



Havering

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

AUDIT COMMITTEE AGENDA

7.30 pm	Thursday 25 September 2014	Town Hall, Main Road, Romford
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Members 6: Quorum 3

COUNCILLORS:

**Conservative
(2)**

**Residents'
(2)**

**UKIP
1)**

**Independent
Residents'
1)**

Frederick Thompson
(Chairman)
Viddy Persaud

Ray Morgon (Vice-
Chair)
Julie Wilkes

Philip Hyde

Graham Williamson

**For information about the meeting please contact:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk**

AGENDA ITEMS

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

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) – received.

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to declare any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the meeting held on 25 June 2014 and authorise the Chairman to sign them.

5 ANNUAL STATEMENT OF ACCOUNTS 2013/2014 (Pages 9 - 12)

To consider the attached report.

6 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 13 - 74)

To consider the attached report.

7 FRAUD PROGRESS REPORT (Pages 75 - 88)

To consider the attached report.

8 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.

9 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 3 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.

10 ANNUAL TREASURY MANAGEMENT REPORT 2013/14

11 TREASURY MANAGEMENT UPDATE QUARTER 1 2014/15

**Andrew Beesley
Committee Administration
Manager**

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Town Hall, Main Road, Romford
25 June 2014 (7.30 - 8.00 pm)**

Present:

COUNCILLORS:

Conservative Group Frederick Thompson (in the Chair), Viddy Persaud

Residents' Group Clarence Barrett (In place of Ray Morgon) and Julie Wilkes

UKIP Group Philip Hyde

Independent Residents Group Graham Williamson

Apologies were received for the absence of Councillor Ray Morgon.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

1 MINUTES OF THE MEETING

The minutes of the meeting held on 8 April, 2014 were agreed as a correct record and signed by the Chairman.

2 CLOSURE OF ACCOUNTS TIMETABLE 2013/14

Officers reported that the accounts were closed as at 31 March, 2014. The draft accounts have to be finalised within 3 months after which they were submitted to the council's external auditors PricewaterhouseCoopers. Officers were on track and were in the process of checking and double checking the data.

The final audited accounts would be submitted to this committee for approval in September.

We have **noted** the report.

3 INTERNAL AUDIT PROGRESS REPORT

We were advised that excluding the Internal Audit and Corporate Risk Manager the established structure contained eight posts comprising:

- Five Internal Auditors carrying out systems, schools and follow up audits. The systems audit team contained two Principal Auditors, two Senior Auditors and a Systems Auditor. One member of the team worked reduced hours and the total systems audit resource was 4.8 WTE. The Systems

Auditor post was vacant as the post holder was on secondment to the fraud team. Due to the implementation of OneSource in 2014/15 that post would not be covered.

- Three auditors undertake proactive and reactive fraud and special investigations. The team contains a Corporate Fraud Manager, a Principal Fraud Auditor and a Fraud Auditor. One of the team works reduced hours and the total resource available is 2.66 WTE.

Six final reports were issued in the period 29 January to 31 May, 2014. The reports and level of assurance provided comprise:

SYSTEMS AUDIT

ASSURANCE

Housing Benefits	Substantial
Council Tax	Substantial
Main Accounting (Pre One Oracle Review)	Substantial
Debtors (Pre One Oracle Review)	Substantial
Pensions (Pre One Oracle Review)	Substantial
Budgetary Control	Substantial
Payroll	Substantial

SCHOOL

ASSURANCE

Benhurst Primary School	Substantial
Towers Junior School	Substantial
Squirrels Heath Infants School	Full

We have **noted** the report.

4 SYSTEM AUDIT REPORT SUMMARIES

We have received details of the seven system audits completed in the period ending 27 May, 2014. All audits had received a substantial assurance and no issues of concern were raised.

We have **noted** the report.

5 INTERNAL AUDIT SCHOOL AUDIT SUMMARIES

We were advised that three school audits had been completed in the period ending 27 May, 2014. Of these two had received a substantial assurance and on, that for Squirrels Heath Infants School a Full assurance.

No issues had arisen and we have **noted** the report.

6 FRAUD PROGRESS REPORT.

We have received a report on the work of the Internal Audit Corporate Fraud Team and the Benefit Investigations Team for the period from 1 January to 31 March 2014.

The Corporate Fraud Team had continued to deliver fraud awareness training to staff to continue developing a fraud aware workforce. In addition during the quarter training was delivered on data protection and money laundering. Additionally the

Team worked to raise the Authority's awareness of the risk of fraud and appropriate responses to fraud through the on-going provision of advice and assistance to Directors and Heads of Service.

Finally the Team participated in the learning and sharing of best practice through the National Anti-Fraud Network and actively worked with neighbouring boroughs to share learning and appropriate data.

The Team also undertook proactive fraud work comprising three elements:

- A programme of proactive fraud audit investigations;
- Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

The team's data matching work for the National Fraud Initiative (NFI) was on-going and it was anticipated that the results would be presented to the December 2014 meeting of the Committee.

During the quarter the team had received 6 referrals to add to the 16 cases already being dealt with. In three cases fraud had not been proven, six cases had been successfully concluded, leaving the team with 13 on-going cases. Of the six successful cases four had been dealt with by a Management Action Plan, one had seen a member of staff resign and in the sixth case a member of staff had been dismissed.

Benefits and Housing Tenancy Investigations had also been on-going during the same period. At the start of the period the team were investigating 471 Housing Benefit (HB) & Council Tax (CT) cases, and 73 Housing Tenancy (HT) cases. A further 112 (HB & CT) cases were referred to the team. 144 HB & CT cases were either rejected or not proven with 25 HB cases not proven. 43 HB & CT cases and 5 HT cases were successfully completed. This left the team with a work load of 396 HB & CT cases and 56 HT cases at the end of the period.

Of the completed cases 7 had led to prosecution and three properties had been either returned to the council or recovered.

We were provided with details of 6 successful prosecutions.

We have **noted** the report.

7 FORWARD PLAN OF THE AUDIT COMMITTEE

The Internal Audit & Corporate Risk Manager presented a draft Forward Plan for 2014/15 for our approval. It was planned that the Committee would meet on four occasions over the next municipal year.

Having considered the officers report we have **agreed**:

1. To move the meeting scheduled for 5 February, 2015 to 3 March 2015., and

2. The Forward Plan and training schedule, for the three remaining meetings, as follows:

Meeting date	Proposed agenda Item	Planned Training.
25.09.14	<ul style="list-style-type: none">• Annual Statement of Accounts• Report to those charged with Governance• Response to Auditors• Audit Progress Report• Fraud Progress Report• Annual Review of Risk Management• Treasury Update Q1• Annual Treasury Report	Treasury Management Note: Accounts training will be provided separately.
02.12.14	<ul style="list-style-type: none">• Annual Audit Letter• Closure of Accounts Timetable• Internal Audit Progress Report• Governance Update• Fraud Progress Report• Annual Review of Fraud• Treasury Management Update Q2	Fraud
03.03.15	<ul style="list-style-type: none">• 2013/2014 Audit Report of Grant Claims and Returns• External Audit Plan (including pensions)• Internal Audit Draft plan and strategy.• Internal Audit progress report• Outstanding Audit Recommendations• Fraud Progress Report• Annual Review of Audit Committee Effectiveness• Treasury Management Update Q3• Annual Report of Audit Committee• Closure of Accounts timetable	Risk Management

8 REVISED INTERNAL AUDIT PLAN FOR 2014/15

We have considered the revised Internal Audit Work Plan for 2014/15.

The role and objectives of Internal Audit were:

“An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the

control environment as a contribution to the proper, economic, efficient and effective use of resources.”

The objectives for the Audit Service were:

- To understand the whole organisation, its needs and objectives.
- To add value and assist the organisation in achieving its objectives.
- To be forward looking, innovative and challenging.
- To help to shape the ethics and standards of the organisation.
- To ensure value for money is achieved in the use of public funds.
- To ensure the right resources are available to deliver the audit plan, recognising changes in capacity, experience, qualifications and specialisms.
- To share opportunities for joint working and seek to share best practice with auditors and examiners from other authorities and organisations, in particular the Council's External Auditor.
- To maintain strong and effective relationships with management.
- To report significant issues to the Audit Committee, in a timely fashion, to enable and support the effective completion of their responsibilities.

The purpose of the Internal Audit Plan was to:

- Provide independent and objective overall assurance to Members and senior management on the effectiveness of the London Borough of Havering's control environment.
- Identify the key risks facing the London Borough of Havering in the achievement of its objectives and determine the corresponding level of audit resources.
- Add value and support to senior management in providing effective control and identifying opportunities for improving value for money.
- Support the Director of Resources in fulfilling obligations as the London Borough of Havering's nominated Section 151 Officer.
- Deliver an internal audit service that meets the requirements of the Accounts and Audit Regulations.

The methodology used for developing the Annual Internal Audit Plan would be focused on the quantification of the risks associated with the Council's objectives in consultation with key officers. The Plan was indicative and it might be that changes would be made during the year as the risk profile of the Council changed.

The Plan had been developed to provide maximum assurance using the internal audit resource available. Due to risk and commitments made to management in developing the previously approved version a larger plan was being submitted for approval and decisions around resource priority would be made during the year to maximise the completion of the plan.

We have **approved** the draft plan as submitted.

9 INTERNAL AUDIT CHARTER AND TERMS OF REFERENCE

An Annual review of the Internal Audit Charter and Terms of Reference had been undertaken by officers. Few changes were required to the document and we have **approved** the updated Internal Audit Charter and Terms of Reference.

10 MEMBER TRAINING PLAN

Under the Council's constitution:

'Part 4 – Committee Procedure Rules

Para 17 Training and continuity of membership of certain committees

(a) In the interests of business continuity, each Group and Group Leader shall ensure that any Member appointed to a place allocated to that Group on each of the Committees referred to in the following table shall have received, or shall within six months of appointment receive, training appropriate to its membership. If a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed.

(b) Each Group and Group Leaders shall strive to avoid making changes to their representation on the Committees referred to in the table for as long as possible and shall accordingly seek to ensure that their members remain on the particular committee for the period indicated:

Committee	Period
Adjudication and Review	At least two years
Audit	Full four year term
Licensing	At least two years
Pensions	Full four year term
Regulatory Services	At least two years

(c) For the Audit, Pensions, Regulatory Services and Adjudication and Review Committees, Groups shall nominate members other than those appointed to the respective Committees to be "designated substitutes", to attend a meeting in the event that an appointed member is unable to do so. "Designated substitutes" shall participate in the same training opportunities as appointed members. Non nominated members may not act as substitutes.

(d) This rule shall operate without prejudice to the ability of the Council and the Adjudication and Review Committee to require changes in membership where to do so is appropriate for other reasons, or to comply with statutory requirements.

All members and substitute members would be required to complete a skills analysis to identify any specific training needs. Members and substitute members could request at any time a briefing on an agenda item.

Having considered the report we have **approved** the training plan set out below and **noted** that it will be reviewed annually.

Frequency	Contents	Method of Delivery	Timing
Once during term	Role of Audit Committee Role of Internal Audit Role of External Audit	One to one or Group session	On joining Committee
Once during term	Corporate Governance	Group session (Yr 1 & 3)	June
Annual	Accounts and IFRS	Group session or one to one (Yrs 1) Drop in sessions (Yrs 2,3 & 4)	September
Annual	Treasury	Group session	September
Annual	Fraud & Corruption <ul style="list-style-type: none"> • Bribery • Money Laundering • Whistle blowing Housing Fraud Housing Benefit Fraud	Group session	December
Annual	Risk Management & Internal Control	Group session (Yrs 1&3) E Learning or off-line briefing (Yrs 2&4)	February

11 **ANNUAL GOVERNANCE STATEMENT**

We were advised that each year the Council must produce an Annual Governance Statement (AGS). The Chartered Institute of Public Finance and Accountancy (CIPFA) had published a 'Delivering Good Governance in Local Government' framework to encourage authorities to review and report on the effectiveness of their own governance arrangements by reference to best practice and the use of self-assessment. This framework advocated that local authorities prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they had monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. Key good practice features of an AGS included:

- The statement had been properly approved;
- It was easily accessible by authority members;
- It reflected the vision of the authority;
- It demonstrated ownership by the authority;
- It was a key document for showing how the authority was achieving its strategic objectives

- It demonstrated challenge;
- Issues were clearly articulated and it communicated a clear and concise message;
- It clearly communicated what had been done to resolve significant control issues and what remained to be done;
- Actions identified were SMART; and
- It was a 'living' document, i.e. it was not focused exclusively on year end and communicated significant issues which may change from year to year.

The Council's constitution delegated the responsibility for approving the AGS to this Committee. The Audit Committee were required as part of their role to consider any Corporate Governance related issues that needed to be referred to the Governance Committee for review. There was an Officer Governance Group chaired by the Group Director Resources in place to monitor and review all aspects of corporate governance and drive the AGS process.

Although significant progress had been noted in relation to the four issues highlighted in the 2012/13 Annual Governance Statement, each remained a significant issue for 2013/14. All have been refreshed to ensure the issue was clearly understood and so that the action plan and monitoring could be focused and effective. These were:

- Information Governance – protection of personal data, data sharing and quality;
- Austerity – having to maintain services with fewer resources;
- Pace of Organisation change – ensuring governance arrangements were revised and remained appropriate given the significant changes in the organisation and through partnership arrangements with third parties; and
- Compliance – ensuring that policy, procedure and roles and responsibilities were fit for purpose, appropriately approved, clearly defined and communicated to and understood by all and that compliance levels were maintained during periods of significant change and reduced capacity.

We have **approved** the draft version of the 2013/14 Annual Governance Statement without change.

Chairman

AUDIT COMMITTEE

25 September 2014

Subject Heading:	Annual Statement of Accounts 2013/2014
Report Author and contact details:	Contact: Mike Board Designation: Corporate Finance and Strategy Manager Telephone: (01708) 432217 E-mail address: Mike.Board@oneSource.co.uk
Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	N/A

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

The Council's Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 30 September 2014. At this stage our auditors, PricewaterhouseCoopers expect to issue an unqualified opinion on the Statement of Accounts.

RECOMMENDATIONS

The Committee is asked to:

- a) Approve the Statement of Accounts confirming that no amendments are required to be made to the accounts in respect of the items set out in the auditors report.
- b) note that the audited accounts must be published by 30 September 2014.

REPORT DETAIL

1. Statement of Accounts 2013/14

Our auditors, PricewaterhouseCoopers have completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings is included as item 6 on the agenda.

Appendix A, the draft Statement of Accounts will be circulated prior to the meeting incorporating any changes agreed with the auditors.

Following approval by this Committee, the accounts must be signed by the Chair of the Committee and the Group Director of Finance and Commerce.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no material financial implications arising directly from the publication of accounts.

Legal Implications and risks:

Regulation 8 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2014.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

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AUDIT COMMITTEE

25 September 2014

Subject Heading:

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

Report Author and contact details:

Contact: Mike Board
Designation: Corporate Finance &
Strategy Manager
Telephone: (01708) 432217
E-mail address:
Mike.Board@oneSource.co.uk
Audit Committee responsible for
approving accounts.

Policy context:

Financial summary:

N/A

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

The draft ISA 260 report from the external auditor PWC is shown as Appendix A. It summarises their findings from the 2013/14 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. Officers' responses are shown in the section "Summary of significant internal control deficiencies", beginning at page 16 of the ISA 260 report.

The draft Letter of representation is included as appendix B.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2014.

RECOMMENDATIONS

To note the contents of the Report to Those Charged with Governance (ISA260) and the draft Letter of Representation and consider any issues raised by the external auditor.

REPORT DETAIL

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2014.

The draft report from the external auditor summarises their findings from the 2013/14 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate. The Committee is also asked to consider the draft Management letter setting out the assurances required of the Group Director of Finance and Commerce by the auditors.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2014.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

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

Legal Implications and risks:

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

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Appendix A

Report to the Audit Committee of the authority on the audit of the statement of accounts and pension fund accounts for the year ended 31 March 2014 (ISA (UK&I)) 260)

London Borough of Havering 2013/14

Report to those charged with governance

Report to the Audit Committee of the authority on the audit of the statement of accounts and pension fund accounts for the year ended 31 March 2014 (*ISA (UK&I) 260*)

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Executive summary

Background

This report tells you about the significant findings from our audit of the authority accounts and the pension fund accounts. We presented our plan to you in February 2014; we have reviewed the plan and concluded that it remains appropriate, apart from the following changes to our risk assessment (set out in more detail on page 3):

- A significant risk has been noted for the financial resilience of the Authority as part of our consideration of the Value for Money criteria after considering the Authority's medium term financial strategy, which identifies a significant budget gap due to cost pressures and funding reductions.
- We have added a new risk in relation to oneSource, the joint committee between the Council and the London Borough of Newham (see also page 14).

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on September 2014.

The key outstanding matters, where our work has commenced but is not yet finalised, are listed on page 10.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 25 September 2014. Attending the meeting from PwC will be Ciaran McLaughlin, Chris Hughes and Amit Patel.

Acknowledgements

We would like to thank Mike Stringer, Mike Board, Nigel Foster, Mark White, Alison Umoh, Debbie Ford and their team for the considerable help and assistance provided to us during the course of our audit, particularly in chasing responses from officers. We note that the first draft of the accounts and pension fund accounts provided to us at the commencement of the audit was of a good quality.

Audit approach

Our audit approach was set in our audit plan which we presented to you in February 2014.

Since we communicated our audit plan, we have amended our audit approach to reflect the following changes:

Risk	Risk level	Response to new risk/change in risk level	Reason for change
Value for money (financial resilience)	Original – Elevated Revised – Significant	The Authority, like other Local Authorities, is facing increasing financial pressures and significant challenges to identify the levels of savings they require over the next three to five years. At present, as per the Authority's financial strategy presented to Cabinet on 3 September 2014, there exists a significant "budget gap" over the medium term. This had initially been estimated at £59.6m in the period 2015-19, and has now been revised to £44.9m.	As part of our value for money responsibilities, we are required to consider the financial resilience of the Authority into the foreseeable future. This definition of foreseeable future has been expanded by the Audit Commission to include the medium term rather than the next 12 months. As the identified "budget gap" is material and is in the progress of being addressed, we have reassessed the risk level concluding it to be significant. Full detail on the work performed against this risk is detailed on page 6.
oneSource	New risk identified - elevated	The risks faced by the Council are that: <ul style="list-style-type: none"> savings are not realised; there is no capacity to deliver the shared service; the governance structure is not robust, and the monitoring function is ineffective. 	The London Boroughs of Havering and Newham ("the Councils") agreed to establish a shared service to provide certain support services through a Joint Committee arrangement under delegated authority from each Council, known as "oneSource".

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Main Council Audit

Risk	Categorisation	Audit approach	Results of work performed
Management override of control ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant	<p>As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We performed procedures to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Test the appropriateness of journal entries and other adjustments to the general ledger. <input type="checkbox"/> Test accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions. <input type="checkbox"/> Consider if there had been significant transactions outside the normal course of business, and if there had, whether their rationale suggested fraudulent financial reporting or asset misappropriation. <input type="checkbox"/> Test that expenditure had been recorded in the correct financial year. <input type="checkbox"/> Test repairs and maintenance invoices for correct classification between revenue and capital. <input type="checkbox"/> Consider whether any segregation of duties weaknesses gave rise to a significant risk of material misstatement. <input type="checkbox"/> Test that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement were in accordance with statute. <input type="checkbox"/> Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and <input type="checkbox"/> Perform unpredictable procedures targeted on fraud risks. <p>We obtained an understanding of and evaluated controls relevant to management override risks identified above.</p>	We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government. The presumption that there is a significant risk is rebuttable for those elements of income and expenditure where we do not consider that to be a significant risk of material misstatement.</p>	Significant	<p>We performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk.</p> <p>For income, we considered that sales, fees and charges and Business Rate income were the areas of significant risk. We did not consider grant income, Council Tax income or interest income to be significant risks.</p> <p>For expenditure, we considered that non payroll service expenditure is an area of significant risk. We did not consider that housing and council benefits, payroll expenditure, depreciation and impairment, pension costs recognised due to the requirements of IAS 19, or interest expenditure to be significant risks.</p> <p>We obtained an understanding of and evaluated the controls relevant to the significant risks described above.</p> <p>We conducted tests of detail to obtain a high level of assurance over the significant risks described above.</p> <p>We evaluated and tested the accounting policy for income and expenditure recognition to ensure that this was consistent with the requirements of the Code of Practice on Local Authority Accounting.</p>	<p>We identified issues in relation to accruals of income and expenditure and have described these in detail on page 11 of this report. These issues were not material to the statement of accounts.</p> <p>We did not identify any further matters to report to you as a result of our work.</p>

Value for Money

Risk	Categorisation	Audit approach	Results of work performed
<p>Savings Plans</p> <p>The Council is experiencing increased pressures on many of its budgets in the current economic climate and savings required to be made in the current and future years. Budget holders may feel under pressure to try and push costs in to future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.</p>	<p>Significant (previously reported as elevated – see page 4 for further details)</p>	<p>We will review your savings plan.</p> <p>We will consider how you manage the plan, and will investigate the reasons behind any significant variations from the plan.</p> <p>We will specifically consider:</p> <ul style="list-style-type: none"> • your record in delivering savings; • the governance structure in place to deliver the targets (including extent of Member involvement); • the level and extent of accountability; • project management arrangements; • monitoring and reporting; and • progress on delivering the plan. <p>We will consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure</p>	<p>As at the date of drafting this report, our audit work in this area had not commenced, as our work to address this risk is planned to be undertaken in September 2014.</p> <p>We will provide a verbal update to the Committee.</p>
<p>oneSource</p>	<p>Elevated</p>	<p>We will conduct interviews with senior stakeholders at the council and review relevant documentation to assess how the council is managing the risks identified on page 4 above.</p>	<p>As at the date of drafting this report, our audit work in this area had not commenced, as our work to address this risk is planned to be undertaken in September 2014.</p> <p>We will provide a verbal update to the Committee.</p>

Pension Fund Audit

Risk	Categorisation	Audit approach	Results of work performed
Fraud and management override of controls	Significant	<p>During the audit we focused on areas where management could override the control environment to materially misstate the financial statements.</p> <p>We:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries and other adjustments to the general ledger on a sample basis; • tested accounting judgements that affected the Pension Fund for bias, such as accruals and provisions; • considered if there had been significant transactions outside the normal course of business; • tested that expenditure had been recorded in the correct financial year; • considered whether any segregation of duties weaknesses give rise to a significant risk of material misstatement; • reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and • performed unpredictable procedures targeted on fraud risks. 	We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
<p>Pensions – Valuation of pooled investment vehicles may be materially misstated</p> <p>The pooled investments are held in a pooled fund of funds. These investments are not all publicly listed and as such there is a degree of estimation involved in the valuation. Given that these funds form a material balance within the Pension Fund Accounts, we have identified the valuation of these funds as an elevated risk.</p>	Elevated	<p>We performed the following procedures to test the valuation of pooled investment vehicles.</p> <ul style="list-style-type: none"> • Obtained independent confirmation from the fund manager • Re-performed the calculation of year-end valuation by multiplying the confirmed number of units by the confirmed unit price and converted by PwC sourced foreign currency exchange rate where necessary. • In order to gain evidence that the confirmed price was a realisable value, obtained details of a transaction in the fund close to the year-end and compare the transacted price to the year-end price. • We obtained a copy of fund manager's report on internal controls and identified whether there were any weaknesses in the controls over the pooled vehicle valuation process. • Obtained the review the audited accounts for the fund, where available, and compared the audited unit price to the unaudited price provided by the fund manager or custodian. 	We did not identify any issues to report to you as a result of our work.

Scoping – materiality

In our audit plan presented to you in February 2014 we reported our planned overall materiality which we used in planning our overall audit strategy. Our measurement of overall materiality has varied because we set it as a percentage of the gross expenditure and net assets in the draft statement of accounts.

Our revised materiality levels are as follows:

	£
Overall materiality – Main accounts	12,200,000
Overall materiality – Pension Fund	10,120,380
Clearly trivial reporting de minimis – Main accounts	500,000
Clearly trivial reporting de minimis – Pension Fund	500,000

Overall materiality has been set at 2% of actual gross expenditure for the year ended 31 March 2014.

Overall materiality for the pension fund audit has been set at 2% of net assets for the year ended 31 March 2014.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold of £500,000 with the Audit Committee at its meeting in February 2014.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

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

- Contingent liabilities/ assets;
- Whole of Government Accounts;
- Our audit work in respect of the Value for Money conclusion;
- Certification work on the Housing Benefits grant claim is subject to completion;
- Review of the final draft of the Statement of Accounts;
- Approval of the Statement of Accounts and letters of representation; and
- Completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

Accounting issues

We identified the following matters during the course of our work that we wish to draw to your attention:

- Capital expenditure; and
- Accruals of income and expenditure.

Capital expenditure

According to IAS 16, “Property, Plant and Equipment”, expenditure should be capitalised if it is for the purchase of tangible fixed assets or enhances the economic benefits of the asset in excess of its previously assessed standard of performance.

In testing operating expenditure, we found several instances in which capital expenditure for Council’s schools and highway maintenance service was incorrectly expensed.

This has been caused by the high degree of judgement involved in assessing the nature of the expenditure and the incorrect use of accounts codes by the schools and highway maintenance service.

Please see the details of the audit adjustments proposed in Appendix 1. We also recommend that management should revise their controls over the coding of capital expenditure to ensure the correct accounting treatment – see page 17 for details.

Accruals of income and expenditure

According to CIPFA Code of Practice Guidance Notes, activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

From our testing of accruals, income, expenditure and recorded liabilities, we found that accruals of income and expenditure were either made incorrectly or not raised at all.

In aggregation, the total impact on the financial statements of these issues is immaterial.

However, the issues identified in our expenditure cut-off testing resulted in a misstatement above the reporting threshold described on page 9. Please see details in Appendix 1 on page 25.

As there are repeated misstatements from different areas of testing, we raised a control deficiency as set out in “Internal Controls” section of this report.

The additional audit effort required to complete our investigations into the areas described above has resulted in additional audit fees being incurred – see page 21 for details.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. See Appendix 1.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that

have, or could have, a material effect on the Statement of Accounts have been considered.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Valuation of property, plant and equipment and investment properties

In accordance with its accounting policy the Authority re-values Council Dwellings and Investment Properties on an annual basis. All other asset classes are re-valued on a five year rolling basis. Impairment losses of £6.6 million were charged to the Comprehensive Income and Expenditure Statement during the year in relation to these assets.

The Authority has utilised the expertise of external valuers in evaluating the valuation of the Authority’s property, plant and equipment and investment properties.

Our valuation experts have reviewed the assumptions and methodologies used by the external valuer.

The external valuer has used an approach of apportioning land values as a percentage of building costs in their valuation. However, PwC valuers would adopt an approach that derived the land values by using a land value per acre based on market comparables.

This matter has been reviewed and considered by Management including the Council’s Internal Property team who are comfortable that the assumptions and methodology

adopted by WH&E do not materially misstate the financial statements.

In addition, we selected a sample of properties in the Beacon group to re-perform the valuation calculation which was based on the average sale price of properties with similar characteristics. We questioned management of the specific adjustments made to the value of each property and the explanations provided were satisfactory.

Management carried out an impairment review during the year for assets that were not re-valued in 2013/14. The assumptions and methodology were reviewed by PwC valuers. We also further challenged management by assessing the impact of properties which were not re-valued on the financial statements. In particular, we calculated the value of the assets if they had been revalued annually using the Gerald Eve's IPD Capital Value indices and compared this recalculated value with the current net book value of the assets.

Overall, we have considered the approach adopted by the external valuer and the Authority and, in the context of the truth and fairness of the accounts as a whole, are satisfied that the valuations recorded in the accounts are not materially misstated.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the London Borough of Havering pension fund. Your net pension liability at 31 March 2014 was £506 million (2013 - £461 million).

The 2013 triennial valuation has been finalised and the effect has been reflected in the 2013/14 Statement of Accounts.

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

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We utilised the work of actuarial experts to assess the assumptions applied by the Council and found no issues.

We audited the data supplied to the actuary on which to base their calculations.

We performed reasonableness checks over pension assets by comparing expected fair value of scheme assets with the actual value. The expectation was based on the assumption that there were no significant changes affecting the allocation of assets. The difference is within what we consider to be a tolerable threshold, and hence the fair value of the assets was deemed to be reasonable.

Changes to IAS 19: Employee Benefits

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Authority's financial statements and the changes have been dealt with appropriately.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

The Council's policy is to disclose all related parties transactions with Councillors and employees. A threshold of £5,000 is used for disclosing related parties transactions with other organisations as transactions below £5,000 were considered trivial for disclosure. However, management applied an incorrect threshold of £50,000 instead of £5,000 in their initial workings. Upon PwC's challenge of the threshold, management revised the working paper and included the five related parties with transactions below £50,000 in the disclosures in the statement of accounts. PwC reviewed management's working papers and undertook other procedures to consider the completeness of the disclosures in the accounts, and no issues were noted. Further wording was also suggested to increase the transparency of the note. Management has amended the statement of accounts to include the further wording and related parties identified.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

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Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 21. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be

carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity. 2013/14 represents the 4th year that Julian Rickett has acted as Engagement Leader.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

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

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

In our Audit Plan presented to you in February 2014, we assessed that the Authority's financial resilience regarding savings plans was an elevated risk. We have subsequently reassessed this as a significant risk, due to the material budget gaps identified in the Authority's medium term financial strategy.

As a result of the Local Government Financial Settlement, the Authority has set out a financial strategy from 2015/16 to 2018/19. There is a notable "budget gap" in the financial forecast as reported to the Cabinet on 3 September 2014 of £44.9m

We are aware the Authority is in the process of determining actions to reduce the Authority's medium term "budget gap", with £17.5m of savings identified in the 3 September 2014 Cabinet Report for the years 2015/16 and 2016/17.

However, common to all authorities, there are still outstanding issues to resolve and areas of uncertainty remaining in closing the budget gap.

As at the date of drafting this report, our audit work in this area was in progress, as the majority of our work to address this risk will be undertaken in September 2014.

We will provide a verbal update to the Committee in respect of this work.

Targeted audit work

In our revised risk assessment we identified the following area for review:

The London Boroughs of Havering and Newham ("the Councils") agreed to establish a shared service to provide certain support services through a Joint Committee arrangement under delegated authority from each Council, known as "oneSource".

The Audit Commission publication Local review guide – shared services, 2013/14 states that "a concern for members and managers in establishing shared services is the level of control they will be able to exert over financial and service performance. The risks faced by the Councils are that:

- savings are not realised;
- there is no capacity to deliver the shared service;
- the governance structure is not robust, and
- the monitoring function is ineffective".

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We have concluded that these risks give rise to an elevated risk in respect of our VfM conclusion at this stage, specifically in respect of the criteria "The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness".

As at the date of drafting this report, our audit work in this area was in progress, as the majority of our work to address this risk will be undertaken in September 2014.

We will provide a verbal update to the Committee in respect of this work

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any significant deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

Other less significant deficiencies have been discussed with the Group Director of Finance and Commerce and will be raised in an “insight” memo for management. They will be followed up in 2014/15.

Summary of significant internal control deficiencies

Main Council Audit

Deficiency	Recommendation	Management's response
<p>Payroll reconciliation</p> <p>The payroll reconciliation was not completed for the year end on a timely basis. We understand from the payroll team that payroll reconciliations have been produced throughout the year, but with issues needing to be resolved.</p> <p>PwC worked together with the payroll team to determine the right payroll report needed for the purpose of reconciling the payroll system to the General Ledger. We received the payroll reconciliation after five weeks from the start of the audit.</p> <p>The remains a small difference on the payroll reconciliation which should be reconciled jointly by the payroll and finance teams.</p> <p>This control deficiency was also noted in the 2012/13 audit.</p>	<p>We recommend the payroll reconciliation is performed monthly.</p> <p>During the 2013/14 audit, the reconciliations provided at the start of the audit were not reconciled. The reconciliations were then revised and provided with trivial reconciling items.</p> <p>We expect the payroll reconciliation to provided at the start of the audit next year.</p>	<p>A monthly reconciliation format has been agreed with the auditors and is in place for monthly payroll reconciliations to ensure the reconciliation is available at the start of the audit for 2014/15.</p>

<p>Accruals of income and expenditure</p> <p>We have identified various instances from different testing (including income and expenditure cut-off testing, recorded liabilities, and accruals testing) in which accruals were either not raised or raised incorrectly. In the expenditure cut-off testing, the issue resulted in a total misstatement which is above the reporting threshold.</p>	<p>We recommend that management should review the controls around the accruals of income and expenditure to ensure that income and expenditure is recorded in the correct period.</p>	<p>Under Shared Service arrangements, accruals are identified and raised by the Service concerned. Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.</p>
<p>Capital expenditure</p> <p>In testing operating expenditure, we found several instances in which capital expenditure for Council's schools and highway maintenance service was incorrectly expensed. This has been caused by the high degree of judgement involved in assessing the nature of the expenditure and the incorrect use of accounts codes by the schools and highway maintenance service.</p>	<p>We recommend that management should review the controls around the capitalisation of expenditure and ensure that clear instructions are provided to schools and other business units outside finance.</p>	<p>Under Shared Service arrangements, Cost Centre Managers are responsible for ensuring their expenditure is correctly classified. As this capital expenditure would have been financed by revenue contributions, there was no impact on revenue outturn from these errors, but the accounting treatment was incorrect.</p> <p>Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.</p> <p>Education Finance will monitor schools building maintenance costs to ensure costs are capitalised as appropriate.</p>
<p>Bank reconciliations</p> <p>We noted that there was no review of the year-end bank reconciliations. The bank reconciliations for four out of five Council main accounts were not reconciled at the start of the audit. Three bank reconciliations were revised and provided the day after while the remaining bank reconciliation was provided at the fourth week of the audit.</p> <p>There was only one reconciliation for the general account and the housing account instead of separate reconciliations for each bank account.</p> <p>We also noted that the list of reconciling items was not complete with unpresented cheques dated after 18/09/2012 being excluded for the creditors payment account. Some of the reconciling items were not valid for the general account and housing account. In particular, cash had been received before the year end, but it was incorrectly listed as cash in transit at the year end.</p>	<p>We recommend that monthly bank reconciliations should be performed and reviewed in line with the policy for each of the bank account.</p> <p>There should be clear evidence of review, for example, electronic signature and date of review. The review should make sure that the list of reconciling items is complete and valid.</p> <p>Bank reconciliations should be prepared based on the statement as at 31/03/14. The reviewer checklist should include checking the date of the bank statement.</p>	<p>The incorrect reconciliation files were initially provided to the auditors, and this was corrected when identified. The Number 1 account had a balance of £29k relating to unpresented cheques. A new form is being introduced to improve control of reconciliations on as daily basis, included unpresented cheques.</p> <p>Reconciliations are reviewed by the relevant senior officer and a date of review inserted into the file to show the date approved or reviewed.</p> <p>Housing & General Account reconciliations will be reviewed to identify whether it is practical to have separate reconciliations for these two 2 areas.</p>

Bank reconciliations for "Havering Pupil Referral Service" were prepared based on the account statement as at 28/03/14 instead of 31/03/14.

Pension Fund Audit

Deficiency	Recommendation	Management's response
<p>Pension contributions paid into Council's main bank account</p> <p>We found that in three instances, the contributions have been paid into the Council's main bank account and not the special-purposed bank account set up for separating contributions payments from other Council payments as per the LGPS laws and regulations.</p>	<p>We recommend that Pension Fund Management ensure these contribution payments, especially the contribution from admitted or scheduled bodies, are made into the separate Pension Fund bank account.</p>	<p>Bank Account reconciliations identify when contributions are paid into the wrong bank account. Schedules of expected contributions identify late payment, and a Charging Policy is to be taken to the Pensions Committee to allow the Pension Administration team to impose charges on scheme employers for failing to comply with administrative requirements.</p> <p>There was no impact on the Pension fund Accounts as the accounting treatment was correct.</p>
<p>Pension benefit payment</p> <p>We have identified two occasions where payroll processed payments for people who had already terminated their employment with the Council. This was due to delays in transferring the completed paperwork relating to the termination of these two individuals from line managers to payroll. The Council had to reclaim the payment back from these individuals two months after the termination date. The risk arising is that the Council find it difficult to reclaim the full amount back in these situations.</p>	<p>We recommend that management should process the paperwork relating to the terminated employee in a timely manner to ensure no payment is made to leavers after their termination date.</p>	<p>The Transactional services Manager is investigating the issues giving rise to the auditors recommendation and will implement any necessary change in procedures in liaison with them.</p>
<p>Issues with admission agreements</p> <p>(1) We have identified that the Pension Fund Manager did not have bond values for 6 out of 9 admitted bodies. 4 of these were obtained from the pensions team from admission agreements; 2 from Legal. There is lack of communication between the Service departments, legal team and the pensions accounting team with regards to admission agreements. As a result, there is a risk that finance cannot gather the</p>	<p>(1) We recommend that a formal protocol is established for admission of admitted bodies, including monitoring and the pensions accounting team being given a full schedule of admission agreements so that the accounts can be kept up to date in this respect.</p> <p>(2) We recommend the management to have more frequent regular revaluation of bond. Although the regulations do not stipulate how frequently this is needed,</p>	<p>A TUPE manual and Admission Policy is currently being consulted upon and will be presented to the Pension Committee before March 2015. CMT have been briefed on the issues with Admission Agreements to disseminate clear responsibilities to their directorate service managers. Regular meetings are held with Legal Services to monitor progress on finalising Bond and Admission Agreements. Regular briefings are provided to external scheme employers, such as Academies, to remind them of their duties regarding Admission and Bond terms for contractors to be admitted to the Pension Fund. Where</p>

<p>indemnity bond related information to present a complete and accurate contingent asset balance.</p> <p>(2) Bonds have only been valued for admitted bodies as at admission and these are assessed every three years. In the absence of any earlier assessments there is a risk is that If an employer were to be liquidated, an out-of-date bond value might cause there to be insufficient indemnity cover; any excess is paid off by increasing the employer's contribution rate for the body.</p>	<p>it would be reasonable to do this at least annually.</p>	<p>there is failure to comply it is reported to members of the Pension Panel.</p> <p>The TUPE manual and Admission Policy will set out the timescales for reviewing bonds, with annual bond review put in place for the latter years of a contract that is coming to the end of the contract period. Who meets the costs for the bond revaluations has been addressed in the Charging Policy, which is being presented to the Pension Committee in September 2014.</p>
<p>Lack of pensions specific risk register</p> <p>We have identified that there was no risk register in place specifically for the Fund when we performed the audit. The Myners principles state that this is best practice, and although the Committee does monitor the Fund's risks, to implement a regularly updated risk register with agreed mitigating controls and actions is likely to enhance the Committee's monitoring processes.</p>	<p>We recommend the Committee consider drawing up a pensions specific risk register.</p>	<p>Risks and how they are controlled are already covered in the appropriate individual statutory policies. Officers are currently compiling a register to pull together all the identified pension risks for members to consider later in the year.</p>

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in February 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Fees update

Fees update for 2013/14

We reported our fee proposals in our plan. We varied our fee for the reasons outlined below.

	2012/13 outturn	2013/14 outturn	2013/14 fee proposal
Audit work performed under the Code of Audit Practice - Statement of Accounts - Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources - Whole of Government Accounts	199,859	199,859	199,859
Fee variation for audit work performed under the Code of Audit Practice – financial statements (i)	1,500	8,063	N/A
Fee variation for audit work performed under the Code of Audit Practice – value for money conclusion (ii)	N/A	TBD	N/A
Fee variance – Council Tax Support and Business Rates income (iii)	N/A	TBD	N/A
Pension fund audit (iv)	21,000	TBD	21,000
Certification of Claims and Returns (v)	41,390	TBD	22,565
Planned non audit work	25,000	0	0
TOTAL	290,384	TBD	243,424

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(i) We have performed additional work in respect of various issues identified during the course of the audit as listed out below:

- Issues identified with the capital expenditure (see page 10), accruals of income and expenditure (see page 11), and an instance of the incorrect application of a council tax discount rate resulted in additional testing to verify the extent of errors so that we could conclude the accounts were not materially misstated.
- Bank and payroll reconciliations were not reconciled at the start of the audit causing additional audit work in respect of the reconciliations. A complete and accurate payroll reconciliation enables us to determine the sample size of the operating expenditure testing and payroll cost testing, the delay in the provision of the payroll reconciliation meant that further work was required for the relevant testing.
- Some delays in responses to audit requests in relation to testing of unrecorded liabilities caused additional resources to be required so that the audit could be completed in time.

The total addition costs for the main Council audit is £8,063, which has been included in the table above.

(ii) As this work is additional to the scale fee set by the Audit Commission, we have agreed with the Councils that additional audit fees for this work will be split on a two thirds /one third basis between Newham and Havering respectively, which reflects how surpluses generated by oneSource are shared between the Councils. We will also need to consider

the extent of work undertaken with respect to the financial resilience criteria.

(iii) We presented our plan to you in March 2014 and noted that due to changes in the Audit Commission certification regime, we expected that we would need to obtain audit comfort over the Council Tax Support awarded and Business Rates income in the statement of accounts from additional audit procedures over these items, rather than by relying on certification work undertaken over the respective grant claims relevant to Council Tax benefit and business rates.

We expected that we would need to obtain audit comfort over Council Tax Benefit expenditure and Business Rates income in the statement of accounts from additional audit procedures over these items. We have undertaken additional work in this regard which included:

- Testing a sample of council tax support claims to the underlying documentation and policy as set out by the Council;
- Testing the Business Rates appeals provision contained in the financial statements for reasonableness; and
- Testing Business Rates income back to Valuation Office Agency information, supporting documentation and bank records.

The Audit Commission have indicated that a small amount of fees will be payable by all Councils in relation to the audit work auditors need to undertake in relation to Council Tax Support and Business Rates income in the statement of accounts, but this amount is yet to be finalised.

(iv) We will provide a final figure for the Pension Fund audit at the next Audit Committee, once we have completed our audit work in relation to the additional risk in relation to pooled investment vehicles. Please note that the £21,000 fee proposal represents the Audit Commission scale fee that is relevant for entities who do not have pooled investment vehicles. We also incur additional fees on the Pension Fund

audit as the Annual Report is not prepared at the same time as the statement of accounts, and hence needs to be subject to a separate review.

(v) Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Certification Report to Management in relation to 2013/14 grants.

Appendix 1: Summary of uncorrected misstatements

We found the following misstatements during the audit that have not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments.

Please see the table below for details.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Dr Payments in advance Cr Operating expenses	F		44,978	44,978	
	<i>Dr Payments in advance Cr Operating expenses</i>	<i>P</i>		<i>784,564</i>	<i>784,564</i>	
	Being an adjustment to account for the expenditure related to 2014/15 as payment in advance. In testing operating expenditure, we identified £44,978 of expenditure related to 2014/15 was incorrectly accounted for as expenditure for 2013/14. We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £784,564 giving the total misstatement of £829,542.					
2	Dr Property, Plant and Equipment Cr Operating expenses	F		288,788	288,788	
	<i>Dr Property, Plant and Equipment Cr Operating expenses</i>	<i>P</i>		<i>694,674</i>	<i>694,674</i>	
	Being an adjustment to capitalise the schools' capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £288,788 of capital expenditure, which was incorrectly expensed. We then projected this misstatement to assess the potential misstatement in the remaining untested population of schools' capital expenditure. The projected misstatement is £694,674 giving the total misstatement of £983,462.					
3	Dr Property, Plant and Equipment Cr Operating expenses	F		810,221	810,221	
	Being an adjustment to capitalise the Council's capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £458,350 of highway surfacing expenditure, which should be capitalised as it enhanced the value and life of the asset but was incorrectly expensed. We were able to identify all the related errors totalling £810,221.					
Total uncorrected misstatements			-	2,623,225	2,623,225	-

Appendix 2: Letter of representation

[LB Havering letterhead]

PricewaterhouseCoopers LLP

7 More London Riverside

London

SE1 2RT

Dear Sirs

Representation letter – audit of The London Borough of Havering (the Authority) Statement of Accounts for the year ended 31 March 2014

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Group Director of Finance Resources for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached to this letter.
- Regarding bad debt allowances, council tax income and accruals; accounting estimates that were recognised in the Statement of Accounts:
 - I confirm the Authority have used appropriate measurement processes, including related assumptions and models, in determining the accounting estimates in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
 - Measurement processes were consistently applied from year to year.
 - The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures.
 - Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
 - No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Additional written representations about the Statement of Accounts

- The selection and application of accounting policies are appropriate.
- The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14:

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- I have communicated to you all deficiencies in internal control of which I am aware.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

- I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you:
 - the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
 - all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.
- I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.
- I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

- I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.
- Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

Employee Benefits

- I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

- All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.
- The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.
- I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

Litigation and claims

- I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

- I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing. In particular:
 - In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
 - I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
 - I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Pension fund

- All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.
- The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.
- The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.
- Scheme documentation is fully up to date.
- No transactions have been made which are not in the interests of the scheme members or the scheme during the scheme year or subsequently;
- There has been no 'self-investment' in a scheme employer or stock-lending;
- The financial statements include some estimated figures that are based on assumptions made by the Fund. Estimates made take into account historical experience, current trends, expertise of advisors and fund managers and other relevant factors.

Pension fund registered status

- I confirm that the Havering Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

- I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

- Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

Using the work of experts

- I agree with the findings of Wilks, Head & Eve LLP and the Council's own property experts; experts in evaluating the valuation of the Authority's property, plant and equipment and investment properties and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records.
- I agree the assumptions used by WH&E and the Council's own property expert are appropriate; in particular;
 - the useful economic lives accurately reflect the remaining lives of the assets
 - I consider it appropriate to not deduct purchaser costs from the gross capital value in their Existing Use Value or Market Value valuation
 - valuations have assumed assets are at a suitable level of condition for service provision unless circumstances indicate that a specific property has a limited economic life
 - I consider it appropriate to apportion land values using a percentage of building costs
- The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- The Authority confirms its intentions to dispose of assets disclosed as assets held for sale within the next twelve months.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Disclosures

- Where appropriate, the following have been properly recorded and adequately disclosed in the statement of accounts:
 - The identity of, and balances and transactions with, related parties.
 - Losses arising from sale and purchase commitments.
 - Agreements and options to buy back assets previously sold.
 - Assets pledged as collateral.
- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Retirement benefits

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

- The Authority participates in the Teachers' Pension Scheme; a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:
 - Longevity at 65 for current pensioners is estimated to be 22.1 years for men and 24.1 years for women
 - Longevity at 65 for future pensioners is estimated to be 24.2 years for men and 26.7 years for women
 - The rate of inflation and the rate of increase in pensions is anticipated to be 2.6%
 - The rate of increase in salaries is anticipated to be 3.4%
 - The discount rate is estimated at 4.1%

Items specific to Local Government

- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes other than those disclosed in note 42 to the Statement of Accounts for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Audit Committee at its meeting on 25/09/2014

.....

Group Director of Finance and Resources

For and on behalf of

Date

Appendix 1 - Related parties and related party transactions

This is the list of all related parties:

Adamsgate Action Group	King Harold RA Chapter
Age Concern Havering	Lee Valley Regional Park Authority
Avelon Road Centre	Local Government Association
Barking, Havering and Redbridge University Hospitals NHS Trust	Local Government Information Unit
Beauty Box One	Local Government Urban Commission
Bellenden	London Accident Prevention Council
Brayards Estate Tenants & Residents Association	London Assembly
Charities Of Richard Poyntz And Others	London City Airport Committee
College (UK) Co. Ltd - Driving School	London Councils
Connexions	London Football Association
Cranham Metropolitan Police	London Home & Water Safety Council
Crowlands Driving School	London Local Authority Arts Forum
Damyns Hall Aerodrome	London Mayor's Association
East and south East London Transport Partnership	London Road Safety Council
East London Partnership	London Youth Games Limited

East London Waste Authority	Lucas Children's Play Charity
East of London Family History Society	Mardyke Community Centre
Education Foundation at Coopers & Coburn School	MEND programme
Emerson Park Community Association	National Trust
English Heritage	Newham Sports Council
Essex Quadrant Lodge	North East London NHS foundation Trust
Essex Wildlife Trust	North Romford Community Association
Euro - Altantic Group	North Weald Airfield Museum
European Committee of the Regions	Old Ford Board of Management
First Step	Old Ford Housing Association
Forces for Their Future	Orchard Village B
Friends of Clockhouse Garden	Orchard Village Neighbourhood Board
Friends of Havering Museum	Parkhill Estate Tenant Resident Association
Friends of Parklands	Peter Merry's Limited
George Copsey & Co LTD	President Upminster Air Training Corps
Gidea park & District Civic Society	Prime Minister's Champion Group on Dementia Friendly Communities
GMB	Rainham Food Bank
Governance Risk Compliance Global Ltd	Rainham Goldmine Jewellers,

Governor Panel	Relate North East London
Governors Appointment Panel	Reserve Forces & Cadets Association
Greater London Enterprise Ltd	Romford Baptist Church Member
Harold Hill & District Community Association	Romford British Legion Youth Band
Harold Wood Neighbourhood Centre	Romford Carnival Committee
Havering Admission forum	Romford Combined Charity
Havering and Brentwood Bereavement Service	Romford Town Centre Partnership
Havering Arts Council	Royal British Legion
Havering Association for People with Disabilities	Royal Naval Medical Association Trust
Havering Bands and Majorettes Association	Royal Society for the Protection of Birds
Havering Care Homes Ltd	Rush Green Community Centre
Havering Carers Panel	Second Chance - Theatre for the People
Havering Chamber of Commerce and Industry	Silver Sunday
Havering College of Adult Education	South Hornchurch Community Centre
Havering College of Further & Higher Education	Standing Advisory Council for Religious Education
Havering Community and Police Consultative Group	Studio 3 Arts

Havering Community Safety Partnership	Submerged Scuba
Havering East Rotary Club	Supreme Grand Council
Havering Interfaith Forum	Taxpayers Alliance
Havering Joint Forum	Tenant Compact Working Party
Havering Local Strategic Partnership	Tenants Management Organisations
Havering Museum Ltd	Thames Chase Joint Committee
Havering Old People's Welfare Association Council	Thames Chase Trust
Havering Over 50's Forum	Thames Regional Flood Defence Committee
Havering Residents' Association	The Bruges Group
Havering Sixth Form College	The Freedom Association
Havering Sports Council	United Grand Lodge of England
Havering Theatre Trust	University of East London
Honorable Society of Lincoln's Inn	Upminster & Cranham Residents Association
Hornchurch & Upminster Conservative Association	Upminster Old School Foundation
Hornchurch Housing Trust	Upminster Windmill Preservation Trust
Housing ALMO Board	Van Store / Baggage Express
International Institute for Strategic Studies	Veolia ES Cleanaway Havering Riverside Maintenance Trust
IWMS Contract Liaison Committee	Water Safety Committee

Transactions were identified between the Authority and the following related parties:

Age Concern Havering	Havering Sports Council
Barking, Havering and Redbridge University Hospitals NHS Trust	Havering Theatre Trust
East London Waste Authority	Hornchurch Housing Trust
First Step	Lee Valley Regional Park Authority
GMB	Local Government Association
Harold Hill & District Community Association	London Mayor's Association
Harold Wood Neighbourhood Centre	London Road Safety Council
Havering and Brentwood Bereavement Service	North East London NHS foundation Trust
Havering Arts Council	North Romford Community Association
Havering Association for People with Disabilities	Old Ford Housing Association
Havering Care Homes Ltd	Relate North East London
Havering College of Further & Higher Education	Romford Baptist Church Member
Havering Museum Ltd	Studio 3 Arts
Havering Over 50's Forum	Thames Chase Trust
Havering Sixth Form College	

Appendix 2 – Summary of Uncorrected Misstatements

The following misstatements during the audit that have not been adjusted for were identified.

Uncorrected Disclosure Adjustments

- The prior year figure for depreciation, impairment and downward revaluation of £60,464k per the cash flow statement, operating activities note should be listed as £67,572k for consistency with the unusable reserves note. This misstatement is only a disclosure issue affecting the classification of the cash flow amounts between different categories as the year end cash balances agreed to the balance sheet figure; as such it has not been amended.

Uncorrected accounting adjustments

See the table below for details:

No	Description of Misstatement (factual, judgemental, projected)		Income Statement		Balance Sheet	
			Dr	Cr	Dr	Cr
1	Dr Payments in advance Cr Operating expenses Dr Payments in advance Cr Operating expenses	F		£44,978	£44,978	
		P		£784,564	£784,564	
	Being an adjustment to account for the expenditure related to 2014/15 as payment in advance. In testing operating expenditure, we identified £44,978 of expenditure related to 2014/15 was incorrectly accounted for as expenditure for 2013/14. We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £784,564 giving the total misstatement of £829,542.					

2	Dr Property, Plant and Equipment Cr Operating expenses <i>Dr Property, Plant and Equipment</i> <i>Cr Operating expenses</i>	F		£288,788	£288,788	
	<p>Being an adjustment to capitalise the schools' capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £288,788 of capital expenditure, which was incorrectly expensed. We then projected this misstatement to assess the potential misstatement in the remaining untested population of schools' capital expenditure. The projected misstatement is £694,674 giving the total misstatement of £983,462.</p>	P		£694,674	£694,674	
3	Dr Property, Plant and Equipment Cr Operating expenses	F		£810,221	£810,221	
	<p>Being an adjustment to capitalise the Council's capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £458,350 of highway surfacing expenditure, which should be capitalised as it enhanced the value and life of the asset but was incorrectly expensed. We were able to identify all the related errors totalling £810,221.</p>					
Total uncorrected misstatements:				2,623,225	2,623,225	



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 document has been prepared only for the London Borough of Havering and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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130610-142627-JA-UK

Appendix B

Representation letter – audit of The London Borough of Havering (the Authority) Statement of Accounts for the year ended 31 March 2014

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Town Hall
Main Road
Romford RM1 3BB

25 September 2014
Our Ref: LBHLoFRep

W www.onesource.co.uk

Dear Sirs

**Representation letter – audit of The London Borough of Havering (the Authority)
Statement of Accounts for the year ended 31 March 2014**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Group Director of Finance Resources for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

- The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached to this letter.
- Regarding bad debt allowances, council tax income and accruals; accounting estimates that were recognised in the Statement of Accounts:
 - I confirm the Authority have used appropriate measurement processes, including related assumptions and models, in determining the accounting estimates in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
 - Measurement processes were consistently applied from year to year.
 - The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures.
 - Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
 - No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Additional written representations about the Statement of Accounts

- The selection and application of accounting policies are appropriate.
- The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14:
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 - Liabilities, both actual and contingent;
 - Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
 - Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- I have communicated to you all deficiencies in internal control of which I am aware.
- So far as I am aware, there is no relevant audit information of which you are unaware.

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- I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

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- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you:
 - the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
 - all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts.
 - all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
 - all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.
- I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.
- I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

- I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.
- Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

Employee Benefits

- I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

- All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

- The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.
- I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

Litigation and claims

- I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

- I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing. In particular:
 - In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
 - I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
 - I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Pension fund

- All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.
- The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.
- The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.
- Scheme documentation is fully up to date.
- No transactions have been made which are not in the interests of the scheme members or the scheme during the scheme year or subsequently;
- There has been no 'self-investment' in a scheme employer or stock-lending;
- The financial statements include some estimated figures that are based on assumptions made by the Fund. Estimates made take into account historical experience, current trends, expertise of advisors and ~~full~~ **Page 65** other relevant factors.

Pension fund registered status

- I confirm that the Havering Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

- I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

- Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

Using the work of experts

- I agree with the findings of Wilks, Head & Eve LLP and the Council's own property experts; experts in evaluating the valuation of the Authority's property, plant and equipment and investment properties and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records.
- I agree the assumptions used by WH&E and the Council's own property expert are appropriate; in particular:
 - the useful economic lives accurately reflect the remaining lives of the assets
 - I consider it appropriate to not deduct purchaser costs from the gross capital value in their Existing Use Value or Market Value valuation
 - valuations have assumed assets are at a suitable level of condition for service provision unless circumstances indicate that a specific property has a limited economic life
 - I consider it appropriate to apportion land values using a percentage of building costs
- The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.

- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- The Authority confirms its intentions to dispose of assets disclosed as assets held for sale within the next twelve months.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Disclosures

- Where appropriate, the following have been properly recorded and adequately disclosed in the statement of accounts:
 - The identity of, and balances and transactions with, related parties.
 - Losses arising from sale and purchase commitments.
 - Agreements and options to buy back assets previously sold.
 - Assets pledged as collateral.
- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Retirement benefits

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The Authority participates in the Teachers' Pension Scheme; a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:
 - Longevity at 65 for current pensioners is estimated to be 22.1 years for men and 24.1 years for women
 - Longevity at 65 for future pensioners is estimated to be 24.2 years for men and 26.7 years for women
 - The rate of inflation and the rate of increase in pensions is anticipated to be 2.6%
 - The rate of increase in salaries is anticipated to be 3.4%
 - The discount rate is estimated at 4.9%

Items specific to Local Government

- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes other than those disclosed in note 42 to the Statement of Accounts for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Audit Committee at its meeting on 25/09/2014

.....
Group Director Resources

.....
Date

For and on behalf of the London Borough of Havering

Andrew Blake-Herbert
Group Director
Resources
T: 01708 478 2218
E: Andrew.BlakeHerbert@onesource.co.uk

Appendix 1 - Related parties and related party transactions

This is the list of all related parties:

Adamsgate Action Group	King Harold RA Chapter
Age Concern Havering	Lee Valley Regional Park Authority
Avelon Road Centre	Local Government Association
Barking, Havering and Redbridge University Hospitals NHS Trust	Local Government Information Unit
Beauty Box One	Local Government Urban Commission
Bellenden	London Accident Prevention Council
Brayards Estate Tenants & Residents Association	London Assembly
Charities Of Richard Poyntz And Others	London City Airport Committee
College (UK) Co. Ltd - Driving School	London Councils
Connexions	London Football Association
Cranham Metropolitan Police	London Home & Water Safety Council
Crowlands Driving School	London Local Authority Arts Forum
Damyns Hall Aerodrome	London Mayor's Association
East and south East London Transport Partnership	London Road Safety Council
East London Partnership	London Youth Games Limited
East London Waste Authority	Lucas Children's Play Charity
East of London Family History Society	Mardyke Community Centre
Education Foundation at Coopers & Coburn School	MEND programme
Emerson Park Community Association	National Trust
English Heritage	Newham Sports Council
Essex Quadrant Lodge	North East London NHS foundation Trust
Essex Wildlife Trust	North Romford Community Association
Euro - Atlantic Group	North Weald Airfield Museum
European Committee of the Regions	Old Ford Board of Management
First Step	Old Ford Housing Association
Forces for Their Future	Orchard Village B
Friends of Clockhouse Garden	Orchard Village Neighbourhood Board
Friends of Havering Museum	Parkhill Estate Tenant Resident Association

Friends of Parklands	Peter Merry's Limited
George Copsey & Co LTD	President Upminster Air Training Corps
Gidea park & District Civic Society	Prime Minister's Champion Group on Dementia Friendly Communities
GMB	Rainham Food Bank
Governance Risk Compliance Global Ltd	Rainham Goldmine Jewellers,
Governor Panel	Relate North East London
Governors Appointment Panel	Reserve Forces & Cadets Association
Greater London Enterprise Ltd	Romford Baptist Church Member
Harold Hill & District Community Association	Romford British Legion Youth Band
Harold Wood Neighbourhood Centre	Romford Carnival Committee
Havering Admission forum	Romford Combined Charity
Havering and Brentwood Bereavement Service	Romford Town Centre Partnership
Havering Arts Council	Royal British Legion
Havering Association for People with Disabilities	Royal Naval Medical Association Trust
Havering Bands and Majorettes Association	Royal Society for the Protection of Birds
Havering Care Homes Ltd	Rush Green Community Centre
Havering Carers Panel	Second Chance - Theatre for the People
Havering Chamber of Commerce and Industry	Silver Sunday
Havering College of Adult Education	South Hornchurch Community Centre
Havering College of Further & Higher Education	Standing Advisory Council for Religious Education
Havering Community and Police Consultative Group	Studio 3 Arts
Havering Community Safety Partnership	Submerged Scuba
Havering East Rotary Club	Supreme Grand Council
Havering Interfaith Forum	Taxpayers Alliance
Havering Joint Forum	Tenant Compact Working Party
Havering Local Strategic Partnership	Tenants Management Organisations
Havering Museum Ltd	Thames Chase Joint Committee
Havering Old People's Welfare Association Council	Thames Chase Trust
Havering Over 50's Forum	Thames Regional Flood Defence Committee
Havering Residents' Association	The Bruges Group

Having Sixth Form College	The Freedom Association
Having Sports Council	United Grand Lodge of England
Having Theatre Trust	University of East London
Honorable Society of Lincoln's Inn	Upminster & Cranham Residents Association
Hornchurch & Upminster Conservative Association	Upminster Old School Foundation
Hornchurch Housing Trust	Upminster Windmill Preservation Trust
Housing ALMO Board	Van Store / Baggage Express
International Institute for Strategic Studies	Veolia ES Cleanaway Havering Riverside Maintenance Trust
IWMS Contract Liaison Committee	Water Safety Committee

Transactions were identified between the Authority and the following related parties:

Age Concern Havering	Havering Sports Council
Barking, Havering and Redbridge University Hospitals NHS Trust	Havering Theatre Trust
East London Waste Authority	Hornchurch Housing Trust
First Step	Lee Valley Regional Park Authority
GMB	Local Government Association
Harold Hill & District Community Association	London Mayor's Association
Harold Wood Neighbourhood Centre	London Road Safety Council
Havering and Brentwood Bereavement Service	North East London NHS foundation Trust
Havering Arts Council	North Romford Community Association
Havering Association for People with Disabilities	Old Ford Housing Association
Havering Care Homes Ltd	Relate North East London
Havering College of Further & Higher Education	Romford Baptist Church Member
Havering Museum Ltd	Studio 3 Arts
Havering Over 50's Forum	Thames Chase Trust
Havering Sixth Form College	

Appendix 2 – Summary of Uncorrected Misstatements

The following misstatements during the audit that have not been adjusted for were identified.

No	Description of Misstatement (factual, judgemental, projected)	Income Statement	Balance Sheet	
			Dr	Cr
		Dr	Cr	
	Dr Payments in advance Cr Operating expenses <i>Dr Payments in advance</i> <i>Cr Operating expenses</i>	F	£44,978 £784,564	£44,978 £784,564
	Being an adjustment to account for the expenditure related to 2014/15 as payment in advance. In testing operating expenditure, we identified £44,978 of expenditure related to 2014/15 was incorrectly accounted for as expenditure for 2013/14. We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £784,564 giving the total misstatement of £829,542.			
2	Dr Property, Plant and Equipment Cr Operating expenses <i>Dr Property, Plant and Equipment</i> <i>Cr Operating expenses</i>	F	£288,788 £694,674	£288,788 £694,674
	Being an adjustment to capitalise the schools' capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £288,788 of capital expenditure, which was incorrectly expensed. We then projected this misstatement to assess the potential misstatement in the remaining untested population of schools' capital expenditure. The projected misstatement is £694,674 giving the total misstatement of £983,462.			

No	Description of Misstatement (factual, judgemental, projected)	Income Statement		Balance Sheet	
		Dr	Cr	Dr	Cr
3	Dr Property, Plant and Equipment Cr Operating expenses Being an adjustment to capitalise the Council's capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £458350 of highway surfacing expenditure, which should be capitalised as it enhanced the value and life of the asset but was incorrectly expensed. We were able to identify all the related errors totalling £810,221.	F	£810,221	£810,221	
Total uncorrected misstatements:			2,623,225	2,623,225	

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AUDIT COMMITTEE

25 September 2014

Subject Heading:

Fraud Progress Report
1st April to 30th June 2014

Report Author and contact details:

Vanessa Bateman: Internal Audit &
Corporate Risk Manager
ext: 3733
email: vanessa.bateman@oneSource.co.uk

Policy context:

To advise the Committee of the work and performance of the Council's anti fraud and corruption resources and update on recent developments with regards the resources.

Financial summary:

This report details information relating to fraud and special investigations. There are no direct financial implications arising from this report which is for information only.

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

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

SUMMARY

This report advises the Committee of the work of the Internal Audit Corporate Fraud Team and the Investigations Team from 1st April to 30th June 2014.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of the officers where required, either with regards to the cases highlighted or the performance of the respective teams.

REPORT DETAILS

1. FRAUD RESOURCES UPDATE

1.1 Single Fraud Investigation Service

- 1.1.1 To ensure that the transfer to Department of Work and Pensions (DWP) of the officers primarily working on Housing Benefit Fraud work fits in with the timetable for the oneSource Service Review and restructure an application to defer the transfer date to 31st March 2015 was made on behalf of both LB Newham and LB Havering and has been approved by the DWP who were previously working to dates of October and December 2014 respectively.
- 1.1.2 A meeting has taken place to brief the Trade Unions regarding the planned transfer and Human Resources have been supporting the service in providing the information required by DWP in line with their timetable.
- 1.1.3 As a result of the transfer the Council will receive reduced funding via the Housing Benefit Administration Grant. This is not how the team are currently funded so the pressure is on other budget areas of the Council. The financial implication of this transfer will be separately assessed and raised through the appropriate channels.

1.2 OneSource Service Review

- 1.2.1 The Service Review Team have completed the 'As Is' stage of the review. This means the current arrangements in both Havering and Newham, for Fraud, Audit, Insurance and Risk Services, have been captured and extensive analysis completed. The outcome of this stage will be reported to management and used as a basis for the 'To Be' phase of the process which looks at the future needs of both organisations. It is still anticipated that this phase will conclude in October at which point options for a new structure will have been designed and costed and presented to management for consideration. Once approved the LB Havering's change management procedures will commence. It is envisaged that the implementation of changed implemented following this review will lead to the delivery of savings will contribute towards the achievement of oneSource business case.

2. CORPORATE FRAUD TEAM: UPDATE APRIL TO JUNE 2014

2.1 Delivery of the Anti-Fraud and Corruption Strategy

- 2.1.1 Work has been delivered to further develop a fraud aware workforce through an on-going programme of training. During Quarter 1, training was provided on the Prevention and Detection of Fraud.

2.1.2 The Corporate Fraud Team also works to raise the Authority's awareness of the risk of fraud and appropriate responses to fraud through the on-going provision of advice and assistance to Directors and Heads of Service.

2.1.3 The Team also participates in the learning and sharing of best practice through the National Anti-Fraud Network and actively works with neighbouring boroughs to share learning and appropriate data.

2.2 Proactive Fraud Investigations

2.2.1 The Corporate Fraud Team's proactive fraud work comprises three elements:

- A programme of proactive fraud audit investigations;
- Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

2.2.2 The proactive work plan for 2014/15 is shown in the table in Appendix A. During Quarter 1 progress was made on the plan.

2.2.3 The team's data matching work for the National Fraud Initiative (NFI) is on-going and it is anticipated that the results will be presented to the December 2014 Audit Committee.

2.2.4 There has been increasing utilisation of the resources within the Investigations Team to support the work objectives of the Corporate Fraud Team in this period to ensure most effective use of Council resources and prioritisation of work.

2.3 Reactive Fraud Cases: APRIL to JUNE 2014

2.3.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 1 2014/15						
Team	Cases at start of period	Referrals received	Referrals rejected/overloaded	Fraud not Proven Cases	Successful Cases	Cases at end of period
Corporate	13	13	0	3	4	19

2.3.2 The table below provides information on the sources of fraud referrals to the Corporate Fraud Team.

Source of Referrals & Fraud Reports Quarter 1 2014/15	
Number of Referrals/ Type	IA Fraud Reports Qtr 4
Anonymous Whistleblower	2
External Organisations / Members of the Public	4
Internal Departments	7
Total	13

2.3.3 The table below shows the number and categories of potential Corporate Fraud cases reported in the Quarter 1 period and the number of cases open at the end of the period.

Reports by Category		
Potential Fraud	Previous Cases Qtr 4	Current Cases end of Qtr 1
PC – Misuse and Abuse	1	4
Breach of Code of Conduct	1	6
Breach of Council Procedures	2	1
Misuse of Council Time	1	0
Direct Payments	4	3
Safeguarding	0	0
Overpayment of Pension	0	0
Security	1	1
Theft	1	0
Disabled Facility Grant	2	2
School Admissions	0	2
Total	13	19

2.3.4 The table below shows the case outcomes for the Internal Audit Corporate Fraud Team from April to June.

Case Outcomes	
Outcome	Qtr 1
Management Action Plan	2
Resigned	0
Disciplinary	1
Dismissed	0
No case to answer	3
Withdrawn Application	1
Total	7

2.4 Savings and Losses

- 2.4.1 The investigations carried out by the Corporate Fraud team provide the Council with value for money through:
- The identification of monies lost through fraud and the recovery of all or part of these sums; and
 - The identification of potential losses through fraud in cases where the loss was prevented.
- 2.4.2 The table in Appendix B shows the savings and losses identified during 2014/15 up until the end of Quarter One.

3.1 BENEFITS AND HOUSING TENANCY INVESTIGATIONS UPDATE APRIL TO JUNE 2014

3.1.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

Caseload Quarter 1 2014/15						
Team	Cases At start of period	Referrals received	Referrals rejected/ overloaded	Cases of Fraud not Proven	Success -ful Cases	Cases at end of period
HB & CTS	396	82	35	61	38	344
HT	56	16	-	9	3	60
TOTAL	452	98	35	70	41	404

3.1.2 The table below provides information on the sources of fraud referrals made to the Housing Benefit, Council Tax and Housing Tenancy fraud sections during the period.

Source of Referrals & Fraud Reports Quarter 1 2014/15			
Type and Number of Referrals	HB/CTS Referrals	HT Referrals	Total
Anonymous	33	4	37
External Organisations / Members of the Public	6	5	11
Internal Departments / Whistleblowers	31	4	35
Social Landlords (inc HiH)	9	3	12
Data Matching / Proactive initiative	3	-	3
Total	82	16	98

3.1.3 The table below shows the categories of the potential Housing Benefit and Council Tax Benefit fraud referrals in the period.

Referrals by Category	
Potential Fraud	Quarter 1 14/15
Capital	5
Income from Other Sources	5
Living Together	23
Non-Dependant	5
Non-Resident/vacated	10
Working	14
Non Commercial Tenancy	-
Contrived	1
Tenancy Fraud	15
Other	4
Total	82

3.1.4 The table below shows the categories of the potential Housing Fraud referrals in the period.

Referrals by Category	
Potential Fraud	Qtr 1 14/15
Subletting	5
Not main/principal home	7
Fraudulent RTB	3
Fraudulent Housing Register Application	1
Fraudulent succession	-
Total	16

3.1.5 The table below shows the current benefit caseload by category.

Current Cases by Category	
Potential Fraud	As at end of June 2014
Capital	37
Contrived Tenancy	11
Income from Other Sources	32
Living Together	115
Non-Dependant	18
Non-Resident/vacated	43
Other welfare benefits	-
Working	37
Non Commercial Tenancy	3
Other	6
Single Person Discount	7
Tenancy Fraud	35
Total	344

3.1.6 The table below summarises the number and types of successful outcomes for cases completed by the benefits fraud team during the period.

Successful Outcomes			
Sanction/ Offence Type	Administrative Penalties	Cautions	Prosecutions
Capital	5	3	-
Working & Claiming	4	2	3
Living Together	3	-	1
Non Residence	-	-	-
Contrived Tenancy	3	-	-
Other Income	3	1	1
Non Dependants	-	-	-
Total	18	6	5

- 3.1.7 The case outcomes for the Housing investigations from April to June 2014 are detailed in table below.

Successful Outcomes (Note: Cases may have multiple outcomes)	
Outcome Type	Qtr1 14/15
Tenancy Relinquished voluntarily (keys handed in)	2
Property recovered via court action	1
Indefinite Suspended Order	-
Housing Register application withdrawn	-
Prosecution	-
Total	3

3.2 Successful Benefit and Housing Fraud Cases.

Details of three successful benefit prosecution cases are provided below.

- 3.2.1 An investigation established that Miss B, who had been awarded a Council Property as a lone parent had actually been living with her partner from the outset of her tenancy. Miss B was awarded her 2 bedroom home in 2005 and was then moved to a 3 bedroom in 2008. Enquiries established that although Miss B claimed benefit as a lone parent, she failed to disclose that she had married her partner Mr P, the father of her 5 children in 2004. Links for the husband to the family and the claim addresses were established through birth, medical & utility records. Emergency contact details for the children also connected Mr P to the addresses. Miss B claimed that her husband moved in her property in 2012 but the evidence showed that he had been in residence from 2005. The total overpayment incurred, including Income Support was £76,818. Miss B was prosecuted and received a 12 month suspended sentence and ordered to carry out 200 hours unpaid work.
- 3.2.2 A case which started out as joint investigation resulted in the claimant being prosecuted by Trading Standards and Benefit Fraud. It was alleged that Mr C was selling cars while claiming to be unemployed. An examination of his bank accounts showed that Mr C had received undisclosed capital and appeared to have an income derived from the selling of vehicles. Mr C had already been prosecuted by Trading Standards when he denied the Benefit offences at Court. He claimed that it was a gypsy friend of his who had sold the vehicles and as the friend was of no fixed abode, Mr C had allowed him to use his own address, computer and bank account. The Magistrates did not believe Mr C's version of events and found him guilty of both charges. It was also established that Mr C had received an inheritance of £19,000 which he had failed to declare. Mr C was given a 12 month community order to undertake 240 hours of unpaid work. He also received an electronically tagged 3 month curfew and was ordered to pay £2,500 costs plus a victim surcharge of £60.

- 3.2.3 A claimant who sold her home via a mortgage recovery scheme in order that she could still live there and pay rent was investigated following a data match referral. The referral indicated that Mrs P's mother was living at the property with the claimant and her husband because her pension was paid to the address. In her claim for benefit Mrs P stated that her husband was a kitchen fitter with a small income. A credit check highlighted more bank accounts than had been declared. Further examination of the accounts showed that Mrs P had received an undeclared student loan, and income from undeclared work. There were also credits to the accounts indicating that her husband's income far exceed his declared earnings. In interview, Mrs P claimed that her 70 year old mother lived here, there and everywhere! She also stated that she didn't think she had to report her loan or part time work. She also claimed that her husband did not have much work. Mrs P was prosecuted and received a 12 month community order to carry out 200 hours of unpaid work. She was ordered to pay £575 costs plus a £60 victim surcharge.

Details of three successful housing tenancy cases are detailed below.

- 3.2.4 A benefit claimant who was clearly living beyond his means was prosecuted for benefit fraud for failing to declare that he was running a vehicle repair business. He also failed to declare that he was living with his partner who was employed. Following his conviction Mr R became the subject of a Proceeds of Crime hearing and an application to the Court was made to repossess his council property under Ground 14, as a consequence of his criminal conviction. At Court the Judge appeared reluctant to evict Mr R stating that he had already been punished for his criminal activities. However he did award the possession order after Mr R asked to be downsized to a smaller property and refused to agree an arrangement to repay arrears. Mr R then appealed against the order on the basis that he did not have legal representation. A further application was made on the basis of the accrued rent arrears and Mr R was eventually evicted in June.
- 3.2.5 It was reported that Mrs E was actually living with her partner across the road from her 3 bedroom council property. Because she lived in such close proximity, all of Mrs E's correspondence continued to go to her council home and there was no paper trail of her actually residing with her partner. She also admitted to having a relationship with her boyfriend and therefore, when she was visited by Investigation Officers and found at her boyfriend's address, Mrs E would say that she was visiting him but still lived in her Council property which she continued to maintain. The Investigation Team requested the assistance of the Police to obtain search warrants for both properties. Mrs E was found at the boyfriend's address along with all her personal items. Personal items were also found at the council address (where the electricity had been turned off) but it was evident that these were old and unused. Video footage was recorded at both properties. Mrs E voluntarily handed back the keys to the house a few days later.
- 3.2.6 Information was received from Homes & Housing that a property had been abandoned. There was no response to visits although neighbours had heard activity at the flat. Checks with Pupil Services showed that the tenant's child

continued to attend her school although she was now living at a different address. The address was found to belong to a couple who had included the child on their benefit claim as residing with them. Enquiries were made at the address and it was established that the couple were the paternal great grandparents of the child. The tenant had moved to Germany and her daughter had been left in their care. The father of the child also resided with his grandparents. While at the property, the child told the Investigation Officers that her mother had given some friends her keys and they occasionally used the property to sleep at and for parties. This would explain the noises heard by neighbours. Following receipt of the Investigator's report, the property was recovered and the locks changed.

3.3 HB/CTB/CTS Fraud Overpayments

3.3.1 The value of fraudulent housing benefit overpayments generated by the team for the first quarter of 2014/15 and the year to date are contained in table below.

3.3.2 A comparison with the same period last year has been provided. The level of overpayments has reduced due to: focus of some resources on wider corporate fraud activity including fraud deterrence activity.

Fraudulent Overpayment		
Type	Qtr 1	Q1 13/14
Rent Rebate	£157,896.44	£185,276.65
Rent Allowance	£116,703.45	£149,263.89
Council Tax Support	£37,765.33	£48,396.67
Total	£312,365.22	£382,937.21

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications or risks arising directly from this report which is for information only.

However, Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. The work of the Benefit Investigation Team regularly identifies benefits to which claimants are not entitled to, which are to be recovered by the Council. It should be noted that both the transfer to SFIS and the outcome of the oneSource service review will have financial implications. These will be separately assessed and raised through the appropriate channels as required.

Legal implications and risks:

There are no Legal implications from noting the contents of this Report.

Human Resources implications and risks:

There are no HR implications from noting the contents of this Report.

Equalities implications and risks:

There are no Equalities implications from noting the contents of this Report.

BACKGROUND PAPERS

None.

Appendix A: Corporate Fraud Proactive Audit Plan 2014/15

Description	Risks	Plan days	Qtr 1 Status
Grants	Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for.	20	In progress
Payment of Election expenses	Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.	10	In progress
Learning & Physical Disability Residents	Review bank accounts, building society accounts, income and expenditure records and receipts.	20	Draft Report
Internet Abuse - Review of blocked sites	Bluecoat reporting to ascertain if employees are attempting to access blocked internet sites.	10	In progress
Blue Badge	Identification of procedures to ensure records retained and maintained and badges are recovered following death. That badges are used in accordance with the legislation.	10	In progress
NNDR	A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in system particularly with Charities and 'Pop Up Shops'	20	Planned for End October
Direct Payment Assessments	This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.	15	Planned
Employee	This could involve any applications,	20	Planned

Description	Risks	Plan days	Qtr 1 Status
Applications	including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.		
Procurement of Services	False payments to contractors for house modifications, either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard.	15	Planned
Debt Avoidance	This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities (do not include SPD from question 4.1); rent arrears; false declarations; false instruments of payment or documentation.	15	Planned
Payroll	This includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.	30	Planned
NFI	The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the SPD invalid.	30	Planned
	TOTAL	215	

Appendix B: Savings, Losses and Potential Recoveries 2014/15

Case details	Qtr reported	Savings Identified	Losses Identified	Details
Application for Disabled Facility Grant	Qtr 1	£9,895		Applicant submitted a quote from what appeared to be a bogus contractor. When challenged to provide evidence of the contractor applicant withdrew the Disability Facilities Grant Application.
False Declaration for Disabled Facility Grant	Qtr 1	£30,000		Applicant declared not to have any assets or other income. Investigation proved owns another property and has a rental income. Proceeding to court.
PCN's paid for on Purchase Card	Qtr 1	£110		Employees work related parking fines paid via the Council's Purchase Card.
Possible Theft - RS	Qtr 1	£25.00		Employee falsified a receipt and a medical letter to obtain an additional £25.00 expense claim.
Direct Payment Fraud - Mrs R		£11,090	£24,170	Mrs R did not maintain a dedicated bank account or timesheets and double handed care did not correspond with carer's invoices. Reassessment of care reduced to single handed care package of 2:25 hours per day annual saving to the Council of £11,090.
Total		£51,120.00	£24,170	£24,170 loss can not be recovered by the Council.

Key:

Savings: Refer to the amounts of money that the detection of the fraud has prevented being lost. A prime example of this would be the discount on a right to buy. If we prevent the sale then we prevent the discount being given and thereby we save the Council money.

Losses: These are the sums of money that the audit determined have been lost or stolen.