



London Borough of Havering

Audit results report

Year ended 31 March 2017



EY

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28 September 2017

Dear Audit Committee Members

We have substantially completed our audit of the London Borough of Havering for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Debbie Hanson
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, other members of the Authority and management of the London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of the London Borough of Havering, as those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, other members of the Authority and management of the London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the March 2017 meeting of the Audit Committee, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £11 million. We reassessed this using the actual year-end figures, which has increased this amount to £11.2 million. The threshold for reporting audit differences has increased this amount from £553,000 to £563,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- ▶ Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality as well as undertaking additional procedures to gain assurance over the completeness of the disclosures.
- ▶ Members' allowances. As these disclosures are considered to be of interest to users of the accounts we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



Executive Summary

Status of the audit

We have substantially completed our audit of the London Borough of Havering's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3.

- ▶ Completion of procedures to test the valuation of property, plant and equipment. We are currently completing our procedures to verify and critically challenge the valuation of certain property assets. The Council's valuer has identified significant movements in the value of a number of assets, and we therefore engaged our internal valuation specialist to review the year end valuations for these assets. We will provide an update on the progress of this work, including any findings arising and adjustment that may be required to the accounts, to the Audit Committee meeting on 28 September.
- ▶ Sample testing of income and expenditure, including Housing Revenue Account expenditure.
- ▶ Testing of the NDR appeals provision.
- ▶ Final Director and Manager review of completed audit work.
- ▶ Review of final version of the financial statements.
- ▶ Completion of subsequent events review up to the date of the audit report.
- ▶ Receipt of the signed management representation letter.

Until our work is complete, further amendments may arise. We will provide an update on the progress of this work, and any findings from that work, to the Audit Committee at its meeting on 28 September.

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. This error relates to a misclassification of debtor and creditor balances, resulting in an overstatement of net expenditure recorded in the Authority's Comprehensive Income and Expenditure Statement of £629,000. We do not consider this error to be material to the financial statements, but ask that management's rationale as to why this is not corrected is approved by the Audit Committee and included in your Letter of Representation to us.

We have agreed with the Council some additional narrative within the financial statements to reflect the basis on which the property held by Mercury Land Holdings is valued. Our audit also identified a number of minor disclosure errors which were corrected by management. Details can be found in Section 4: Audit Differences.

We will provide an update to the Audit Committee meeting on 28 September of any audit differences identified as part of the conclusion of our work (both corrected and uncorrected).



Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the London Borough of Havering's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure.

We identified the risk of revenue recognition and management override of controls as significant audit risks and undertook specific audit procedures to address these risks. Our work did not identify any transactions during which appeared unusual or outside the Authority's normal course of business.

An area of audit focus which we also included in the Audit Plan was the introduction of the Expenditure and Funding Analysis (EFA) and the restatement of the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MIRS). Our work did not identify any issues with restatement of the CIES or MIRS, or the figures on the EFA. The Authority did however amend the presentation of the accounts to include the EFA as a note to the financial statements, rather than as a primary statement, as it was incorrectly included in the draft accounts.

We also identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. We have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work. We have also considered the work performed by the specialist and performed audit procedures to confirm we can place reliance on these experts. This work is still in progress and further detail on the outcome of the work we have completed to date is included in section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issues
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for Money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we committed to updating you on the outcome of our risk assessment. We have completed our risk assessment and did not identify any significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources based on the audit work we have completed. The Authority has identified budget deficits in the medium term, but also has a history of successfully addressing such budget deficits, and has an adequate level of reserves.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

The Council submitted the pre-audit Whole of Government Accounts (WGA) submission in July. We are currently completing our work in relation to this.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work, we have identified a small number of deficiencies in the design or operation of controls that we wish to bring to your attention. These are in relation to the Council's processes to:

- Engage and instruct its valuer;
- Review the work of third parties engaged to calculate the Council's provision for appeals against the rateable value on non-domestic properties; and
- Produce transaction listing for material balances disclosed in the financial statements.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.

Audit Fees

We have incurred additional costs in testing the significant reductions in the value of assets valued on a depreciated replacement cost basis. We have engaged specialist support from EY valuation experts to enable us to test these movements, in particular focusing on the assumptions and methodology adopted by the Authority's valuer.

We also incurred additional costs in testing the consolidation of Mercury Land Holdings into the Council's group financial statements, and in working with the Council to obtain transaction listings for material balances and transaction streams.

We consider this work to be outside of the scope of the scale fee, and will seek a variation to the scale fee from PSAA Ltd. We will discuss and agree this fee with management and PSAA and confirm our final fee in our Annual Audit Letter.



02 Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Risk of Fraud in Revenue Recognition

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

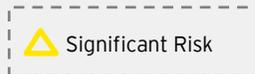
Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

For the Council, we identified the potential for the incorrect classification of revenue spend as capital as a particular area where there is a risk of fraud in revenue recognition.



What did we do?

Our testing of journal entries has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

Our testing material revenue and expenditure streams, including accounting estimates did not identify any issues or evidence of management bias.

Our cut-off testing on income and expenditure received around period end to assess whether the recognition or deferral of this income and expenditure was appropriate did not identify any issues.

We have not identified any issues in relation to completeness of revenue through substantive testing and cut-off.

Our review and testing of capital expenditure on property, plant and equipment confirmed it met the relevant requirements to be capitalised.



Areas of Audit Focus

Audit issues and approach: Management Override of Controls

Management override

What are our conclusions?

From our work complete to date:

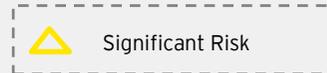
- We have not identified any material weaknesses in controls or evidence of material management override of controls.
- We have not identified any inappropriate journals.
- We have not identified any instances of inappropriate judgements being applied in relation to accounting estimates.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

What is the risk?

Risk of management override of controls

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.



What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- ▶ Reviewed accounting estimates (e.g. IAS 19 liability, valuation of property, plant and equipment) for evidence of management bias. More detail on these areas is included on the following page; and
- ▶ Undertook testing to identify any significant unusual transactions; no such transactions were identified, this includes our detailed review of the adjustments through the Movement in Reserves Statement.



Areas of Audit Focus



Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Authority's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- ▶ The valuation of property, plant and equipment - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below. We noted as part of our planning that there have been significant reductions in the value of assets valued on a depreciated replacement cost basis. We have therefore engaged our own internal valuation specialists to enable us to test and validate these movements.
- ▶ Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- ▶ Provisions (including NDR appeals provision) - due to the high degree of estimation assumptions we have included this as a higher risk estimate in our audit strategy.
- ▶ Accruals of income and expenditure - due to the judgement involved in determining whether good/services are received/rendered in the absence of an invoice we have included manual accruals as a higher risk estimate in our audit strategy.

We consider the remainder of the Authority's estimates, including bad debt provision and depreciation to be at low risk of material misstatement.



Areas of Audit Focus

Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations.

In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. As part of this work we have performed the following procedures:

- Analysed source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- Assessed the reasonableness of the assumptions and methods used;
- Considered the appropriateness of the timing of when the specialist carried out the work; and
- Assessed whether the substance of the specialist's findings are properly reflected in the financial statements.

We set out our findings in relation to the two specialists we have relied on below.

Pension disclosures

We have assessed and are satisfied with the competency and objectivity of the Authority's actuary, Hymans Robertson. EY's pension team and PwC (as consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.

Property valuations

We have assessed and overall are satisfied with the overall competency and objectivity of the Authority's valuers, Wilks, Head and Eve, subject to the completion of our detailed review of a sample of assets valued at depreciated replacement cost as referred to below. In addition to this we have:

- Assessed and used an independent valuer's market report to review and challenge the assumptions and judgements used by the Authority's external valuer in valuing council dwellings.
- Tested the accounting entries made for revaluations, including assessing assumptions, asset use and valuation methods.

We are currently completing our procedures to verify and critically challenge the valuations adopted by the valuer. We identified significant movements in the value of a number of assets, and we therefore engaged our internal valuation specialist to review the year end valuations for these assets. We will provide an update on progress and any findings at the Audit Committee meeting.



Areas of Audit Focus

Audit issues and approach: Other Financial Statement Risks

Other Financial Statement Risks

What did we do?

CIPFA Code Changes

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with CIPFA's Service Reporting Code of Practice (SeRCOP). Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Authority's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Highways Network Assets deferral to 2017/18

Our Audit Plan noted that CIPFA had issued an update to the 2016/17 Accounting Code which removed all references to the valuation and accounting requirements for the Highways Network Asset (HNA) due to the deferral of its implementation announced in December 2016.

Subsequent to this, CIPFA made a further announcement that the plans to implement HNA accounting had been cancelled.

We:

- Reviewed the Expenditure and Funding Analysis, CIES, MIRS and new notes to ensure disclosures are in line with the Code.
- Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported.
- Agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers.

We are currently concluding our work in relation to this item. At this stage the only matter we have to report to you is that as a result of our audit, the positioning of the Expenditure and Funding Analysis (EFA) within the financial statements was amended to better reflect its status as a note to the accounts rather than a primary statement.

We continued to consider the preparedness of the Council during 2016/17. As a result of the CIPFA decision not to implement HNA accounting, no disclosure requirements were needed in the 2016/17 financial statements.



Areas of Audit Focus

Other Financial Statement Risks

What did we do?

Group Accounts

The Council set up a wholly owned subsidiary company, Mercury Land Holdings, in October 2015. The Council will prepare group accounts for the first time in 2016/17 in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice). We consider there to be an increased risk that the financial statements do not meet the group accounting requirements defined by the Code.

We:

- Reviewed the Council's assessment of all potential group entities against accounting standards IFRS10 and 11.
- Reviewed and tested that the Council adopted and correctly applied accounting policies that comply with the requirements of the Code.
- Reviewed that the consolidations of the companies' accounts have been undertaken correctly into the group accounts. Reviewed and tested all appropriate disclosures.

We have agreed with the Council some additional narrative within the financial statements to reflect the basis on which the property held by Mercury Land Holdings is valued.

We are currently concluding our work in relation to the Council's group accounts, but at this stage have no further matters to report to you.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HAVERING

Opinion on the Authority's financial statements

We have audited the financial statements of the London Borough of Havering for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement;
- ▶ Authority and Group Comprehensive Income and Expenditure Statement;
- ▶ Authority and Group Balance Sheet;
- ▶ Authority and Group Cash Flow Statement;
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement;
- ▶ the Collection Fund; and
- ▶ the related notes 1 to 45 of the Authority financial statements, the related notes 1 to 5 of the Housing Revenue Account Income and Expenditure Account, the related notes 1 to 3 of the Collection Fund, and the related notes 1 to 5 of the Group financial statements

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



Audit Report

Our opinion on the financial statements (cont.)

Respective responsibilities of the Section 151 Officer and External Auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities as set out on page 11, the Section 151 Officer is responsible for the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts for the financial year 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Havering and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Audit Report

Our opinion on the financial statements (cont.)

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the financial year 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the London Borough of Havering's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.



Audit Report

Our opinion on the financial statements (cont.)

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Havering had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, the London Borough of Havering had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Havering in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Debbie Hanson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
29/09/2017

The maintenance and integrity of the London Borough of Havering's web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We do not have any corrected misstatements in the financial statements or disclosures identified during the audit which we need to bring to your attention. Until our audit is complete however further issues may arise. We will update the Audit Committee on any differences identified as a result of the conclusion of our work at the Committee on 28 September.

We have agreed with the Council some additional narrative within the financial statements to reflect the basis on which the property held by Mercury Land Holdings is valued. Our audit also identified a number of minor disclosure errors which were corrected by management.



Audit Differences

Summary of unadjusted differences

We highlight the following misstatements in the financial statements which were not corrected by management. We ask you to give a rationale as to why they have not been corrected. This should be considered and approved by the Audit Committee and included in your Letter of Representation to us:

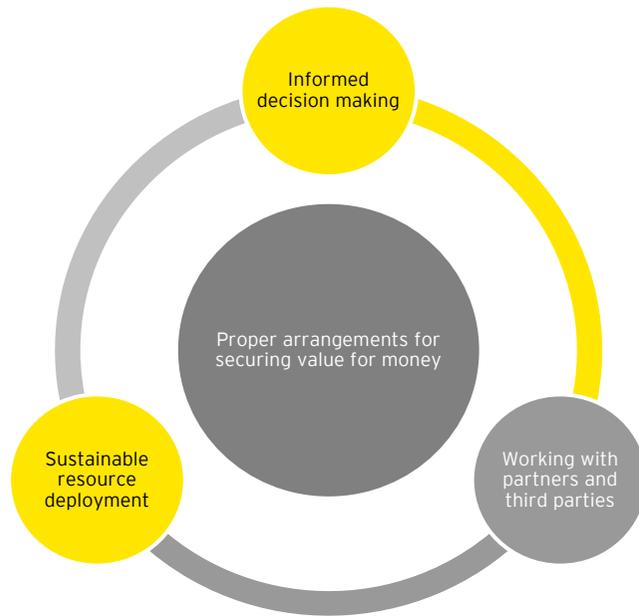
Account 31 March 2017			Comprehensive income and expenditure statement (Increase)/Decrease		Balance sheet (Decrease)/Increase
We identified that a housing benefit debtor balance of £314,972 had been incorrectly recorded as a creditor. The effect of this error is to overstate creditors and understate debtors (resulting in an understatement of net assets), with a corresponding overstatement of net expenditure recorded in the Comprehensive Income and Expenditure Account.			(£629,944)		£629,944



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified one significant risk around these arrangements in relation to the deployment of resources in a sustainable manner and working with partners and other third parties. The table below presents our findings in response to the risk in our Audit Plan.

On the basis of the work we have completed to date, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as: *“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We did not identify any significant risks in our risk assessment.

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
<p>The impact of continuing reductions in funding from central government, together with significant cost pressures in areas such as Adult and Children’s services, is particularly challenging for the Council. With restrictions on annual Council Tax increases, the Council’s medium-term financial strategy identifies the need to identify and deliver significant savings from 2017/18 and future years.</p> <p>Sustainability and Transformation Plans (STPs) give councils and local NHS organisations the opportunity to work together to improve the way health and social care is designed and delivered. The North East London STP brings together the challenges and opportunities that face NHS and care services in North East London as they work together to improve health and wellbeing within the funds available.</p> <p>While the Council has a history of being well managed and aware of issues impacting the Borough area as a whole, we consider there is a significant risk in relation to the Council’s ability to deal with the challenging health and social care environment and deliver the savings required.</p>	<p>Deploying resources in a sustainable manner Working with partners and other third parties</p>	<p>We have performed the procedures outlined in our Audit Plan. We considered the following areas and made the following observations.</p> <p>We reviewed the Council’s medium term financial plan and the assumptions within it, and outturn against the 2016/17 budget. The Council has set a balanced budget for 2017/18, but identifies a cumulative budget gap of £9.2 million in the period 2018/19 - 2019/20 (before allowing for the effect of any increases in Council Tax).</p> <p>The Council’s general fund expenditure was delivered in line with overall approved budget for 2016/17 . This comprised an overspend of £4.47m on services, offset by an underspend on corporate and contingency budgets.</p> <p>The Council’s 2017/18 budget includes the planned use of £1.8m of the corporate risk budget to support directorates in delivering their transitional plans to mitigate against demand led expenditure pressures. The Council will need to ensure delivery of its agreed savings plans during 2017/18 in order to keep its Medium Term Financial Plan on track.</p>



Value for Money

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
		<p>We assessed the level of reserves that the Council has at 31 March 2017. The level of general fund reserves held by the Council at 31 March 2017 is £11.8 million. This is above the minimum level of £10 million recommended by the Council's Section 151 officer. We have therefore concluded that the Council has an adequate level of reserves.</p> <p>We considered the Council's decision making processes and partnership working. The Council has appropriate governance performance and risk management processes in place. There is evidence of the Council working effectively with partners in key areas, for example OneSource in the provision of back office services, and STP partners in relation to health and social care. A clear vision for the Councils is included in the Corporate Plan.</p>



06

Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/2017 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have completed our work in these areas and have concluded that:

- Financial information in the Statement of Accounts for the year ended 31 March 2017 and published with the financial statements was consistent with the audited financial statements.
- The Annual Governance Statement is consistent with other information from our audit of the financial statements.

We therefore have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.



Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues that would require us to make such a recommendation.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and

We have no such matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have the following matters we wish to report to you:

1. There are a number of areas where the Council has found it difficult to provide us with transaction listings for certain classes of debtor and creditor balances, and income and expenditure transaction streams. This has caused delays in the completion of our testing. The Council should review its processes for the production of the accounts for 2017/18 to ensure these matters are addressed. This is particularly important in light of the compression of the timescale for the production and audit of the accounts in 2017/18, when the accounts will need to be produced by the 31 May and the audit opinion given by 31 July.
2. The Council has engaged an external valuer, Wilks Head and Eve, to value property assets. We noted that the Council had not issued formal written instructions to its valuer, but had instead instructed the valuer through a series of meetings between the Council's property team and its valuer. Where formal instructions aren't issued to the valuer on an annual basis, the audit trail supporting valuation work is reduced, and the risk of misunderstandings between the valuer and authority is increased. We identified and reported on a similar issue in the prior year.
3. The Council has engaged a third party, Analyse Local, to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. We found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate. Our subsequent testing of this provision has not identified any further matters we wish to bring to your attention.



08 Appendices



Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	1 March 2017 Audit Plan	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process ▶ Findings and issues around the opening balance on initial audits (delete if not an initial audit) 	28 September 2017 Audit Results Report	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Authority's ability to continue for the 12 months from the date of our report	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	28 September 2017 Audit Results Report	



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements. 	28 September 2017 Audit Results Report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters to report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	28 September 2017 Audit Results Report
Group Audits (if applicable)	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the group audit team's planned involvement in the component auditors' work on the financial information of significant components ▶ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted <p>Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.</p>	1 March 2017 Audit Plan 28 September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	1 March 2017 Audit Plan 28 September 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	1 March 2017 Audit Plan 28 September 2017 Audit Results Report



Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Committee on 1 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you, and your Audit Committee, consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 28 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	TBC	£151,844	£151,844	£151,844
Certification of grant claims and return	TBC	£16,178	£16,178	£15,080

We have incurred additional costs in testing the significant reductions in the value of assets valued on a depreciated replacement cost basis, engaging specialist help from EY valuation experts to enable us to test these movements, in particular to understand the assumptions and methodology adopted by the Authority's valuer.

We also incurred additional costs in testing the consolidation of Mercury Land Holdings into the Council's group financial statements, and in working with the Council to obtain transaction listing for a material balances and transaction streams.

We consider this work to be outside of the scope of the scale fee, and will seek a variation to the scale fee from PSAA Ltd. We will discuss and agree this fee with management and PSAA and confirm our final fee in our Annual Audit Letter.

Our work on the certification of grant claims and returns relates to our audit of the Council's housing benefit subsidy claim. This work will be completed in October and November. We will report any variation to the planned fee to a subsequent meeting of the Audit Committee.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
Completion of audit work in relation to the following areas: <ul style="list-style-type: none"> Valuation of property, plant and equipment NDR Appeals Provision Sample testing of income and expenditure, including HRA expenditure 	EY Valuer to complete review Response to questions raised with Analyse Local Management to provide supporting evidence for transactions selected for testing	EY Management and EY Management and EY
The financial statements	Finalisation and review of the final version of the financial statements	EY and management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Management representations	Receipt of the signed management representation letter (see Appendix E).	Management



Appendix D

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on the London Borough of Havering 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured ▶ How the impairment of financial assets are calculated ▶ Financial hedge accounting ▶ The disclosure requirements for financial assets. ▶ Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact. 	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D

<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">▶ Leases;▶ Financial instruments; and▶ Insurance contracts; <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none">▶ There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Authority will have to:</p> <ul style="list-style-type: none">▶ Disaggregate revenue into appropriate categories▶ Identify relevant performance obligations and allocate income to each▶ Summarise significant judgements <p>The Authority is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority is yet to commence work in this area due to the timing of implementation.</p>



Appendix D

Progress report on implementation of new standards and regulations

In previous reports to the Audit Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on the London Borough of Havering 
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<ul style="list-style-type: none"> ▶ The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Authority has taken some steps in 2016/17. For example it has started to review and amend the closedown process to achieve earlier draft accounts production. As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have had discussions through the year on the Authority's proposals to bring forward the closedown timetable and on potential areas for early work.</p> <p>We have agreed with the Authority to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Authority can take, for example:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts removing all non-material disclosure notes • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure • Establishing and agreeing working materiality amounts with the auditors



Appendix E

Management representation letter

Management Representation Letter

London Borough of Havering Audit for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Havering (“the Group and Council”) for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and Council as of 31 March 2017 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are, free from material misstatement, whether due to fraud or error.
5. We have not corrected the unadjusted error in relation to housing benefit debtor and creditor balances as we consider this to be immaterial, and does not affect a readers understanding of the financial statements, or the financial position for the London Borough of Havering as at the balance sheet date.



Appendix E

Management Rep Letter

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes and papers of the meetings of the Council, the Cabinet, and the Audit Committee held through the year to the most recent meeting held on 28 September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.



Appendix E

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and disclosed all liabilities, related litigation and claims, both actual and contingent. The Authority has not provided any guarantees to any third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than the events described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. WE believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. With regard to accounting estimates recognised or disclosed in the financial statements we confirm:
 - The measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.



Appendix E

Management Rep Letter

- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

I. Expenditure Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. We also confirm that the financial statements reflect the operating segments reported internally to the Council.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Going Concern

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action and the feasibility of those plans.



Appendix E

Management Rep Letter

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the values of the Group and Council's land and buildings and surplus assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

.....
Debbie Middleton
Section 151 Officer

.....
Councillor Viddy Persaud
Chair of Audit and Committee

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ED None

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