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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 to the Pension Committee on the audit of the pension fund accounts for the year ended 31 March 2014 *(ISA (UK&I)) 260)*

Government and Public Sector

September 2014

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.

Contents

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

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 the Audit Committee 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 and Pension Fund 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: • 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	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. We performed procedures to: ☐ Test the appropriateness of journal entries and other adjustments to the general ledger. ☐ Test accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions. ☐ 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. ☐ Test that expenditure had been recorded in the correct financial year. ☐ Test repairs and maintenance invoices for correct classification between revenue and capital. ☐ Consider whether any segregation of duties weaknesses gave rise to a significant risk of material misstatement. ☐ Test that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement were in accordance with statute. ☐ Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and ☐ Perform unpredictable procedures targeted on fraud risks. We obtained an understanding of and evaluated controls relevant to management override risks identified above.	We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition 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.	Significant	We performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk. 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. 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. We obtained an understanding of and evaluated the controls relevant to the significant risks described above. We conducted tests of detail to obtain a high level of assurance over the significant risks described above. 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.	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. We did not identify any further matters to report to you as a result of our work.

Value for Money

Risk	Categorisation	Audit approach	Results of work performed
Savings Plans 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.	Significant (previously reported as elevated – see page 4 for further details)	We will review your savings plan. We will consider how you manage the plan, and will investigate the reasons behind any significant variations from the plan. We will specifically consider: • 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. 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	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. We will provide a verbal update to the Committee.
oneSource	Elevated	We will conduct interviewers with senior stakeholders at the council and review relevant documentation to assess how the council is managing the risks identified on page 4 above.	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. We will provide a verbal update to the Committee.

Pension Fund Audit

Risk	Categorisation	Audit approach	Results of work performed
Fraud and management override of controls	Significant	During the audit we focused on areas where management could override the control environment to materially misstate the financial statements. We: • 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
Pensions – Valuation of pooled investment vehicles may be materially misstated 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.	Elevated	We performed the following procedures to test the valuation of pooled investment vehicles. • 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.

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.

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".

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

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

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
Payroll reconciliation 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. 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. The remains a small difference on the payroll reconciliation which should be reconciled jointly by the payroll and finance teams. This control deficiency was also noted in the 2012/13 audit.	We recommend the payroll reconciliation is performed monthly. 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. We expect the payroll reconciliation to provided at the start of the audit next year.	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.

Accruals of income and expenditure 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.	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.	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.
Capital expenditure 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.	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.	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. 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. Education Finance will monitor schools building maintenance costs to ensure costs are capitalised as appropriate.
Bank reconciliations 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. There was only one reconciliation for the general account and the housing account instead of separate reconciliations for each bank account. 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.	We recommend that monthly bank reconciliations should be performed and reviewed in line with the policy for each of the bank account. 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. 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.	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 un-presented cheques. A new form is being introduced to improve control of reconciliations on a daily basis, included un-presented cheques. Reconciliations are reviewed by the relevant senior officer and a date of review inserted into the file to show the date approved or reviewed. Housing & General Account reconciliations will be reviewed to identify whether it is practical to have separate reconciliations for these two 2 areas.

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
Pension contributions paid into Council's main bank account 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.	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.	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.
Pension benefit payment 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.	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.	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.
Issues with admission agreements (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	(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. (2) We recommend the management to have more frequent regular revaluation of bond. Although the regulations do not stipulate how frequently this is needed,	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

indemnity bond related information to present a complete and accurate contingent asset balance. (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.	it would be reasonable to do this at least annually.	there is failure to comply it is reported to members of the Pension Panel. 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.
Lack of pensions specific risk register 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.	We recommend the Committee consider drawing up a pensions specific risk register.	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.

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**

(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.

Appendices

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	F			44,978	
	Cr Operating expenses			44,978		
	Dr Payments in advance	*P*			*784,564*	
	Cr Operating expenses			*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	F			288,788	
	Cr Operating expenses			288,788		
	Dr Property, Plant and Equipment	*P*			*694,674*	
	Cr Operating expenses			*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.					
3	Dr Property, Plant and Equipment	F			810,221	
	Cr Operating expenses			810,221		
	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.					
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 Entreprise 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	Unversity of East London
Honorable Society of Lincoln's Inn	Upminister & 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*** 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.	**F** ***P***		**£44,978** ***£784,564***	**£44,978** ***£784,564***	

2	**Dr Property, Plant and Equipment** **Cr Operating expenses** ***Dr Property, Plant and Equipment*** ***Cr Operating expenses*** 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.	**F** ***P***		**£288,788** ***£694,674***	**£288,788** ***£694,674***	
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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