London Borough of Havering

External Audit Plan 2013/14

Government and Public Sector
February 2014
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**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

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

Background
We have prepared this audit plan to provide the Audit Committee of the London Borough of Havering (the ‘Authority’) with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ended 31 March 2014.

This document also includes our planned audit approach to the audit of the pension fund accounting statements.

Framework for our audit
We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the ‘Audit Code’) as well as the requirements of International Standards on Auditing (UK & Ireland) (‘ISAs’).

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We look forward to discussing our report with you on 19 February 2014. Attending the meeting from PwC will be Ciaran McLaughlin and Amit Patel.

Our Responsibilities
Our responsibilities are as follows:

- Perform an audit of the statement of accounts and pension fund accounts in accordance with the Auditing Practice Board’s International Standards on Auditing (ISAs (UK&I)).
- Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.
- Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.
- Consider the completeness of disclosures in the Authority’s annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.
- Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.
- Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.
- Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.
Audit approach

Deep understanding of the London Borough of Havering

Our audit risk assessment, strategy and approach are built on a firm understanding of how the Council operates.

Auditing Standards and other regulations cover a comprehensive list of areas to be considered when seeking our understanding. These include the nature of the organisation and industry, strategy, performance, internal controls and systems.

Achieving a deep understanding of your organisation has multiple objectives: (i) to establish risks faced by the Council, which are a foundation for our audit risk assessment; (ii) to scope and design our audit to respond to the relevant risks; and (iii) to enable us to provide insight.

Risk assessment

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2013/14 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business, which we obtain by regular liaison meetings with the Group Director – Resources, Head of Finance and Procurement and the Head of Internal Audit. Our risk assessment process includes identifying risks of material misstatement for the audit and this determines how much audit evidence we require for each audit area. To do this we consider:

- Macro-level factors and their capacity to impact operating risks and financial reporting, and audit risks across the organisation drawing on the output from our acceptance process, our deep understanding and knowledge of Local Government;
- Specific risks and their potential impact on financial reporting and audit risks; and
- The significance of the combined nature, magnitude and likelihood of each audit risk to the financial statements, resulting in a risk classification of significant, elevated and normal (and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures).

<table>
<thead>
<tr>
<th><strong>Significant</strong></th>
<th>Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Elevated</strong></td>
<td>Although not considered significant, the nature of the balance/area requires specific consideration.</td>
</tr>
</tbody>
</table>
We present three tables below, which highlight all risks which we consider to be either significant or elevated in relation to (I) our audit opinion in relation to the statement of accounts audit, (II) our conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources and (III) our audit opinion on the Pension Fund accounting statements, for the year 2013/14.
Main Council Audit

<table>
<thead>
<tr>
<th>Risk</th>
<th>Categorisation</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management override of controls</td>
<td>Significant</td>
<td>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will perform procedures to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Test the appropriateness of journal entries and other adjustments to the general ledger.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Test accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Consider if there have been significant transactions outside the normal course of business, and if there have, whether their rationale suggests fraudulent financial reporting or asset misappropriation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Test that expenditure has been recorded in the correct financial year.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Test repairs and maintenance invoices for correct classification between revenue and capital.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Consider whether any segregation of duties weaknesses give rise to a significant risk of material misstatement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Test that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement are in accordance with statute.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Perform unpredictable procedures targeted on fraud risks.</td>
</tr>
</tbody>
</table>

We will also understand and evaluate controls relevant to management override risks identified above. We may perform other audit procedures if necessary.
<table>
<thead>
<tr>
<th>Risk</th>
<th>Categorisation</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk of fraud in revenue and expenditure recognition</strong></td>
<td>Significant</td>
<td>We will perform detailed testing of revenue and expenditure transactions, focusing on the areas we consider to be of greatest risk.</td>
</tr>
<tr>
<td>Under ISA (UK&amp;I) 240 there is a presumption that there are risks of</td>
<td></td>
<td>For income, we consider that sales, fees and charges and Business Rate income are areas of significant risk. We do not consider grant income,</td>
</tr>
<tr>
<td>fraud in revenue recognition.</td>
<td></td>
<td>Council Tax income or interest income to be significant risks.</td>
</tr>
<tr>
<td>We extend this presumption to the recognition of expenditure in local</td>
<td></td>
<td>For expenditure, we consider that non payroll service expenditure is an area of significant risk. We do not consider that housing and council</td>
</tr>
<tr>
<td>government.</td>
<td></td>
<td>benefits, payroll expenditure, depreciation and impairment, pension costs recognised due to the requirements of IAS 19, or interest expenditure</td>
</tr>
<tr>
<td>The presumption that there is a significant risk is rebuttable for</td>
<td></td>
<td>to be significant risks.</td>
</tr>
<tr>
<td>those elements of income and expenditure where we do not consider</td>
<td></td>
<td>We will obtain an understanding of and evaluate the controls relevant to the significant risks described above.</td>
</tr>
<tr>
<td>that to be a significant risk of material misstatement.</td>
<td></td>
<td>We will conduct tests of detail to obtain a high level of assurance over the significant risks described above.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>requirements of the Code of Practice on Local Authority Accounting.</td>
</tr>
</tbody>
</table>
## Value for Money Conclusion

<table>
<thead>
<tr>
<th>Risk</th>
<th>Categorisation</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings Plans</strong></td>
<td>Elevated</td>
<td>We will:</td>
</tr>
</tbody>
</table>
| 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. 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. | - review the Council’s budget monitoring process to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing;  
- consider the adequacy of the governance arrangements the Council plans to put in place in respect of “One Source”; and  
- consider the accounting implications of any saving plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure. |
## Pension Fund Audit

### Risk

<table>
<thead>
<tr>
<th>Management override of controls</th>
<th>Categorisation</th>
<th>Audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISA (UK&amp;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.</td>
<td>Significant</td>
<td>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will perform procedures to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Test the appropriateness of journal entries and other adjustments to the general ledger.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Test accounting judgements that affect the Pension Fund for bias, such as bad debts, accruals and provisions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Consider if there have been significant transactions outside the normal course of business, and if there have, whether their rationale suggests fraudulent financial reporting or asset misappropriation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Test that expenditure has been recorded in the correct financial year.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Consider whether any segregation of duties weaknesses give rise to a significant risk of material misstatement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>●  Perform unpredictable procedures targeted on fraud risks.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We will also understand and evaluate controls relevant to management override risks identified above.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We may perform other audit procedures if necessary.</td>
</tr>
</tbody>
</table>

We have rebutted the presumption that the risk of fraud in revenue recognition is significant for the Pension Fund, as the revenue is predictable in nature (for example, contributions receivable in line with the Rates and Adjustment Certificates). Similarly we do not consider that there is a risk of fraud in expenditure recognition due to the inherent predictability of pension benefit payments.

We are currently considering whether the Funds’ diversified investment portfolio results in a change to our overall risk assessment. We will provide the Audit Committee with a verbal update on this matter.
Intelligent scoping

Materiality

<table>
<thead>
<tr>
<th>Materiality</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall materiality – Main accounts</td>
<td>11,200,000</td>
</tr>
<tr>
<td>Overall materiality – Pension Fund</td>
<td>9,200,000</td>
</tr>
<tr>
<td>Clearly trivial reporting de minimis – Main accounts</td>
<td>500,000</td>
</tr>
<tr>
<td>Clearly trivial reporting de minimis – Pension Fund</td>
<td>400,000</td>
</tr>
</tbody>
</table>

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality has been set at 2% of actual gross expenditure in the Comprehensive Income and Expenditure account for the year 2012/13. We will update this assessment as necessary in light of the Authority’s actual results for 2013/14.

Overall materiality for the pension fund audit has been set at 2% of net assets for 2012/13. We will update this assessment as necessary in light of the Authority’s actual results.

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.

ISAs require us to keep a record of identified misstatements in order to assess their impact on the financial statements both individually and in aggregate.

In order to avoid the need to record differences which are clearly trivial, individually or in aggregate, to the financial statements as a whole we will propose a de minimis level for formal reporting to the Committee.

London Borough of Havering

If any differences above this limit are not adjusted we ask the Committee to explain the reason for this in the letter of representation. We would like to seek the Audit Committee’s views on an appropriate de minimis threshold for the main accounts and the Pension Fund (PwC policy allows for a level of up to 5% of overall materiality).

We will raise this question at the Audit Committee meeting on 19 February.
Robust Testing
Where we do our work
As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
- Understand and evaluate key controls relevant to the audit approach;
- Use data auditing techniques over journals, and explore where we can use data auditing techniques in other areas where this is the most effective audit approach; and
- Perform substantive testing on transactions and balances as required.

When we do our work
Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

Value for Money Work
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. As noted on page 7 we will consider the governance arrangements over One Source.

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 is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies 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.

Whole of Government Accounts
We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion
stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Meaningful conclusions
We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the Authority audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights. We have set out some recent developments in Appendix C and we will provide other insights and observations to you in our audit reports throughout the year.

We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.
# 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:

<table>
<thead>
<tr>
<th>Auditors' responsibility</th>
<th>Management’s responsibility</th>
<th>Responsibility of the Audit Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 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. |
| 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 ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately. |
Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive pressure

Opportunity
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

Why commit fraud?

Rationalisation / attitude
Culture or environment enables management to rationalise committing fraud – attribute or values of those involved, or pressure that enables them rationalise committing a dishonest act

Your views on fraud
We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower 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?
Your PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector.

Our people are proud to be auditors. They bring intelligence, passion and curiosity to their work and they draw upon the breadth of their experiences and relationships to provide a tailored, risk–focused approach to the audit. They care about their work and people they work with.

We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are:

<table>
<thead>
<tr>
<th>Audit Team</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Engagement Leader</strong></td>
<td>Engagement Leader responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</td>
</tr>
<tr>
<td>Julian Rickett</td>
<td><a href="mailto:julian.c.rickett@uk.pwc.com">julian.c.rickett@uk.pwc.com</a></td>
</tr>
<tr>
<td><strong>Engagement Director</strong></td>
<td>Engagement Director responsible for directing the main accounts audit, specifically in respect of audit quality.</td>
</tr>
<tr>
<td>Ciaran McLaughlin</td>
<td>020 7213 5253 <a href="mailto:ciaran.t.mclaughlin@uk.pwc.com">ciaran.t.mclaughlin@uk.pwc.com</a></td>
</tr>
<tr>
<td><strong>Engagement Director</strong></td>
<td>Engagement Director responsible for directing the Pension Fund audit, specifically in respect of audit quality.</td>
</tr>
<tr>
<td>Josephine Maguire</td>
<td>0113 289 4085 <a href="mailto:josephine.p.maguire@uk.pwc.com">josephine.p.maguire@uk.pwc.com</a></td>
</tr>
<tr>
<td><strong>Engagement Manager</strong></td>
<td>Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA 260 Report and Annual Audit Letter.</td>
</tr>
<tr>
<td>Chris Hughes</td>
<td>020 7804 3392 <a href="mailto:chris.hughes@uk.pwc.com">chris.hughes@uk.pwc.com</a></td>
</tr>
<tr>
<td><strong>Team Leader – Main accounts and Pension Fund audits</strong></td>
<td>Responsible for leading the field team, including the audit of the statement of accounts and the Pension Fund accounts, and governance aspects of our work.</td>
</tr>
<tr>
<td>Amit Patel</td>
<td>07715211544 <a href="mailto:amit.m.patel@uk.pwc.com">amit.m.patel@uk.pwc.com</a></td>
</tr>
</tbody>
</table>
The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2014. No changes to the work programme have been proposed therefore scale audit fees for have been set at the same level as the fees applicable for 2012/13 (where we charged an additional £1,500 for issues arising on the payroll audit). Our indicative audit fee is as follows:

<table>
<thead>
<tr>
<th>Audit fee</th>
<th>Actual fee 2012/13 £</th>
<th>Indicative fee 2013/14 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit work performed under the Code of Audit Practice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Statement of Accounts</td>
<td>201,359</td>
<td>199,859</td>
</tr>
<tr>
<td>- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Whole of Government Accounts</td>
<td>21,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Pension Fund</td>
<td>43,025</td>
<td>TBD</td>
</tr>
<tr>
<td>Certification of Claims and Returns</td>
<td>265,384</td>
<td>TBD</td>
</tr>
<tr>
<td>Planned non-audit work</td>
<td>25,000</td>
<td>0</td>
</tr>
<tr>
<td>Total fees (audit and non-audit work)</td>
<td>290,384</td>
<td>TBD</td>
</tr>
</tbody>
</table>

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the statement of accounts;
- We do not identify significant control weaknesses from our assessment of key management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements;
- The Pension Fund Annual Report is completed by the Council so that we can sign our audit completion certificate by 30 September 2013; and
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed and agreed in advance with you and the Audit Commission. Also, we may need to reconsider our proposed fee for the Pension Fund, whose diversified investment portfolio is new in 2013/14. This may result in PwC needing to undertake additional audit procedures.

We note that we anticipate that the Audit Commission will reduce the certification fee for the Housing and Council Tax Benefit Grant Claim to reflect the fact that arrangements for Council Tax Benefits have been localised in 2013/14. We also anticipate that the LA01 (National Non Domestic Rates) claim will no longer require certification given the localisation of Business Rates.

We therefore expect that we will 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 will update the Audit Committee on 8 April 2014, regarding the impact of this on our proposed audit fee for the Statement of Accounts at its next meeting.

London Borough of Havering
Appendices
Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and there are no matters which we perceive may impact our independence and objectivity of the audit team.

Other services

<table>
<thead>
<tr>
<th>Support provided by PwC</th>
<th>Value</th>
<th>Threats to independence and safeguards in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certification of claims and returns</td>
<td></td>
<td><strong>Self-Review Threat:</strong> The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors. There is no self-review threat as we are certifying management completed grant returns and claims. <strong>Self Interest Threat:</strong> As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat. <strong>Management Threat:</strong> PwC is not required to take any decisions on behalf of management as part of this work. <strong>Advocacy Threat:</strong> We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat. <strong>Familiarity Threat:</strong> Work complements our external audit appointment and does not present a familiarity threat. <strong>Intimidation Threat:</strong> We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.</td>
</tr>
</tbody>
</table>
**Relationships and Investments**

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

Therefore at the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.
Appendix B: Communications Plan

Planning (January - March)
- Discussion of business risks with key management and plan detailed audit approach
- Detailed planning meetings with key officers
- Audit strategy and timetable agreed with management
- Presentation of the audit strategy to those charged with governance

Interim (March/April)
- Update understanding of key processes and controls
- Key accounting and audit findings/significant deficiencies in internal control identified, discussed and resolved
- Early substantive testing
- Update our planning work

Completion (August/September)
- Management letter to the Audit Committee including report on significant deficiencies in internal control.
- Statutory audit opinions
- Representation Letter
- Annual Audit Letter

Year end audit (July/August)
- Detailed audit testing
- Review of financial statements
- Clearance meetings with management

Continuous Communication
- Continuous proactive discussion of issues as and when they arise; 'no surprises'
- Continuous evaluation and improvement of the audit
- Bringing you experience of sector and best practice
The Future of Government

Delivering on the Citizen Promise
In the face of recurrent budget cuts to reduce fiscal deficits in many countries, affordable government has become the watchword. This means doing more for less – meeting rising citizens' expectations by doing things differently to deliver services more effectively and efficiently.

Where Next for public services?
Public sector organisations need to re-evaluate their purpose and role and decide if current visions and missions, and ways of operating to achieve them, are relevant enough to ride the waves of these shifts, or be overwhelmed by them. Government and public sector organisations will also need to respond to these shifts proactively and pre-emptively, to avoid falling one or more steps behind.

What guides and shapes the future public body?
As such, tomorrow's public bodies need to navigate themselves by first formulating a strong and clear vision and mission. Together, these will capture the organisation’s strategic ambition and purpose and serve to influence decisions and behaviour within the organisation.

The Local State We’re In

Over the past few years, local government has demonstrated its ability to deliver ambitious and far reaching savings programmes. While council Chief Executives are still holding on to their confidence in meeting savings targets for 2013/14, our third annual local government survey shows that confidence in being able to protect services as well has fallen by 40% over the past year. Beyond 2013/14, confidence in meeting savings targets falls further.

Tough choices are ahead as the cracks begin to show and decisions get closer to the frontline. Councils need to act urgently to transform themselves into agile organisations and shape a role for themselves through a future of continued austerity.
Appendix D: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Description</th>
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<tbody>
<tr>
<td>People</td>
<td>Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.</td>
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<tr>
<td>Client acceptance and retention</td>
<td>Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.</td>
</tr>
<tr>
<td>Audit methodology</td>
<td>The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.</td>
</tr>
<tr>
<td>Technical consultation</td>
<td>Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors’ Group.</td>
</tr>
<tr>
<td>Procedure</td>
<td>Description</td>
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| Technical updates          | PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance. These include:  
  - A weekly publication covering the week’s accounting and business developments;  
  - A periodic publication providing in-depth analysis of significant accounting developments; and  
  - A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting.  
We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year. |
| Independence standards     | PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work. |
| Ethics                     | Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources. |
| Independent review         | Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2013 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.  
As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2012/13 audits are expected in early 2014 and will be publicly available on the Audit Commission’s website should you wish to take a look. |
**Smart People**
We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement manager and team leader have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

**Smart Approach**

*Data auditing*
We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013/2014 we anticipate the work will include:

- Testing manual journals using data analytics, ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

- The production of a journals ‘insight report’ which shows the comparable use of journals across the organisation and explores some of the root causes. We use the data gathered as part of our journals testing to share our findings and observations with management.

- We will also explore with Officers whether it is more effective for us to use data auditing techniques on the testing of revenue in the accounts.

**Centre of Excellence**
We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

**Delivery centres**
We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.

**Smart Technology**

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC’s Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura’s risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.

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**Our ‘smart’ approach underpins your audit**

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London Borough of Havering
“Client Connect”

PwC is committed to using technology smartly to make our audit experience better for our clients. We have a new tool available, Client Connect, that we think will make your audit run more smoothly and securely. Over the last year, we’ve successfully piloted Client Connect in several major countries around the world, including the UK, US and Canada.

Benefits to you

Client Connect is a web-based online workroom that facilitates the secure exchange of requested audit documents between you and us. Based on the pilots, we believe that the benefits to you will be:

- Your team will be able to see exactly what information has been requested by PwC, when it’s due and who’s responsible for providing the information. Each user of Client Connect has a personalised page, showing the status of any tasks that they’re responsible for. This makes it much easier for your team to administer the requests, reducing the time spent on managing the audit process at your end. It also reduces the likelihood of delays to the audit process and associated audit overruns;
- The use of templates within Client Connect requests make it clear what format the requested information needs to be in. This helps ensure requests are right first time, reducing the cost of re-work; and
- All information exchanged on Client Connect between your team and PwC is encrypted as it passes across the Internet, making this more secure than standard email traffic.

We are discussing the potential use of Client Connect at the Council with the Group Director of Resources.
Appendix E: Other engagement information

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

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

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

Electronic communication

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

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

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

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

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

**Access to audit working papers**

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

**Overseas processing of information**

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India, Germany and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.

- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.

- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.

- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.

- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Ciaran McLaughlin.

**Quality arrangements**

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss
these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

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

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.
Letter to the Authority in respect of arrangements to use Delivery Centre

London Borough of Havering
Town Hall
Main Road
RM1 3BB
February 2014

Dear Andrew

Working more efficiently

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.
Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India, Germany and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Julian Rickett

Engagement Leader
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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