



London Borough of
Havering
Audit results report

Year ended 31 March 2019

5 September 2019



Building a better
working world



Private and Confidential

5 September 2019

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Havering Council for 2018/19. Our audit of the Council for the year ended 31 March 2019 is well progressed, but there are a number of areas of our work which remain in progress, in particular in relation to our testing of debtors, creditors and expenditure.

Subject to concluding our work in relation to these matters, and the other outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

This report is intended solely for the use of the Audit Committee, other members of the Council 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 welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 5 September 2019.

Yours sincerely

A handwritten signature in black ink that reads "Debbie Hanson". The signature is written in a cursive, flowing style.

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from 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 April 2018)" 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 Audit Committee and management of Havering Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Havering Council 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 and management of Havering Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Scope update

In our Audit Planning Report presented to the Audit Committee on 30 January 2019, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan subject to the modifications noted below.

Changes in materiality:

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £8.8 million, with performance materiality at 75% of overall materiality of £6.6 million, and a threshold for reporting misstatements of £0.44 million. This was based on 1.8% of the prior years gross expenditure on provision of services.

We have updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. As a result, we have updated our overall materiality assessment to £10.2 million. This results in updated performance materiality at 75% of overall materiality of £7.7 million. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) has increased to £0.51 million.



Executive Summary

Status of the audit

Our audit of Havering Council's financial statements for the year ended 31 March 2019 is well progressed and we have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Completion of our testing on employee costs, expenditure, grants, income, and provisions;
- Completion of our testing on debtors and creditors;
- Completing our review of financial instruments and the implementation of the new accounting standard, IFRS 9;
- Completing our work on the Council's Group accounts;
- Completion of pension fund work required to provide assurance over pension disclosures in the Council's financial statements.
- Clearing remaining audit queries;
- Final Associate Partner and Manager review of the completed audit work;
- Reviewing the final version of the financial statements;
- Completing the subsequent events review; and
- Receipt of the signed accounts and management representation letter.

The Council is preparing the whole of government accounts return for submission to HM Treasury and we will perform the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. The deadline for auditor certification of the return is 13 September 2019. We will provide an update to Members on 5 September of our progress in relation to this work.

The audit certificate is issued to demonstrate that the full requirements of the NAO Code of Audit Practice (the Code) have been discharged for the relevant audit year. At this stage we anticipate issuing our audit certificate alongside our auditors report.

Executive Summary

Audit differences

During the course of our audit we identified a number of adjusted audit differences. These relate to:

- The accounting treatment of cost associated with the redevelopment and regeneration of the 12 Estates.
- The valuation of a number of items of property, plant and equipment.
- A change to the valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts, and actual results, and incorporation of recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision.

Further details on the nature and extent of the se changes are provided in Section 4 of our report. We do not deem any other amendments to be so significant that they merit reporting to you.

At the time of writing, there is 1 unadjusted audit difference arising from our audit, which management has chosen not to adjust. These relate to the capitalisation of costs. We ask that a rationale as to why the error has not been corrected be approved by the Council and included in the Letter of Representation. Again, further details as to the nature and extent of these differences are provided in section 4 or our report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Havering Council'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 summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section 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 issue
- 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.



Executive Summary

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. Our testing of property, plant and equipment has identified one matter that we wish to bring to your attention, and which we believe has contributed to a material misstatements within the draft financial statements. Further details of this are set out on page 32.

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 Planning Report we identified no significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

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.

We have also reviewed the Narrative Report for consistency with our knowledge and consistency with the financial statements. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence. We have no independence issues to bring to your attention.



02 Areas of Audit Focus



Areas of Audit Focus

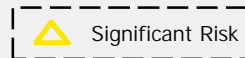
Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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



What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias, including the appropriateness of manual journals, including journals posted in periods 12 and 13; evaluation of any significant transactions outside the normal course of business, or those that appear unusual; and review of accounting estimates for bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud; and
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessed accounting estimates for evidence of management bias; and
- Confirmed there were no significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the incorrect capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

At the time of writing:

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

However, we are yet to conclude our work on journals. We will update this report and the Committee when the work has been finalised.

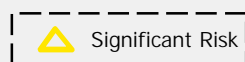
Significant risk

Misstatements due to fraud or error – incorrect capitalisation of revenue expenditure

What is the risk?

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 prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.



What judgements are we focused on?

We focussed on the testing of additions to property, plant and equipment and obtaining evidence that these have been correctly classified as capital expenditure and included at the correct value.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Sample testing additions to property, plant and equipment to a more granular level to ensure that they have been correctly classified as capital, and included at the correct value, to identify any revenue items that have been inappropriately capitalised; and
- In our Audit Planning Report we also noted that we would test Revenue Expenditure Funded from Capital Under Statute (Refcus) to verify that revenue costs have not been inappropriately financed from capital. We noted that Refcus included within the draft financial statements totalled £6.957 million. Therefore, given the overall level of materiality determined for this audit, we considered that there was no risk of material error with costs accounted for as Refcus.
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end.

What are our conclusions?

Our testing of additions to property, plant and equipment identified two instances where the costs associated with capital schemes had been incorrectly revalued to zero and a small number of other errors. The impact of these errors was to understate Assets Under Construction by £12.2 million. Management has corrected these errors.

As noted on page 10, we are yet to conclude our work on journals. We will update this report and the Committee when this work has been finalised.



Areas of Audit Focus



Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Financial statement area	What we did	What we concluded
<p>Valuation of Property, Plant & Equipment and Investment Properties – Higher inherent risk</p> <p>The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's Group accounts, totalling £1.1 billion and £77 million respectively at 31 March 2019.</p> <p>These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balances sheet, management are required to make material judgements and apply estimation techniques. We consider that where assets are valued at either depreciated replacement cost or existing use value, or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis.</p>	<p>In response, we completed the following procedures:</p> <ul style="list-style-type: none"> Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment, and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; Reviewed assets that are not subject to valuation in 2018/19 to confirm the remaining asset base is not materially misstated; Considered changes to the useful economic lives as a result of the most recent valuation; and Tested accounting entries, ensuring these have been correctly processed in the financial statements, 	<p>We have considered the work undertaken by the Council's valuer in relation to valuation of property, plant and equipment. We are satisfied that the scope of the work performed by the Council's valuer was adequate, that the valuer is sufficiently independent of the Council, and that they have the necessary skills and skills and experience to undertake the work they were engaged by the Council to do. Our testing identified a small number of instances where assets had been valued incorrectly, as the valuer had not been provided with full details of the circumstances relevant to those assets. The effect of these was to understate the value of property, plant and equipment by £6.3 million. Management has corrected these errors. Further details are provided in Section 4 of our report.</p> <p>We are satisfied that the cycle of valuations adopted by the Council is sufficient to ensure that assets are valued within a 5 year rolling programme, and annually for Investment Property.</p> <p>We have also reviewed assets that are not subject to valuation in 2018/19, and are satisfied that these would not result in a material misstatement to the asset base.</p> <p>We have tested changes to the useful economic lives of assets, and the accounting entries arising from changes in the valuation of assets, and are satisfied these have been accounted for correctly.</p>



Areas of Audit Focus



Other areas of audit focus

Financial statement area	What we did	What we concluded
<p>Pension liability valuation The Code of Practice on Local Authority Accounting and The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by London Borough of Havering.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>In response, we completed the following procedures:</p> <ul style="list-style-type: none"> • Liaised with the auditors of the pension fund (EY LLP) to obtain assurances over the information supplied to the actuary in relation to Havering Council; • Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. • We also considered the legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. 	<p>We have assessed and are satisfied with the competency and objectivity of the Council actuary. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and have deemed the assumptions used to be reasonable.</p> <p>In testing the Council's pension liability, we noted that the draft financial statements were prepared on the basis of IAS19 data and assumptions taken at December 2018, with a forecast of the 31 March 2019 position. The Council therefore obtained an updated valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts, and actual results, and incorporation of recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision.</p> <p>Management have corrected this difference within the draft financial statements. The effect of this is to increase the pension liability by £8.2 million, with a corresponding increase in the Pension reserve. This change also increases the deficit recognised within the Comprehensive Income and Expenditure statement.</p>



Areas of Audit Focus



Other areas of audit focus

Financial statement area	What we did	What we concluded
<p>Group Financial Statements</p> <p>The Council has entered into three Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough.</p> <p>The Council will need to consider whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the specific nature or circumstances of the joint venture (qualitative criteria) and the relative size of the joint venture to the group (quantitative criteria).</p>	<p>In response, we completed the following procedures:</p> <ul style="list-style-type: none">• Considered the Council's assessment of whether these arrangements should be reflected within its group financial statements;• Considered the adequacy of the narrative disclosures made by the Council in relation to these arrangements, including the disclosure of any post balance sheet events.	<p>We are in the process of concluding our work in this area and will update the Audit Committee following the completion of this work.</p>



Areas of Audit Focus



Other areas of audit focus

Financial statement area	What we did	What we concluded
<p>IFRS 9 financial instruments</p> <p>This new accounting standard is 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; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.</p>	<ul style="list-style-type: none"> • Assessed the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Considered the classification and valuation of financial instrument assets; • Reviewed new expected credit loss model impairment calculations for assets; and • Checked additional disclosure requirements. 	<p>We are concluding our work in this area and will update the Audit Committee following the completion of this work.</p>
<p>IFRS 15 Revenue from contracts with customers</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. 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> <p>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<ul style="list-style-type: none"> • Assessed the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Considered application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Checked additional disclosure requirements 	<p>Having reviewed the Council's analysis of the impact of IFRS 15 on their financial statements, we agreed with their conclusion that this standard does not have a material impact on their disclosures.</p>



Areas of Audit Focus



Other matters

IFRS 16 - Leases

IFRS 16 leaves accounting requirements for lessors largely unchanged with two exceptions: the classification of sub leases and sale and leaseback accounting. For lessees there will be a substantial change in accounting requirements. The current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. The changes will have a substantial impact for any local authority with material operating leases and will also impact capital financing arrangements.

Although the changes are not applicable for the 2018/19 financial year, local government clients are still expected to perform a number of IFRS 16 preparation steps in advance of the changes.

The Council also holds operating leases as a lessee, with total value of minimum lease payments over the life of these leases per the financial statements is £0.487 million.

Due to the deferral of the changes to 2020/21, the Council has not yet undertaken substantive work in relation to the implementation of IFRS 16. However, given the relatively small nature of the lease entered into by the Council, we expect the introduction of this standard to have limited impact on the Council.

Other changes

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below.

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being 20(19/20 Code Chapter 2.1 refers);
 - new definitions of assets, liabilities, income and expenses
 - updates for the inclusion of the recognition process and criteria and new provisions on derecognition
 - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Chapter 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Chapter 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Chapter 9 refers)



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of London Borough of Havering for the year ended 31 March 2019 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,
- The related notes 1 to 45,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 5,
- Collection Fund and the related notes 1 to 3.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Havering and Group as at 31 March 2019 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Narrative Report set out on pages 1 to 15, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you 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



Audit Report

Draft audit report

Our opinion on the financial statements

Responsibility of the Section 151 Officer

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on page 17, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 2017, 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 Comptroller and Auditor General 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 2019.

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.



Audit Report

Draft audit report

Our opinion on the financial statements

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.

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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of 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.



04

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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 highlight the following misstatements which have been corrected by management that were identified during the course of our audit.

Property, Plant & Equipment

As part of our audit we reviewed the accounting treatment applied to the assets associated with the regeneration of the 12 estates. We identified the following

- Costs of £5.5 million associated with the re-development of the 12 estates were classified as council dwelling additions and revalued to zero (on the basis that those costs did not increase the value of the underlying asset). This treatment is incorrect, as the costs should have been accounted for as an asset under construction. Net assets were therefore understated by £5.5 million.
- Napier and New Plymouth tower blocks have been retained in the financial statements at a value of £4.3 million. However, the assets are currently vacant and are scheduled for demolition. Consequently the building element of these assets have no future service potential, and should therefore have been impaired; the impact of this error was to overstate net assets by £3.4 million.
- The assets at Sunrise Lodge, Serena Court and Solar Court form part of the 12 estates redevelopment. The land value of these assets (£2.8 million) was omitted from the Council's balance sheet, understating net assets by £2.8 million.

As part of audit, we also tested the revaluation applied to a sample of assets, and identified the following:

- Costs of £7.4 million associated with the new build development at Briar Road were classified as additions to council dwellings and incorrectly revalued to zero. This treatment was incorrect, as the costs associated with this development should have been accounted for as an asset under construction. Net assets were therefore understated by £7.4 million.
- Whybridge Infant School was incorrectly removed from the Council's balance sheet, understating net assets by £2.9 million.
- Old Rainham Library is included in the financial statements at a value of £5.7 million. This value has been calculated on the basis of a 57 unit residential development existing on the site. However, no such development currently exists, and the Council's intention is to sell the site to a property developer, who will undertake the proposed development. Valuation of this asset should therefore reflect the expected receipt to the Council for this asset. Based on the information currently available to us, we consider that the value of this asset is overstated by £3.8 million.



Audit Differences

Summary of adjusted differences

- The Queens Theatre was valued on the basis of its Existing Use Value (EUV) basis, using the 25 year lease term. And was valued at £296,000 compared to the previous valuation, which was undertaken on a Depreciated Replacement Cost (DRC) basis of £9.1m. There has been no significant reduction in the service capacity of this asset, and therefore we consider the value of this assets was understated by £8.8 million.

In addition to the matters noted above, we also identified the following:

- Expenditure on Council assets was incorrectly accounted for as REFCUS. REFCUS was therefore overstated, and the value of PPE additions understated, by £1.4 million.
- The valuation of Nason Waters did not consider the valuation of a new extension, understating the value of the asset by £1 million.

The overall impact of the changes noted above increased the value of property, plant and equipment by £25 million, and reduced the value of assets held for sale by £3.8 million. There were corresponding entries to unusable reserves

Pension Fund Liability

- The Council updated its valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts and actual results, and to incorporate recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision. The effect of this is to increase the pension liability by £8.2 million, with a corresponding increase in the Pension reserve. This change also increases the deficit recognised within the Comprehensive Income and Expenditure statement



Bad Debt Provision

We noted that the Council had incorrectly calculated the bad debt provision for council tax debtors, understanding the charge to the Collection Fund by £930k, with a corresponding overstatement of the surplus on the Collection Fund. The Council's share of this was £758k.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements [Insert date] 201X (£000)		Effect on the current period:		Balance Sheet (Decrease)/Increase	
				Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)
		Comprehensive income and expenditure statement Debit/(Credit)		Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors					
Judgemental differences:					
Capital Expenditure not attached to Assets and Revalued to zero					
- Balance Sheet: Property, Plant and Equipment: Other Land and Buildings : Additions.					2,700
- Balance Sheet: Reserves: Revaluation Reserve					(2,700)

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2019.

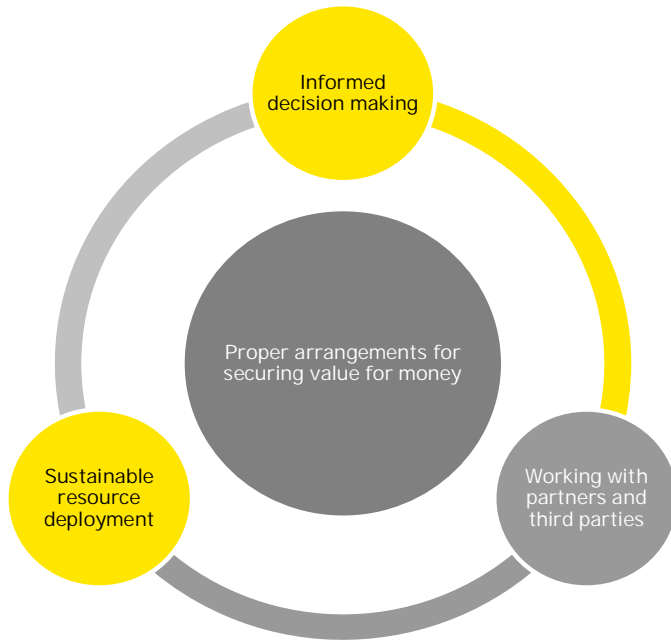


05

Value for Money Risks



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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 will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

In our Audit Plan reported that our value for money risk assessment had not resulted in any significant risks identified at planning stage. We did however note that We would keep our risk assessment under review throughout the audit and will report any additional risks identified to the Audit Committee. During the course of our audit we have continued to monitor developments at the Council, including recent updates to it budget and medium term financial plan, As a result of this work, we did not identify any significant risks and have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



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 2018/19 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.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we 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.

We will perform the procedures required and submit the required return in due course, in accordance with the deadline set.

As our audit of the Whole of Government Accounts has not been completed, we will not be able to issue the audit certificate at the same time as the audit opinion, but anticipate issuing by the deadline of 13 September 2019.

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 Council 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 Council, 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.

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 Council'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
- Group audits.

We have no issues to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council 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 Council 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.

Our testing of property, plant and equipment identified a number of audit differences. We have set out the impact of these on page 23 of our report. Individually and cumulatively these were significant, and resulted in a material error to the draft financial statements. We consider that these differences arose as:

- The Council did not appropriately consider the implications of the significant regeneration project being undertaken throughout the Borough on the classification and valuation of the related assets; and
- For a small number of assets, the Council did not inform the valuer of the full facts and circumstances relevant to the valuation of the asset.



08

Independence

Confirmation



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 30 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment.

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 25 July 2019.

We will ensure that we adopt the necessary safeguards in our completion of this work.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed below have been provided on a contingent fee basis.

As at the date of this report, future non-audit services are limited to certification of the Council's housing benefit subsidy claim, teachers' pension return, and pooling of housing capital receipts return for a fee of £22,500.

There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirement, although we are planning to undertake some work in August 2019, as outlined previously which will be non-audit work. We will adopt the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Proposed Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	Note 2	116,920	116,920	Note 1 180,903
Non-audit work	22,500	22,500	N/A	15,080

Note 1 - We have proposed a variation of £29,059 to the scale fee of £151,844 to reflect the additional work undertaken to test the valuation of property, plant and equipment, the Council's group financial statements, and other significant risks identified during the course of our audit. We have provided Officers with detail of the proposed fee and are currently in the process of seeking their agreement to this prior to requesting approval from PSAA Ltd.

Note 2 - We have undertaken additional work in relation our significant risks, and identified a number of significant audit differences in relation to the valuation and classification of property, plant and equipment. We have yet to conclude our 2018/19 audit and are therefore not in a position to conclude on the final fee for 2019/19. Any fee increases will be discussed with management and need to be approved by PSAA.



09

Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet.



Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Net Assets Statement category	Audit Approach in current year
Property, plant and equipment, including investment properties	Substantively tested all relevant assertions
Short term and long term investments	Substantively tested all relevant assertions
Short term and long term borrowing	Substantively tested all relevant assertions
Long term debtors	Substantively tested all relevant assertions
Long term investment in subsidiaries and joint ventures	Substantively tested all relevant assertions
Current assets (excluding cash)	Substantively tested all relevant assertions
Cash and cash equivalents	Substantively tested all relevant assertions
Short term creditors	Substantively tested all relevant assertions
Other long term liabilities	Substantively tested all relevant assertions
Long term provisions	Substantively tested all relevant assertions
Capital grants receipts in advance	Substantively tested all relevant assertions
Usable and unusable reserves	Substantively tested all relevant assertions

Appendix B





Summary of communications

Date 	Nature 	Summary 
30 January 2019	Meeting/Report	The Senior Manager for the audit met with the Audit Committee and senior members of the management team to discuss the Audit Planning Report, which set out areas of focus for the audit. This included confirmation of our independence.
21 February 2019	Meeting	The Associate Partner and Senior Manager for the audit met with the Chief Executive and Chief Operating Officer to discuss progress on the audit and developments at the Council.
10 May 2019	Meeting	The Associate Partner and Manager of the audit met with senior members of the management team to discuss progress on the audit and developments at the Council.
18 July 2019	Meeting	The Associate Partner and Senior Manager for the audit met with the Chief Operating Officer to discuss progress on the audit of the accounts and value for money conclusion and key issues identified.
23 July 2019	Meeting	The Senior Manager for the audit met with the Chief Operating Officer to discuss progress on the audit of the accounts and value for money conclusion and key issues identified.
5 September 2019	Meeting/Report	The Associate Partner and Senior Manager of the audit team will meet with the Audit Committee and senior members of the management team to discuss the audit results report.




Appendix C

Required communications with the Audit Committee





There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 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
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to Audit Committee on 30 January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to Audit Committee on 30 January 2019
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit planning report presented to Audit Committee on 30 January 2019





Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Public Interest Entities (including Major Local Audits)	<p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	Audit Results Report presented to Audit Committee on 5 September 2019

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
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 Havering Council'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 • Material misstatements corrected by management 	Audit Results Report presented to Audit Committee on 5 September 2019
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report presented Audit Committee on 5 September 2019
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report presented to Audit Committee on 5 September 2019

Appendix C

		 Our Reporting to you	
Required communications	 What is reported?	  When and where	
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when 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 regulations • Difficulty in identifying the party that ultimately controls the Council 		Audit Results Report presented to Audit Committee on 5 September 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of 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 about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>		Audit planning report presented to Audit Committee on 30 January 2019 and Audit Results Report presented to Audit Committee on 5 September 2019

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have not received all requested confirmations, therefore we have undertaken alternative procedures to obtain our assurance
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report presented to Audit Committee on 5 September 2019 and Annual Audit Letter

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<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 nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report presented to Audit Committee on 30 January 2019 and Audit Results Report presented to Audit Committee on 5 September 2019
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and those charged with governance 	Audit Results Report presented to Audit Committee on 5 September 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report presented to Audit Committee on 5 September 2019
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report presented to Audit Committee on 5 September 2019
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report presented to Audit Committee on 30 January 2019 and Audit Results Report presented to Audit Committee on 5 September 2019

Management representation letter

Management Rep Letter

Ernst & Young LLP
Luton

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31st March 2019. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of London Borough of Havering as of 31st March 2019 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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, for the Group and for the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and for the Council in accordance with, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2018/19 for the Group and for the Council that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole.

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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;
 - 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 consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Group and of the Council and committees, including the Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 5 September 2019.
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 year 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 consolidated and council financial statements.
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.

Management representation letter

Management Rep Letter

D. 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 consolidated and council 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/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 23 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

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

F. 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.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Forward Plan 2019/20-2023/24.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. The consolidated and council financial statements disclose all of the matters of which we are aware 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.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. We have no plans to abandon lines of product or other 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.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

Management representation letter

Management Rep Letter

J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
 - Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, etc) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and council financial statements or as a basis for recording a loss contingency.

L. Purchase and Sales Commitments and Sales Terms

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the consolidated and council financial statements.

2. At the year end, the Group and Council had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Group or council (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfill, sales commitments, etc.).

M. Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Council, which have been consistently applied in the current period, and for the current year income tax provision calculation.
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

Management representation letter

Management Rep Letter

N. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of Property and the Pension Fund 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.

O. Estimates (property, plant and equipment and pensions valuations)

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimates for property, plant and equipment and pensions appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

P. 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.

Yours faithfully,

Chief Operating Officer

Chairman of the Audit Committee

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