year to 31 December 2011 also represented an under performance against the annual tactical combined benchmark and an underperformance against the annual strategic benchmark.

The Committee invited Simon Jones, from Hymans Robertson, the Fund's Pensions Advisers, to report on the performance of the individual Investment Managers.

(a) Hymans Robertson (HR)

HR informed the Committee that the European debt crisis had been the dominant theme in financial markets during the final three months of 2011. The drama continued unabated and at times came close to stretching the credibility of the euro project to its limit. Politicians had struggled to agree a suitable policy response as political priorities and allegiances clashed with the needs of monetary union. The Prime Ministers of Greece and Italy were casualties of the pressure placed on Euro member states struggling with unsustainable levels of debt.

In the UK, the Chancellor presented the autumn statement in November. As expected, the essential message was one of continuing 'austerity', sluggish economic growth, public sector pay restraint and painful spending cuts. The Chancellor also announced that it would take two years longer than first proposed to eliminate the structural deficit. The Office of Budget Responsibility cut its forecast of economic growth for 2011, to just 0.9% (from 1.7% in March) and to 0.7% for 2012.

Despite all the negative news, equities and bonds each produced strongly positive returns. In the UK, the FTSE All Share index advanced 8.4% during the quarter; fixed interest government bonds

returned 5.0% and index linked issues 8.4%. Of the major equity markets, only Japan produced negative returns.

Key events during the quarter:

Global Economy

- The Bank of England injected an additional £75bn into the economy through quantitative easing (after earlier stimulus of £200bn).
- The UK declined to participate in a plan for closer fiscal union across the European Union.
- Short-term interest rates unchanged in UK and US; reduced, in two stages, in the Euro zone.
- US central bank lowered the cost of short-term \$ loans to European Central Bank, to ease liquidity concerns.
- Economic growth in major Asian markets impaired by weak external demand.

Equities

- Strong rebound after sharp falls during preceding quarter.
- The strongest sectors relative to „All World“ Index were Oil & Gas (+7.0%) and Industrials (+2.0%); the weakest were Utilities (-4.4%) and Telecoms (-3.5%).

Bonds

- Long dated UK bond yields fell to levels not seen for 60 years as investors sought „safety“.
- Italian ten year bond yield rose above 7% (highest level of Euro era) as debt concerns escalated.

High levels of debt in Europe and in the US threaten the stability of the global economy. Further tough and unpopular action is required to resolve the difficulties. In the meantime, no country is immune from the consequences of a failure to take decisive action.

HR raised no concerns regarding the performances of State Street, Ruffer or Royal London. They rate the UBS Triton Property Fund positively. Over the past year the Triton Fund was ahead of the benchmark, but over the three year period was behind benchmark. UBS had addressed the difficulties they had faced in 2008 and 2009 and were demonstrating a commitment to continue with their programme of selling assets at the most favourable time in the performance cycle. The sales had helped reduce the fund's void rate.

Standard Life were still causing concern. The Committee felt that nothing changed, despite continued poor performance the company's stance remained the same. It appeared that they were unable to cope with a volatile market and what was needed was a more balanced approach to the portfolio.

(b) Standard Life (SL)

Representatives from Standard Life attended the meeting to discuss their performance in quarter 4. However, they also took the opportunity

to discuss performance in quarter 1 which had seen an improvement in performance. In response to questions from the Committee the representatives confirmed that it was not their intention to change the portfolio or strategy. In their opinion they believed the market would continue to rise.

SL admitted that they had suffered in 2008 and 2011 but they had belief that they would recover in Quarters 1 & 2 of 2012. They felt there was lots of opportunity to add value in the market.

The Chairman thanked Standard Life for their presentation.

(c) Royal London (RL)

Representatives from Royal London attended the meeting to discuss their performance in Quarter 4. They advised the Committee that at the end of 2011 the value of the portfolio was £104m, there had been a slight lose since with the value now standing at £103m.

The current market was challenging but RL were still outperforming the benchmark. The Committee had some concerns that RL were not performing as well as we would hope. HR advised the Committee that in their opinion RL were doing a reasonable job.

The Chairman thanked Royal London for their presentation.

(c) Miscellaneous

Officers drew the Committees attention to the change in asset manager. Following the termination of the mandate with the Global Equities Manager (Alliance Bernstein) in February 2011 the assets had been transferred to State Street Global Advisors pending further consideration of the investment strategy. Following the required tendering process the Committee at a special meeting on 15 December 2011, had agreed to award the Global Equity mandate to Baillie Gifford. The funding of this mandate would see an approximate reduction in holdings from the following pension fund managers:

- Standard Life by 4.5%;
- SSgA UK Equities by 4.7%;
- SSgA Global by 3.7%: and
- Approximately 4.2% from Royal London.

It was anticipated that the funds would be transferred to Baillie Gifford on 16 April 2012.

The Committee **agreed** the reduction in mandates as set out above.

Officers informed the Committee that internally managed cash balances needed to be supplemented as the current balance was just over £1m. Internal cash balances had been decreasing since 2009/10

and it was now necessary to take some action. As the Royal London mandate exceeded the target of 20% by 7.3% the committee **agreed** that £2m be disinvested from Royal London to supplement the internal cash balances.

Chairman

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<p>PENSIONS COMMITTEE 27 JUNE 2012</p>	<p>REPORT</p>
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Subject Heading:	EXTERNAL AUDIT PLAN 2011/12 PENSION FUND AUDIT
CMT Lead:	Andrew Blake Herbert
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	To note the External Audit plan for the Pension fund audit.
Financial summary:	This report sets out the planned area of work for the Pension Fund Audit. The proposed fee is £35,000.

The subject matter of this report deals with the following Council Objectives

- Clean, safe and green borough
- Excellence in education and learning
- Opportunities for all through economic, social and cultural activity
- Value and enhance the life of every individual
- High customer satisfaction and a stable council tax

SUMMARY

The attached report, Appendix 1, advises the Pensions Committee of the proposed External Audit Plan for 2011/12 for the Pension Fund.

RECOMMENDATIONS

1. To note the contents of the plan.

2. To raise any issues of concern and ask specific questions of officers or external auditors where required.

REPORT DETAIL

PricewaterhouseCoopers (PwC) are the current External Auditor for the London Borough of Havering, as appointed by the Audit Commission. This report deals with the audit of the Pension Fund and was presented and noted by the Audit Committee on the 25 April 2012.

This plan has been developed with the assistance of Council officers and has been approved by the Chief Financial Officer.

The attached plan contains the following sections to outline the External Auditors planned approach:

- Introduction and developments
- Communicating and reporting
- Audit approach
- Project management
- Independence.

The broad approach to the audit work is set out in pages 3, 4 and 5.

As set out in the Plan, the overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Council acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. It is PwC's responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice.

IMPLICATIONS AND RISKS

Financial implications and risks:

The attached plan reflects the fee for the Pensions Fund element of the 2011/12 audit and is set out below:

Element	2011/12 Fee £	2010/11 Final Fee £
Pension Fund	35,000	35,000

The quoted fee is an estimate and may change to reflect the actual content of the audit plan.

There are no other 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 implications and risks:

None arising directly from this report

BACKGROUND PAPERS

London Borough of Havering Pension Fund 2011/12 Audit Plan –
PricewaterhouseCoopers

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Havering Pension Fund

Year ending 31 March 2012

Audit plan prepared for the
Audit Committee on 25 April
2012

Draft – 02 April 2012



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

In March 2010 the Audit Commission issued a revised version of the ‘Statement of Responsibilities of Auditors and of Audited Bodies’. It is available from the Chief Executive of each audited body and on the Audit Commission’s [website](#). The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1. Introduction and developments

The purpose of this plan

Our audit plan has been prepared to inform those responsible for the governance of Havering Pension Fund (“the Fund”) about our responsibilities as the external auditors of London Borough of Havering (“the Council”) and how we plan to discharge them. This audit plan has been prepared for the Audit Committee meeting on 25 April 2012 and the Pensions Committee meeting on 27 June 2012.

The overall direction of the Fund’s Investment Strategy is delegated to the Council’s Pensions Committee (“the Committee”).

The London Borough of Havering acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. It is our responsibility to carry out an audit in accordance with the Audit Commission’s Code of Audit Practice (“the Code”).

Our objectives

Our objective is to obtain sufficient evidence to enable us to give an opinion on the truth and fairness of the Fund’s accounts.

The main areas of audit focus we have identified and our planned responses are described in section 3. Please let us know if you have any questions about our approach and we can discuss these with you.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Code which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission’s [website](#).

Changes during the year

We understand from our review of the minutes and from the Havering finance team that there have been no significant changes to the Fund which will impact on this year’s audit.

A detailed planning meeting has been scheduled in April 2012.

Other requirements

Auditing standards also require us to tell you about some compliance matters. We have done this in appendix 2. Our firm’s practices also require us to raise further matters with you. We have done this in appendix 3.

2. Communicating and reporting

What we will report to you

We will report to you on whether the Fund's accounts give a "true and fair" view. This means concluding from our work if we can give reasonable assurance that the accounts are not materially misstated, whether due to error or fraud. We also report on whether the accounts contain the information required by legislation.

We read the other information accompanying the accounts and consider if it is consistent with them. We will consider the impact on our opinion if we become aware of any material inconsistencies.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

We're not required to undertake work for the sole purpose of identifying breaches of the law, but if potential breaches are identified we will discuss these with the Committee, unless prevented from doing so by legal requirements (which may be the case if the matter could relate to fraud).

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any detailed reports to the Committee. We will however include a summary of the main issues in our plans and reports to the London Borough of Havering, as the administering authority of the Fund.

We have included in appendix 2 a list of the other matters we have to communicate under International Standards on Auditing ("ISAs") and how we will do this.

3. Audit approach

Significant risks

ISAs require us to identify during the planning process what we consider to be the significant risks for our audit. ISAs also tell us that we need to include the risk of management overriding controls as significant (as it could link to a possible fraud). We plan to respond to this risk during the audit as follows:

- Discuss the risk of fraud with the Committee and management.
- Review Committee meeting minutes and understand any significant or unusual transactions to determine if they are appropriately accounted for.
- Review controls over approving payments from the Fund, testing a sample of payments.
- Consider accounting journals processed to identify any unusual or unexpected items and look for evidence of review and approval.
- Include an element of unpredictability in our testing.

Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments and investment return	Contributions	Benefits and expenditure
Governance controls	✓	✓	✓	✓
Administration and accounting controls	✓	✓	✓	✓
Service organisation controls	✓	✓		
Analytical procedures		✓	✓	✓
Detailed testing		✓	✓	✓
Independent confirmations		✓		

Focus area

Planned response

Investment assets and returns

Existence of investments	<ul style="list-style-type: none"> • Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes. • Obtain independent confirmations of assets from the custodian and investment managers. • Review internal controls reports (AAF/SAS70) on investment management and custody.
Valuation of investments	<ul style="list-style-type: none"> • Test valuation of quoted investments against third party sources. • Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted, including pooled investment vehicles.
Completeness of investments	<ul style="list-style-type: none"> • Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments.

Focus area	Planned response
Performance of investments reported is consistent with the accounts	<ul style="list-style-type: none"> Review the reconciliations performed in-house between investment manager and custodian assets.
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')	<ul style="list-style-type: none"> Review the allocation of investments compared with the requirements of the SIP.

Contributions

Payment of employer contributions in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	<ul style="list-style-type: none"> Review the controls over payroll and validate on a sample basis that these are operating as expected. Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. Consider the monthly contributions received and investigate any unusual fluctuations. Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules. Review the timing of the payment of contributions according to bank details compared with the requirements of the schedules.
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Benefits and membership

Benefits are correctly calculated according to the local government regulations	<ul style="list-style-type: none"> Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected. Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. Consider the monthly total pensions paid and investigate any unusual fluctuations. Perform substantive testing on a sample basis over material types of benefit payments.
Membership statistics accurately reflect the membership of the scheme	<ul style="list-style-type: none"> Review the results of any pensioner existence checking exercise completed during the year. Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.

Focus area	Planned response
Other areas	
Current assets and liabilities are appropriately accounted for	<ul style="list-style-type: none"> • Review balances compared with the prior year and against our expectations from testing of income and expenditure. • Obtain independent confirmation of cash balances. • Review controls over cash movements and bank account authority levels.
Related party transactions	<ul style="list-style-type: none"> • Understand the controls that the Committee and management have over the identification of related parties and transactions with them. • Make specific enquiries for any transactions which look to be outside of the normal course of business.

4. Project management

Your engagement team

Name	Role	Telephone	Email
Julian Rickett	Engagement Leader	020 7804 0436	julian.c.rickett@uk.pwc.com
Ciaran McLaughlin	Engagement Director	020 7213 5253	ciaran.t.mclaughlin@uk.pwc.com
Jo Maguire	Pensions Director	0113 289 4085	josephine.p.maguire@uk.pwc.com
Kashif Parvez	Pensions Manager	020 7213 5295	kashif.x.parvez@uk.pwc.com

Timetable

We have included a number of the main dates and events in the audit process below, including when you are expecting to receive information from us. To help us meet this, please make sure that a draft of the annual report, quality reviewed on behalf of the Committee, is ready before we start our work. This helps us to be efficient and raise any queries as early as possible.

Month/Deadline	Audit activity
02 April 2012	Detailed planning meeting with Havering Finance and Pensions administration teams
25 April 2012	Audit plan to be presented to the London Borough of Havering, Audit Committee
w/c 21 May 2012	Interim audit
w/c 09 July 2012	Final audit fieldwork (on-site for 2 weeks)
03 August 2012	Clearance meeting
19 September 2012	Target date for issue of: <ul style="list-style-type: none"> • Audit Opinion on the Statement of Accounts; • Value for Money Conclusion; • Opinion on the Whole of Government Accounts return; and • Audit Opinion on Pension Fund Annual Report.
30 November 2012	Deadline for issue of Annual Audit Letter

Fees

Our fees are prescribed by the Audit Commission and are set at £35,000 for 2011/12 (£35,000 in 2010/11).

5. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

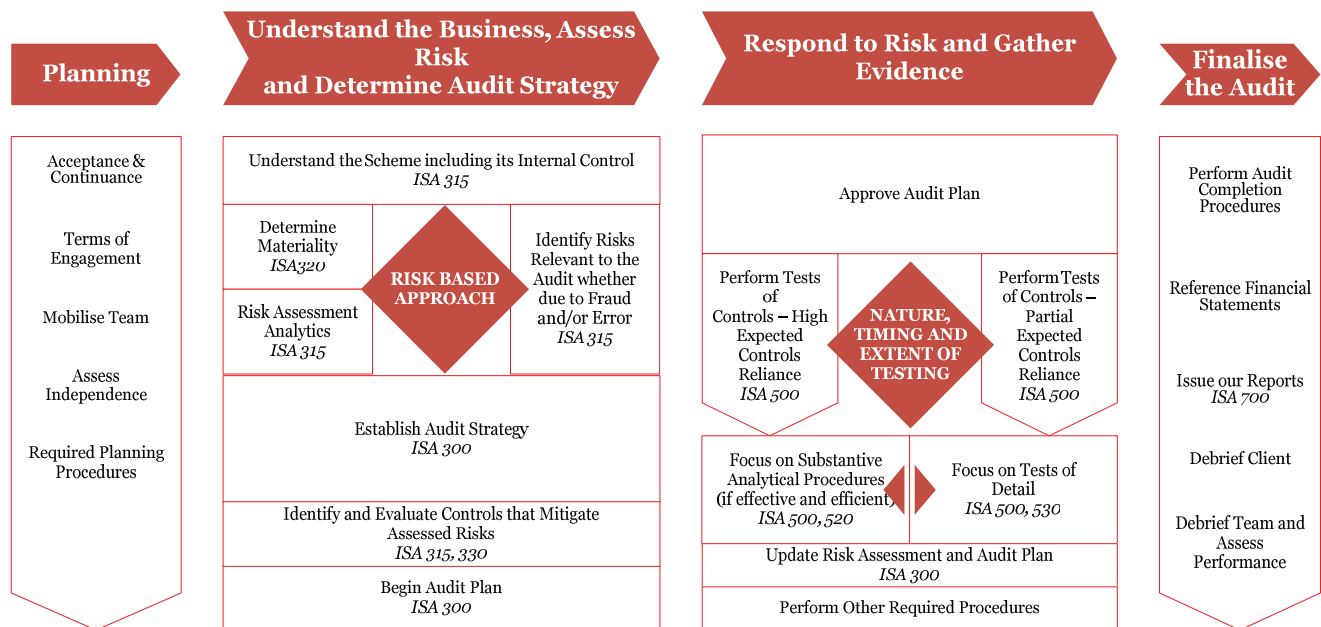
Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1: Summary of the audit process



The starting point of our audit approach is our assessment of the risks of material misstatement. We then identify the controls that the Committee and management have in place which mitigate these risks.

Then we undertake our work:

- testing of internal controls;
- analytical review, such as reasonableness testing; and
- detailed substantive testing of balances, such as obtaining third party confirmations of balances or agreeing transactions to member files.

Where we believe that appropriate controls are in place we plan to test and rely upon these controls. In other areas, or where it is more efficient to do so, we plan to take a largely substantive approach to the audit. Some substantive procedures will be carried out for each material account balance.

Appendix 2: Compliance matters

Specific communications

Under ISAs 260 and 265 (UK & Ireland), we are required to make some specific communications to you and this is how they will be addressed:

ISA requirement	Audit plan	Year-end report	Separate letter
The responsibilities of the auditor to form and express an opinion on the accounts (which does not relieve those charged with governance of their responsibilities with regard to the accounts)	✓		
An overview of the planned scope and timing of the audit	✓		
Views about the qualitative aspects of accounting practices and financial reporting		✓	
Significant matters and difficulties, if any, encountered during the audit, including those discussed with management		✓	
Written representations			Representation letter *
Other matters, if any, which in our judgement are significant to the oversight of the financial reporting process		✓	
The form, timing and expected general content of our communications	✓		
Significant deficiencies in internal control		✓	

*The representation letter is signed by the Council and covers the requirements for the Fund as well.

Materiality

We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement.

Materiality depends on the size and/or nature of misstatements we identify, judged in the surrounding circumstances. Generally, we consider differences to be material if they could individually or collectively influence the decisions taken by users of the accounts as a result of reading them. Our overall materiality is based on 1% of the Fund's net assets at the year end.

Auditing standards require us to keep a record of misstatements in order to assess their impact on the accounts both individually and in aggregate. We also set a cut-off level and below this can conclude that differences are 'trivial' and that we don't need to take any further actions. Based on the 2010/11 accounts, we expect that this figure will be around £195k but will update this upon receipt of the draft accounts.

If we do identify any non-trivial differences which are not adjusted in the accounts, we will need to obtain confirmation from you in the letter of representation that you are happy that these have not been changed.

Appendix 3: Other engagement information

The Audit Commission appoint us as auditors to London Borough of Havering and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or James Chalmers, 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.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

In the event that, pursuant to a request which the London Borough of Havering has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Havering shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Havering discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for and only for the London Borough of Havering in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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