

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

Section 3, Financial statements audit

Addressing Audit Risks

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

- **Management response:**

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

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

Other Matters – Other audit matters of governance interest

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

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

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

Control Themes and Observations

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

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

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

Management Response:

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

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

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

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

Management Response:

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

Whole of Government Accounts

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

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

Management Response: Noted

Section 4. Value for Money

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

Management Response:

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

Appendix A. Uncorrected Audit Differences

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

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

Appendix B. Corrected Audit Differences

Revaluation gain between valuation date and balance sheet date, £44.391m – see Section 3. Adjustment between Property, Plant and Equipment and Revaluation Reserves