



# Havering

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

<b>7.30pm</b>	<b>Wednesday, 25 June 2008</b>	<b>Havering Town Hall Main Road, Romford</b>
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Members 8: Quorum 3

### **COUNCILLORS:**

#### **Conservative Group (5)**

David Grantham (C)  
Frederick Thompson (V.C)  
Gary Adams  
Michael Armstrong  
Roger Ramsey

#### **Residents' Group (2)**

Clarence Barrett  
Andy Mann

#### **Rainham and Wennington Independent Residents Group (1)**

Mark Stewart

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# NOTES ABOUT THE MEETING

## 1. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. **For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters.**

## 2. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

## 3. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

**PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.**

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room.

## **AGENDA ITEMS**

### **1. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

### **2. APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

### **3. DECLARATION OF INTERESTS**

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in an item at any time prior to the consideration of the matter.

### **4. MINUTES**

To approve as a correct record the minutes of the Committee meeting held 22<sup>nd</sup> April 2008 and to authorise the Chairman to sign them.

### **5. ANNUAL STATEMENT OF ACCOUNTS 2007/2008 – CONTAINING ANNUAL GOVERNANCE STATEMENT.**

**Report attached but Statement of Accounts to follow**

### **6. ANNUAL HEAD OF INTERNAL AUDIT REPORT 2007/2008 – INCLUDING ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT & DIRECTION OF TRAVEL.**

### **7. EXTERNAL AUDIT REPORT.**

### **8. EXTERNAL AUDIT 2008/2009 ANNUAL AUDIT & INSPECTION PLAN.**

**Report attached but Inspection Plan to follow**

### **9. INTERNAL AUDIT REPORT.**

10. **UPDATE ON OUTSTANDING AUDIT RECOMMENDATIONS 2005/2006.**
11. **ANNUAL REVIEW OF EFFECTIVENESS OF THE AUDIT COMMITTEE.**
12. **URGENT BUSINESS**

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

**Cheryl Coppell**  
Chief Executive

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
Havering Town Hall, Romford  
22 April 2008 (7.30pm – 9.15pm)**

**Present:**

**COUNCILLORS**

**Conservative Group** David Grantham (in the Chair), Gary Adams,  
Michael Armstrong and Roger Ramsey.

**Residents' Group** Clarence Barrett and Barbara Matthews

Apologies were received from Councillor Frederick Thompson

All decisions were made with no member voting against.

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

The Chairman also advise Committee Members that in accordance with the recommendation of the Audit Commission's, District Auditor, an opportunity would be available for brief informal discussions with the Council's Internal Audit & Corporate Risk Manager following the conclusion of the meeting.

**30 MINUTES**

The minutes of the meeting held on 4 March 2008, were agreed as a correct record, and signed by the Chairman.

**31 AUDIT COMMISSION REPORT AND PROGRESS ON THE PRIOR YEARS REPORTS**

The District Auditor presented the Annual Audit and Inspection Letter to the Committee.

Members were led through the 'Key Messages' and section entitled 'Action needed by the Council'. The Council's CPA rating and scorecard was explained and Members attention drawn to the inspection and audit work that had been completed. The District Auditor commented that this gave a pleasing and satisfactory conclusion.

In response to Members questions regarding the level of improvements seen in levels of data quality, the District Auditor confirmed that the Council is moving in the right direction but that there are still areas where further improvement can be achieved.

The District Auditor also presented his report entitled 'Use of Resources Auditor Judgements'. This highlighted the action plan (Appendix 1) drawn up with Council officers to continue improving and to address the challenges outlined in the 'Summary of changes for the 2008 Use of Resources assessment' (Appendix 2)

The Committee sought clarification in respect to certain areas the District Auditor had suggested be kept under review and in relation to the Council's approach to meeting alternative language requirements when publishing the annual report and other information. Following discussion it was accepted that whilst Havering was becoming more multi-cultural, translations of Council information could be provided on an on-demand/request basis to fulfil compliance with the Council's duties under equalities legislation. It was also noted that recent Government comment on this subject had favoured these being provided in English to ensure an incentive existed for immigrants to improve their understanding of the English language. It was however stressed that reference to 'accessible formats' did, for example, encompass Braille copies for the blind.

Members were informed that the District Auditor felt that, in the short term, it will be sufficient for the Council to concentrate on providing risk management training for Audit Committee and Cabinet Members in order to comply with recommendation R16 in the short term. This could be expanded to all Members in the long-term.

The Committee **considered and noted** the report and Audit Commission submissions.

## **32 GRANTS REPORT 2007 – 2008**

The Audit report on Grants Claims and Returns was presented by Council officers to the Committee. Members were asked to note the reduction in the number of grants requiring Audit Commission certification. Conversely the number now certificated by the Chief Finance officer had increased.

The Grants Co-ordinator receives support from Internal Audit as part of the Annual Audit Plan.

The Committee's attention was drawn to the action plan.

In response to Members questions the details of a qualified claim were provided. More specific information will be supplied outside the meeting by officers.

Members were also informed of the background to some recommendations / qualifications. The Committee accepted that an element of the recommendations / qualifications could re-occur and although better systems were being introduced, it may take longer to clear these.

Processes are being put in place to deliver more specific resolutions although it was thought impossible to eradicate all recommendations / qualifications. Members asked for greater background detail to be supplied when reporting repeat recommendations / qualifications next year.

The District Auditor confirmed the final audit fee of £105,000.

Members **noted** the report and **agreed** its recommendations.

### **33 UPDATE ON INTERNAL AUDIT 2003/2004 OUTSTANDING RECOMMENDATIONS.**

The Internal Audit & Corporate Risk Manager presented a report which included a schedule of the historic (2003/04) outstanding audit recommendations individually detailed. Those still outstanding will be given priority and further information will come to the next meeting.

The Committee were informed that the Internal Audit and Corporate Risk Manager is examining ways to bring greater management information to Committee Member's attention.

Members commented that the schedule was a very helpful document that provided reassurance that these outstanding items were of limited impact and being appropriately addressed.

Members **resolved** to **note** the contents of the report.

### **34 ANNUAL REVIEW OF THE COUNCIL'S WHISTLEBLOWING ARRANGEMENTS.**

The Internal Audit & Corporate Risk Manager presented a report to the Committee and highlighted the types of cases reported / uncovered by the Borough's Whistleblowing arrangements. This also provided comparisons with the surrounding London boroughs.

Responding to Members' questions the Internal Audit & Corporate Risk Manager clarified that:

- I. It was not possible to control how staff or the public react to the whistleblowing facility.
- II. Most whistleblowing reports are anonymous.
- III. The in-house Internal Audit Team does not inspect schools. This is outsourced to an external contractor.
- IV. Reinforcement of the existence of the Council's whistleblowing feature will continue to be given in various formats including 'pop-ups', pay slip reminders, e-circulars etc.

The Internal Audit & Corporate Risk Manager outlined aspects of some of the cases within the report to give Committee Members a better understanding as to how these are practically dealt with once a report is received.

Members briefly discussed some peripheral matters relating to staff flexitime procedures and building security.

The Committee **approved** and **agreed** the report's recommendations.

### **35 ANNUAL REVIEW OF THE COUNCIL'S MONEYLAUNDERING ARRANGEMENTS.**

The Internal Audit & Corporate Risk Manager also presented this report. It was acknowledge that the Council faced greater money laundering challenges from possible terrorist financing and illegal money lending.

Examples of how the Council has responded to possible money laundering instances were outlined. Staff will receive awareness training to help identify the triggers involved. Members were asked to note the large quantity of information relating to money laundering that was available on the Council's intranet and on the internet.

The Council's Money Laundering strategy has been discussed with the Monitoring Officer and the Internal Audit & Corporate Risk Manager advised that a number of actions had been agreed following the review; this included the appointment of a nominated 'Money Laundering Reporting Officer' (MLRO).

The Committee expressed concern regarding the absence of a Council MLRO and asked for a recommendation to be brought to the Committee as to where within the Council organisation the MLRO should be placed. Members also felt the appointment of at least one Deputy MLRO was necessary. The Committee requested information of the general training offered to staff on money laundering issues and the procedures staff use to deal with suspicious situations to be brought to the next meeting.

Comparison information of how surrounding boroughs respond to money laundering, train their staff and the instances they encounter was also requested.

The Committee **noted** the outcome of the annual review and **agreed** the proposed action plan.

### **36 ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE and WORK PLAN FOR 2008 – 2009.**

The Internal Audit & Corporate Risk Manager presented a report outlining the work undertaken by the Committee in the year. A proposed programme of topics to be reviewed at each forthcoming meeting until April 2009 was submitted for Members approval.



Members requested that the programme include Committee training on Data Quality, Performance Indicators and the Grants mechanism.

The Internal Audit & Corporate Risk Manager advised Members that the report on the direction of the Internal Audit, to be tendered for consideration in June, will include the resourcing issues and recommendations previously discussed by the Committee.

The report was **noted** and its recommendations **agreed**.

### **37 URGENT BUSINESS**

None.



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MEETING	DATE	ITEM
<b>AUDIT COMMITTEE</b>	<b>25 June 2008</b>	<b>5</b>

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## REPORT OF THE CHIEF EXECUTIVE

**SUBJECT: Statement of Accounts 2007/08**

### **SUMMARY**

- 1.1 Under the code of accounting practice, the Statement of Accounts must be presented to the Council's relevant committee by the 30<sup>th</sup> June 2008.
- 1.2 The Statement of Accounts will be forwarded to members prior to the Committee meeting and are subject to audit at this stage.
- 1.3 The key issues will be set out in a separate Appendix B for information and forwarded along with the Statement of Accounts.

### **RECOMMENDATIONS**

That the Committee:

- 2.1 Consider the Statement of Accounts.
- 2.2 Note the key issues set out in Appendix B.
- 2.3 Receive and approve the Statement of Accounts.
- 2.4 Note that the accounts have been amended to reflect the changes introduced in the Statement of Recommended Practice(SORP) 2007.
- 2.5 Note the work taking place to continue to meet the requirements of the Whole of Government Accounts process.
- 2.6 Ask that the Chairman signs and dates the Statement of Accounts as required by the Accounts and Audit Regulations.

**REPORT DETAIL**

- 3.1 The Statement of Accounts for 2007/08 are subject to audit by the Audit Commission.
- 3.2 The Accounts and Audit Regulations 2003 require that the Chairman presiding at the meeting receiving the Statement of Accounts should sign and date the statement.
- 3.3 Copies of the published Statement will be distributed as normal and it will be published on the Council's website.
- 3.4 The Statement of Accounts is a public document and every year, as part of the annual audit, local government electors for the borough are given a period of four weeks to inspect the Council's accounts and supporting records. The dates for inspection are advertised in the local press.
- 3.5 Members of the Committee have previously been briefed on the Statement of Accounts, its purpose and the key issues arising. The key issues are also set out in Appendix B for information. This will be circulated separately from the agenda.
- 3.6 The Statement of Accounts includes the following two statements which relate to the revenue out-turn of the Council.
  - The Income and Expenditure Account; which contains the income and expenditure of the Council for the year and complies with Generally Accepted Accounting Practice (GAAP).
  - The Statement of Movement in General Fund Balance; which takes the deficit on the Income and Expenditure account and sets out the adjustments required by statute to be accounted for in raising council tax.

These two statements must be considered together when comparing the Council's performance to budget and the impact on the level of Council tax.

- 3.7 The Accounts have been amended to reflect the Statement of Recommended Practice (SORP) 2007 which sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts. The Council's accounts therefore reflect a number of changes introduced by the SORP 2007 in both presentation and in accounting policy. The substantive changes are as follows:
  - The replacement of the Fixed Asset Re-statement Account with the Revaluation Reserve.

- The replacement of the Capital Financing Account with the Capital Adjustment Account.
- Additional presentation and disclosure requirements in respect of financial instruments.
- An additional disclosure in connection with the creation of a Business Improvement District effective from 1<sup>st</sup> April 2007.
- An additional disclosure in connection with the Local Area Agreement including an explanation of the impact upon the council's accounts.

3.7 The Council has put in place arrangements to meet the requirements of the Whole of Government Accounts process which aims to amalgamate the accounts of all public bodies. The 2007/08 return will be based upon the audited accounts due to be completed by 30 September 2008.

#### 4.0 **Financial Implications and risks:**

Production of the Council's accounts within the statutory deadline is a key objective for the Council and a key measure under the Use of Resources assessment. Approval of the accounts by this Committee therefore, meets these targets.

There are no financial implications or risks arising directly from the report.

#### 5.0 **Legal Implications and risks:**

The consideration and signing of the accounts has to be carried out as part of the process to comply with the Councils' obligations to produce the accounts.

#### 6.0 **Human Resources Implications and risks:**

None arising from this report.

#### 7.0 **Equalities and Social Inclusion implications:**

None arising from this report.

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**Cheryl Coppell**  
**Chief Executive**

**Background Papers List**

Working papers held within the Finance Sections.



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MEETING	DATE	ITEM
AUDIT COMMITTEE	25 June 2008	<b>6</b>

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## REPORT OF THE CHIEF EXECUTIVE

**SUBJECT: ANNUAL HEAD OF INTERNAL AUDIT REPORT 2007/08 – INCLUDING REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT & DIRECTION OF TRAVEL**

### **SUMMARY**

This report provides the Committee with a summary of the Internal Audit activity for the financial year 2007/08 including an opinion from the Head of Internal Audit regarding the system of internal control within the Council.

### **RECOMMENDATION**

Note and comment on the Annual Report.

### **REPORT DETAIL**

The report contains a statement of assurance from the Head of Internal Audit and outlines the work that supports this opinion including a brief summary relating to: systems, contract, computer audit work, reactive and proactive fraud work, the National Fraud Initiative, follow up work, schools and arrangements relating to risk management.

It provides the Audit Committee and management with a good degree of assurance that the Council has adequate levels of internal control.

Key Performance Indicators and performance against target is also included in this report.

Service improvements and some information regarding the future of the service are also highlighted.

**Financial Implications and risks:**

The annual report summarises the work of the internal audit service over the past financial year and highlights key performance achievements. The findings from individual audits are reported to the Audit Committee as part of the quarterly reporting cycle. Thus, any audit recommendations arising from audits undertaken, and the audit opinion, have previously been considered by the Committee. Any internal control issues identified as part of this process will have been raised with managers, who have the opportunity of commenting on these before they are finalised. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit. There are no financial implications or risks arising directly from this report.

**Legal Implications and risks:**

None arising directly from this report.

**Human Resources Implications and risks:**

None arising directly from this report.

**Equalities and Social Inclusion Implications and risks:**

None arising directly from this report.

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**CHERYL COPPELL**

**Chief Executive**

**Background Papers**

None.



**Havering**  
LONDON BOROUGH

# INTERNAL AUDIT ANNUAL REPORT

2007 / 2008



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## **1. PURPOSE**

- 1.1** The purpose of this report is to provide Members and senior managers with a formal opinion as to the adequacy and effectiveness of the Council's internal control environment and to report on the performance of the internal audit service for the year.

## **2. BACKGROUND**

- 2.1** The Accounts and Audit (Amendment) (England) Regulations 2006: Regulation 6 Section 10 requires the Council to review, at least once a year, the effectiveness of its systems of internal control in accordance with proper practices and for the Chief Executive to personally state the adequacy or otherwise of these systems. The proper practice which an audit service should act in accordance with is the 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006'.
- 2.2** The Chief Financial Officer relies on the work and findings of Internal Audit to provide assurance as to the adequacy of the systems currently in place. The report and the opinion of the Head of Internal Audit, set out below, therefore form an important part of the Council's review of its systems of internal control. This together with many other sources of assurance will this year inform the Annual Governance Statement; which will replace the Statement of Internal Control in the Council's Statement of Accounts.

## **3. ANNUAL REPORT AND OPINION**

### **3.1 Introduction**

#### **3.1.1 The role of the Internal Audit Service**

Internal Audit's role is to fulfil the Authority's responsibilities under the Accounts and Audit (Amendment) (England) Regulations 2006 of 'maintaining an adequate and effective system of internal audit in accordance with proper practices'. The responsibility for the system of internal control rests with management therefore the Internal Audit Service provides a service to management to support them in satisfying their responsibility.

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, which as stated above is deemed to be proper practice, defines what the role of Internal Audit should be and also what should be contained within the Head of Internal Audit's formal Annual Report. This report has been produced in accordance with this guidance.

## **3.2 Work that Supports the Opinion**

### **3.2.1 The Audit Plan**

The original plan for 2007/08 contained 1224 days of audit work. This plan was approved by the Audit Committee in March 2007. The plan is resourced mainly via an in-house team, made up of permanent, agency and interim seconded staff. The computer audits, within the plan, were completed by Deloitte and Touche Public Sector Internal Audit Ltd.

In December 2007 the committee approved for nine days of computer audit work to defer to the 2008/09 plan. At the March meeting it was agreed that a 15 day audit on Corporate Financial Procedures would be deleted from the plan due to duplication and 64 days of systems work would be deferred to 2008/09 due to a shortfall in the skills required to deliver the audits.

The final plan for 2007/08 therefore totalled 1136 days.

Table 1 details the 2007/08 work completed by the 31<sup>st</sup> March. At that date circa 60 days remained to be delivered. This was reflected in how the plan had been profiled and therefore only represented circa 10 days slippage on the expected delivery at this date.

The Audit Committee receives updates regarding progress against the plan quarterly as well as a summary of the findings of each audit. This has enabled the Members of the Committee to play an active part in ensuring that there are effective systems of internal control and Members have the opportunity to raise questions or challenge the relevant Head of Service at the Audit Committee meetings.

This section of the report therefore acts as a high level summary of the year and does not report again the findings of specific audits.

#### **TABLE 1 – Original v Revised Plan and Days Delivered**

Table 1 details the days in the original and revised plans and the progress towards completing the plan at the 31<sup>st</sup> March 2007 and 31<sup>st</sup> May 2007.

	Totals
Days in original plan	1224
Days In revised plan	1136
Days delivered by 31st March	<b>1076</b>
Days delivered by 31st May	<b>1126</b>

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Item 6

\* 10 days remain relating to finalising of draft reports.

### **3.2.2 Systems & Contract Audit**

630 days of the plan were allocated to systems and contract audit.

Vacancies within the systems side of the audit team has meant that at times there has been a mismatch of resources available to the skills required to complete the planned work. This issue has been addressed by using experienced agency staff and by deferring some audit work into the new year when resources would be available.

56 opinions were issued for these audits; four or 7% of these were qualified.

### **3.2.3 Computer Audit**

2007/08 was the second year of a three year Strategic Audit Plan to be delivered by Deloitte and Touche Public Sector Internal Audit Ltd.

Nine audits were completed in year with one or 11% of these being qualified.

All reports with the exception of two were presented in draft by the 31<sup>st</sup> March 2008.

The Audit Committee has received the management summary for all finalised reports relating to systems, contract and computer audit.

### **3.2.4 Fraud Work**

#### **Reactive Work**

At the commencement of the year a contingency of 268 days was provided to carry out investigations into suspected fraud or issues that management requested specific assurance on. The planned days were delivered by 31<sup>st</sup> March. 64 cases were completed during the year and a further 17 were on-going at the 31<sup>st</sup> March 2007.

The Fraud Hotline has once again generated investigations and there have been 13 cases reported.

The Confidential Reporting (Whistleblowing) Hotline has also generated 11 issues for investigation during the year.

Results and progress regarding fraud reactive assignments are reported quarterly to Corporate Management Team and Audit Committee. An annual review of Whistleblowing is also reported to the Audit Committee.

## **Pro-active**

At the commencement of the financial year 105 days were assigned to pro-active audits. A risk based pro-active audit plan has been devised.

In July 2007 an additional fraud post was created, on a one year trial basis, within the audit team. The aim of this post was to ensure that increased resource could be applied to undertaking pro-active fraud reviews, as the previous year a drop in completed assignments had occurred due to the demand of the reactive caseload. It was envisaged that the additional post would also increase the flexibility, and the team's ability to deal with large cases when they arise; to ensure investigations could be progressed in a timely manner.

103 pro-active audit days, relating to the 2007/08 plan were delivered in year and 17 were delivered in April and May.

## **National Fraud Initiative**

A programme of key dates and actions were set out in order that the Council could fully participate in the 2006/07 exercise, the work for which continued into 2007/08. Once again the exercise has proven successful and overpayments, fraud and financial savings have been identified. The total amount identified as at 31 May 2008, amounted to £121,985 of which £116,189 should be recovered by the Council.

There are a number of areas that have proved successful this year none more so than the matching of Council Tax records with the Electoral Register which has identified persons who have been claiming Single Person Discount but have other persons living in the property. The Council became involved in the pilot scheme for this exercise and the Council are currently seeking to recover £75,252, as at 31 May 2008. This figure is likely to increase as the checking exercise has still to be completed.

Other areas which have proved successful are:

- Housing benefits - £13,680;
- Deceased pensioners continued payments - £3,843;
- Private residential homes overpayments - £13,791; and
- Former tenant arrears - £13,214.

The exercise also identified a number of deceased persons who remained in receipt of Blue Badges/Parking Permits although subsequently it was confirmed these passes had been cancelled. There were also a large number Freedom Passes cancelled because the Council had not been notified of the death of the original applicant.

The amount and number of Housing Benefit cases where overpayment or fraud were identified has reduced significantly this time which indicates that the

Councils systems of detecting and preventing over claiming is have become increasingly robust over time. Of the 224 cases that required detailed investigation five cases of fraud were established and four cases are still being investigated.

### **Annual Review of Anti Fraud and Corruption Arrangements**

During the year the anti fraud and corruption arrangements were reviewed, no issues arose, and the corporate strategy to prevent fraud and corruption was refreshed. Audit Committee approved the updated strategy and noted the results of the review in December 2007.

An action plan for the year, containing tasks to promote and raise awareness of fraud related issues is monitored throughout the year and reported annually to Audit Committee as part of the annual review.

### **3.2.5 Follow Ups**

For each of the qualified reports from 2007/08 a follow up audit was undertaken and the results reported to Audit Committee. In each case sufficient action had been taken, within target deadlines, to conclude that the systems could be given an unqualified opinion.

Responsibility for tracking audit recommendations was passed back to Internal Audit during 2007/08 and increased focus was placed on the progress towards implementing the oldest recommendations. In 2008/09 it is hoped that the new performance management system 'Havering Performs' will facilitate a more efficient approach to both monitoring and reporting on outstanding recommendations.

### **3.2.6 Schools**

The audit of schools within Havering does not form part of the in house audit plan and the service is provided through a combination of a robust, risk based triennial audit by auditors appointed through competitive tender (currently Deloitte and Touche Public Sector Internal Audit Ltd) and an annual health check audit provided as part of Children's Services' School Funding and Assurance section.

As in previous years a full report for 2007/08 will be presented at the September Audit Committee meeting to advise the Committee of the results of all audits undertaken within the period.

### **3.2.7 Risk Management Arrangements**

During 2007/08 management, driven by the officer Risk Management Group, chaired by the Group Director Finance and Commerce and attended by

Heads of Service, continue to maintain and further embed robust risk management processes within the authority.

An annual review of risk management arrangements was undertaken and reported to Audit Committee in December 2007. No significant issues arose from this review.

Service Risk Registers are maintained as part of business planning process and independently reviewed bi annually, with results reported to the Risk Management Group.

To acknowledge the achievements in embedding risk management, and to allow the Risk Management Group to focus on strategic issues relating to risk, during late 2007/08 an Risk Management Sub Group was formed, attended by relevant representatives from insurance, audit, health and safety and legal. This group aims to pick up some of the operational issues previously dealt with by the main group and also look at ways to embed and raise awareness of risk management at lower levels of the organisation. Following the restructure this group will also be attended by performance and business continuity representatives.

The Corporate Risk Register was presented to Corporate Management Team and Audit Committee twice during 2007/08. Risk Management Group reviews the Corporate Risk Register periodically and suggests updates.

### **Statement of Assurance**

#### **3.3.1 Introduction**

As stated above the Internal Audit Service is required to provide the Chief Financial Officer with assurance on the overall adequacy and effectiveness of the Council's internal control environment. In giving this opinion it should be noted that assurance can never be absolute. The most that the internal audit service is able to provide is a reasonable assurance that there are no major weaknesses in the whole system of financial internal control. In assessing the level of assurance to be given the following have been taken into account:

- all audits undertaken during 2007/08;
- the results of follow-up action taken in respect of audits from previous years;
- whether any fundamental or significant recommendations have not been accepted or implemented by management and the consequent risk;
- the effects of any material changes in the Council's objectives or systems;
- matters arising from previous reports to the Council;
- whether or not any limitations have been placed on the scope of internal audit; and



- whether or not there have been any resource constraints that may impinge on internal audit's ability to meet the full needs of the Council.

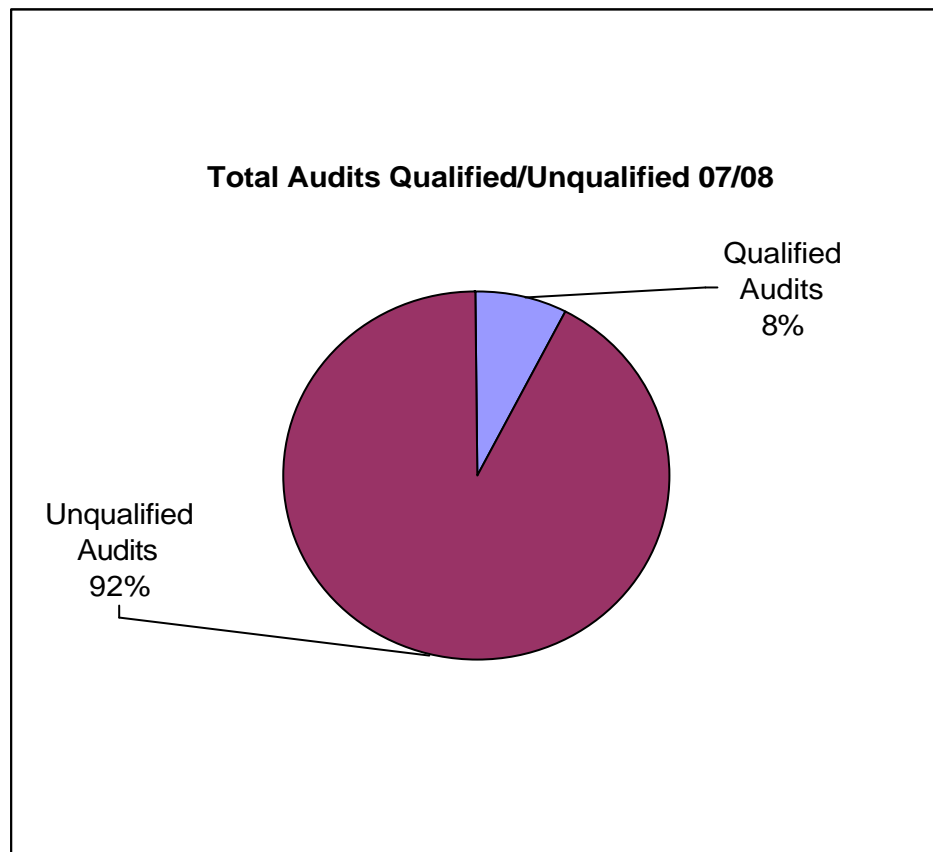
### **3.3.2 Operational Assurance**

Audit examined systems operating to achieve objectives set by management and agreed as part of the annual audit plan. There were no major weaknesses found during the audits which would affect the materiality of the accounts, prevent the Council from achieving its objectives or bring its reputation into account.

Where issues were found which could impact in other areas these were reported to the Directorate Audit Representatives Group, Risk Management Group and to the Corporate Management Team so that all services would be made aware of potential system weaknesses, and therefore gain assurance on the controls in their own areas.

Management continue to have robust procedures in place to ensure that recommendations are regularly "tracked" both within the Heads of Service reports and by Corporate Management Team (CMT). If action has not been taken by the implementation dates agreed at the time of the audit then the Audit Committee are informed and Senior Managers are required to provide explanations as to why they have not been implemented.

The pie chart below details the % of Qualified vs. Unqualified reports issued in 2007/08.



Details of the individual audit reports have been presented to the Audit Committee throughout the year which has included the opinion statements and Members often ask questions about the reports which again demonstrates the review process of the work of internal audit.

The following themes appeared within audit reports:

- Lack of compliance with Council wide and local procedures;
- Failure to demonstrate adequate segregation of duties;
- Lack of adequate guidance or training for staff;
- Lack of management control and independent review; and
- Failure to seek / evidence appropriate approval for an action.

### **3.3.3 Overall assurance opinion**

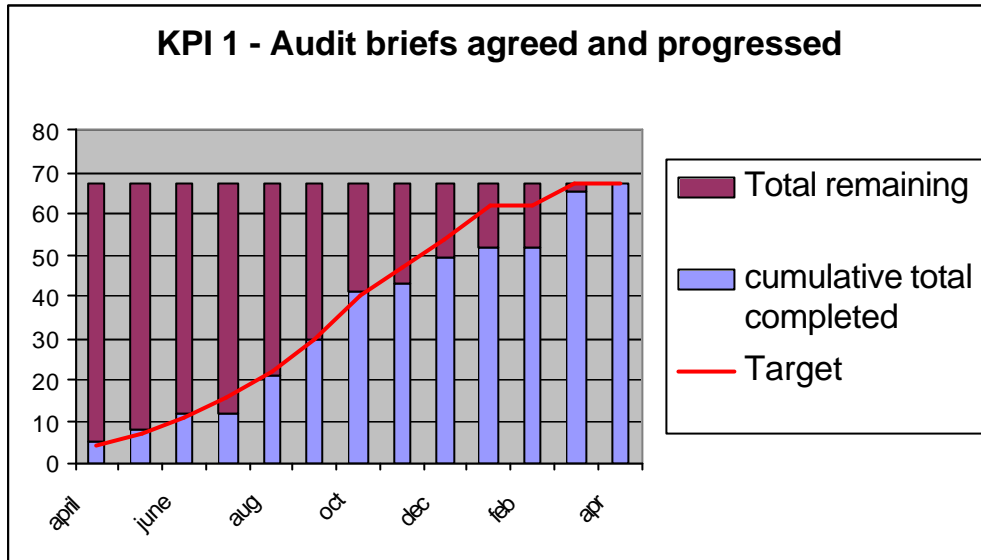
Based on the audit work set out 3.2 of this report it is felt that it is possible to give a good degree of assurance that there are adequate levels of internal control within the authority.

## **4. Internal Audit Performance**

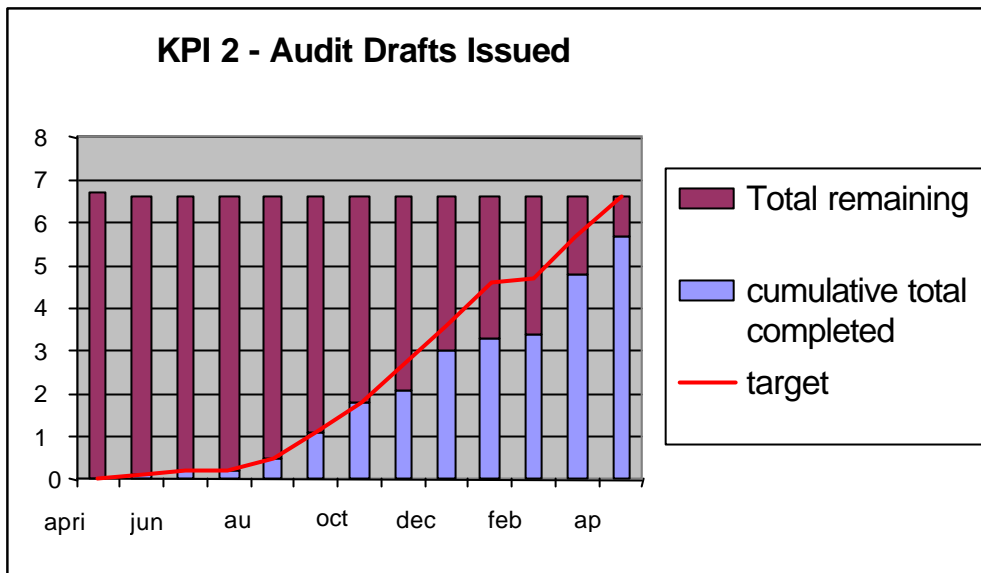
### **4.1 Key Performance Indicators (KPIs)**

Within the 2007/08 Internal Audit Service Plan seven KPIs were identified in order to measure the performance of the team. These KPIs are reported via the Head of Service Packs and contained within the progress reports presented to Audit Committee during the year.

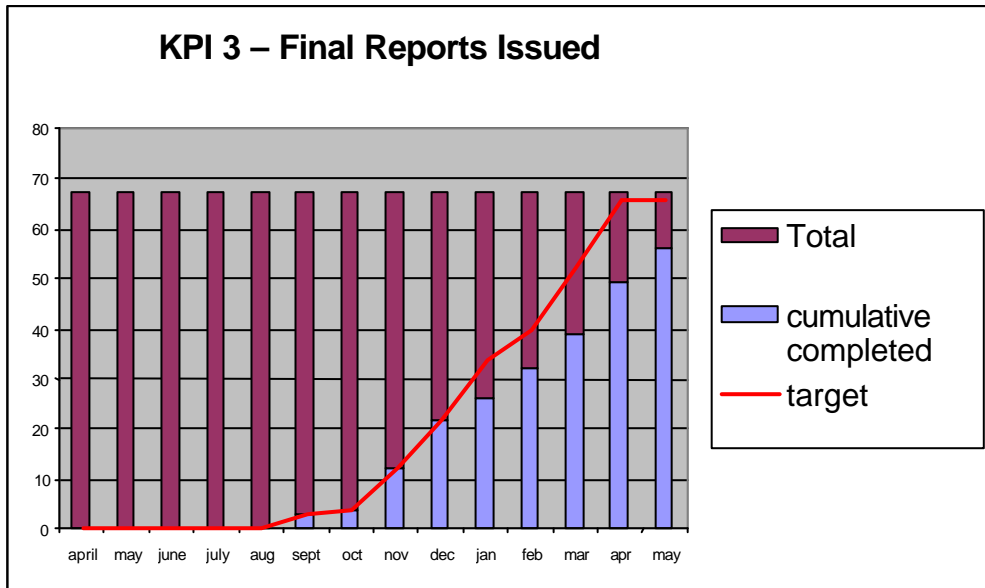
Outturn figures for 2007/08 are presented below.



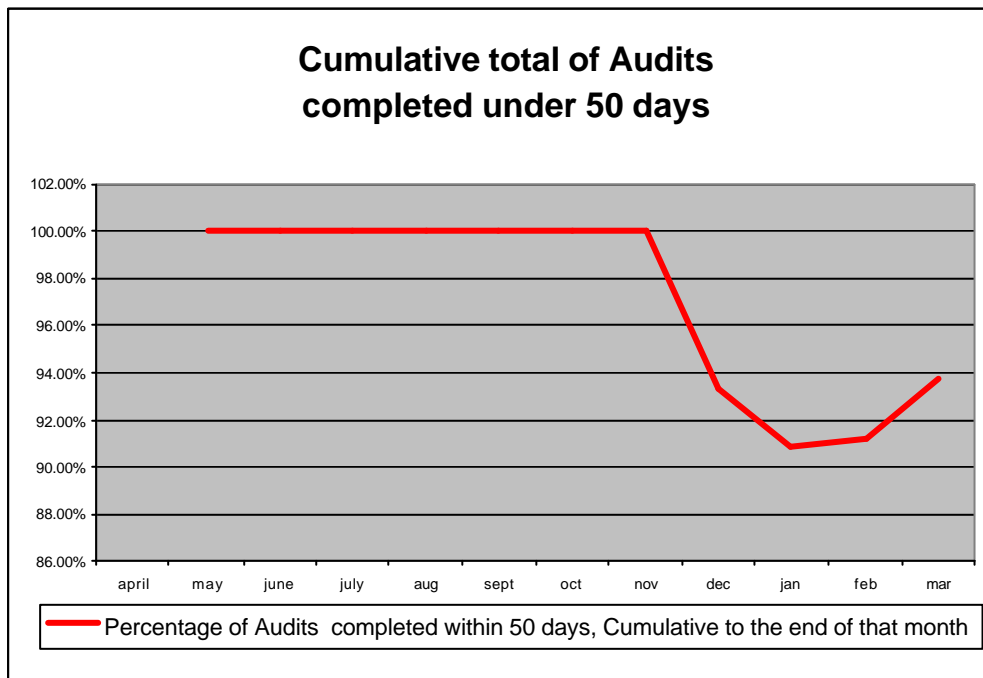
The issuing of briefs fell behind target between November and February as staff cleared on-going assignments and the gap between skills required and those available took effect. The issues were resolved in March and April by reducing the plan slightly and retaining an experienced agency auditor for a further six weeks.



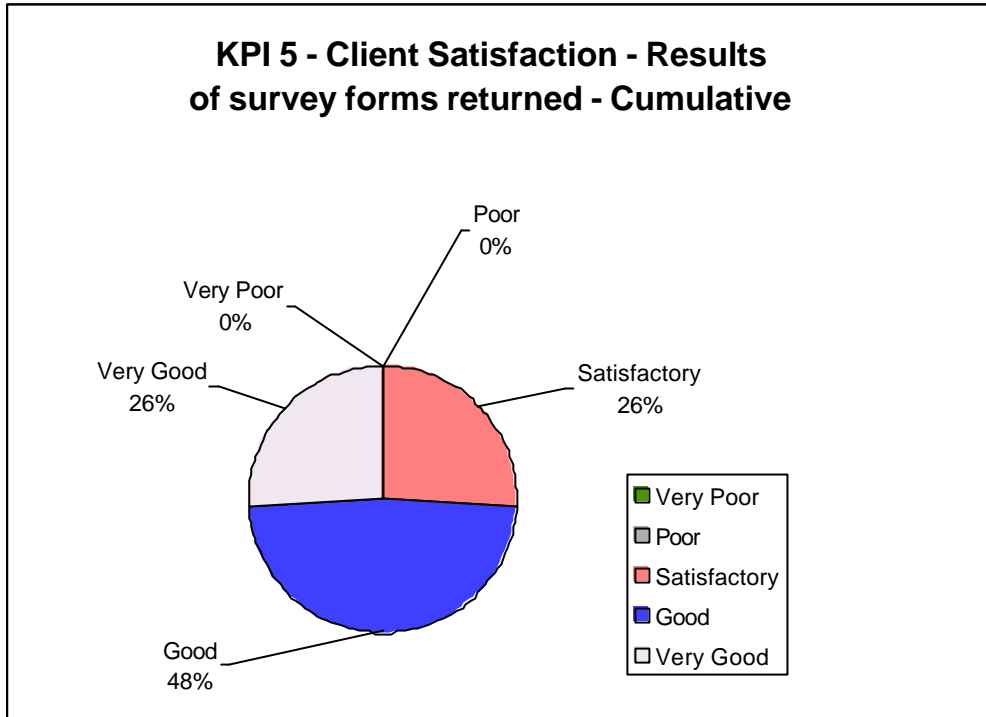
Draft report targets were not achieved consistently during the year, however all reports were issued in draft in time to meet the annual report deadline.



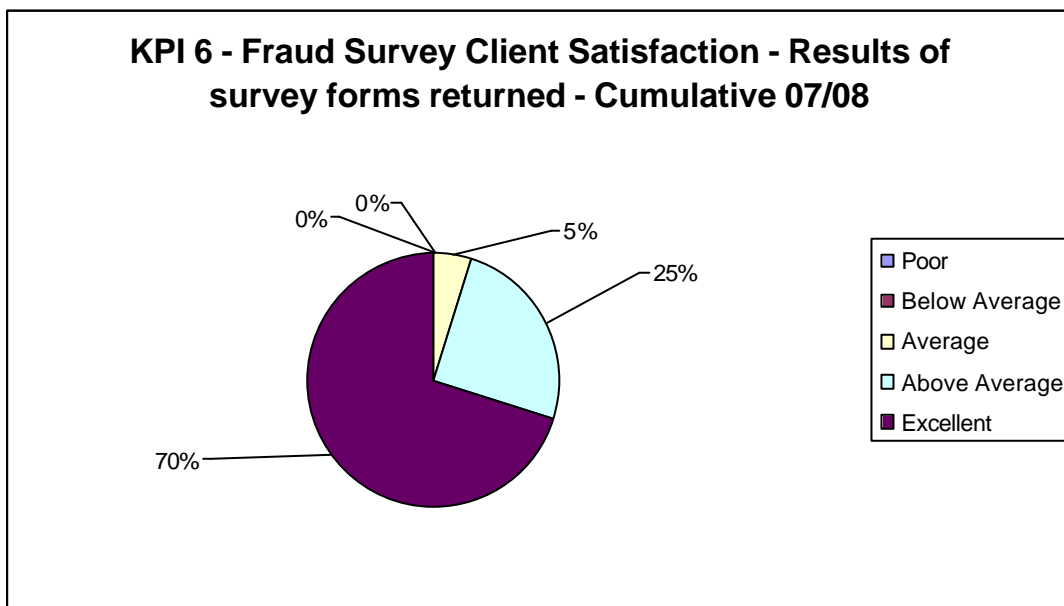
Issue of final reports lagged as a result of numbers of drafts not meeting targets, however again final reports have been agreed in time for the production of the annual report and timescales for responses from management are noted to be much improved than in previous years.



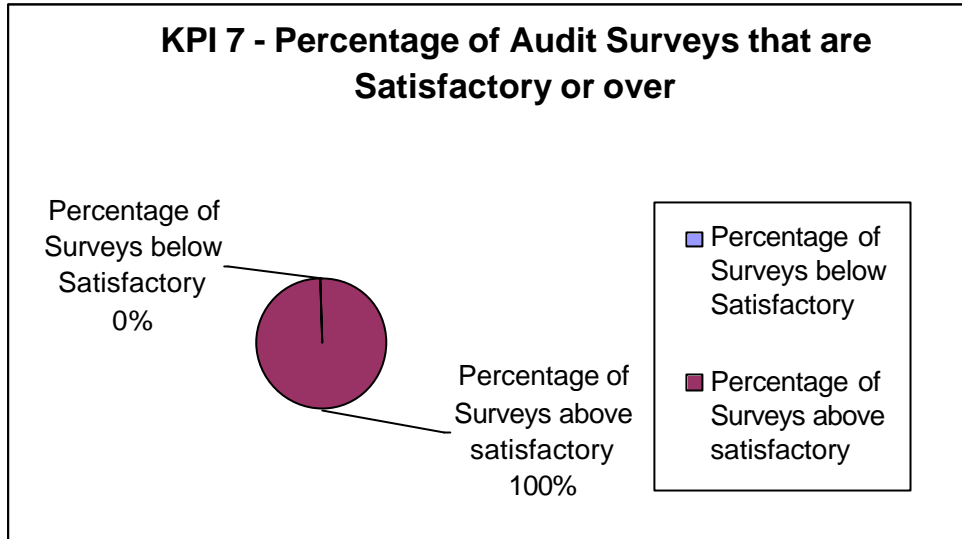
Although performance dropped to 91% this still exceeded the target of 85% for the year. Reasons for delays in completion of work can be attributed to auditor or key staff absence, prioritisation of other tasks or widening of the scope to cover additional areas, where issues have arisen.



Feedback on systems audits has been positive during the year. 74% is good or very good.



Feedback from fraud assignments has also been extremely positive with 95% receiving an above average rating.



Overall feedback has been pleasing, the team will work to maintain and continue to improve on this in 2008/09.

## **4.2 Service Improvements**

The Audit Service is continually striving to improve its service. The approach to this in 2007/08 has included:

- Feedback via the Audit Representative Group is documented and appropriate action taken;
- Feedback questionnaires from each audit are reviewed and discussed;
- Specific feedback from Head of Financial Services and Group Director Finance and Commerce received during year;
- Self assessment and peer review, by a neighbouring authority, against CIPFA standards;
- Participation in IPF benchmarking club;
- Performance appraisal of team;
- Team meeting agendas include recent issues identified and new general issues for auditors to consider; and
- Local training and new working papers rolled out.

## **4.3 Future of the service**

The structure of the team has been reviewed in 2007/08 and temporary positions have been created to test a new structure. The additional posts have proven successful and the team currently has an establishment of ten. Recruitment to fill vacancies within team commences June 2008, starting with the Senior and Principal Auditor roles, and this will:

- increase stability in the team;
- reduce the need for agency staff; and
- reduce the gap between skills available and those needed to deliver plan.

The audit manual will be refreshed during quarter two of 2008/09 and new working papers are already being trialled which aim to streamline the audit process and reduce the administration to produce an audit file.

The new audit manual will be rolled out along with other audit training during the year to ensure the new approach is fully embedded and resources are applied with maximum benefit and that all auditors continue to develop their skills and expertise.

The Internal Audit and Corporate Risk Manager has already formed links with the new external auditors and regular meetings are planned during 2008/09 to forge strong links and ensure that full reliance can be placed on the teams work.

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MEETING	DATE	ITEM
<b>AUDIT COMMITTEE</b>	<b>25 June 2008</b>	<b>7</b>

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**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: EXTERNAL AUDIT REPORT**

**SUMMARY**

This report updates the Committee on work completed by the Audit Commission since the last meeting, and of the work planned for the rest of the financial year.

**RECOMMENDATION**

Note and comment on the Auditor's Progress Report.

**REPORT DETAIL**

The report contains a progress update with regards the delivery of the annual audit and inspection plan (appendix 1) and a under recent reports issues by Audit Commission (appendix 2) there is detail of the statement of responsibilities of auditors and of audited bodies.



**Financial Implications and risks:**

None arising directly from this report.

**Legal Implications and risks:**

None arising directly from this report.

**Human Resources Implications and risks:**

None arising directly from this report.

**Equalities and Social Inclusion Implications and risks:**

None arising directly from this report.

Staff Contact: Vanessa Bateman

Internal Audit & Corporate Risk Manager

Telephone No: 01708 43 3733

E-mail address: vanessa.bateman@havering.gov.uk

**CHERYL COPPELL**

**Chief Executive**

**Background Papers List**

None.

# **Progress report to the Audit Committee**

**London Borough of Havering**

**Audit for 2007/08**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 –and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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For further information on the work of the Commission please contact:

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Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Introduction

- 1 We aim to issue regular progress reports throughout the year in order to keep the Audit Committee informed of progress against our Audit and Inspection Plan. This report updates the June 2008 Audit Committee on work completed since the April 2008 Audit Committee and the work to be completed during the rest of the year.
- 2 This report includes:
  - a summary of current work in progress at Appendix 1 (this excludes completed items that have been reported to the Audit Committee previously); and
  - a summary of recent Audit Commission publications of relevance to the Council.
- 3 We have not issued any reports to the Council in the period April to June 2008.
- 4 The Council's appointed auditors for 2008/09 onwards will be PricewaterhouseCoopers (PWC). Due to the timing of certain elements of work and the overlap with our 2007/08 Code of Audit Practice responsibilities, we will complete two reviews on behalf of PWC:
  - 2008 use of resources assessment: the work will be completed over the period August to October and we will report our findings to officers in December 2008; and
  - data quality; as in previous years: the work will be completed over the period July to November.

## Appendix 1 – Progress in delivering the audit and inspection plan

Key area of audit plan	Named contact	Start date	Target completion date	Final report date	Comments
<b>2007/08 Audit and Inspection Plan</b>					
Audit					
Opinion on the Financial Statements	GDF&C	January 2008	30 September 2008		We have undertaken initial work on the Council's control environment and the financial systems that generate the entries reported in the Financial Statements. We have not identified any significant issues from our testing to date that we need to report the Audit Committee. Our detailed work on the Statements will commence following their approval by this Committee. Our Annual Governance Report to the September Audit Committee will summarise the outcome of that work.
Use of resources					
Value for money conclusion	GDF&C	July 2008	30 September 2008		The value for money criteria overlaps with the use of resources key lines of enquiry.
Use of resources assessment	GDF&C	May 2008	December 2008		We have liaised with officers of the Council regarding the evidence needed to support each key line of enquiry. An awayday has been scheduled for 8 August 2008 to cover developments since last year's assessment.

6 Progress Report to the Audit Committee | Audit Summary Report

Key area of audit plan	Named contact	Start date	Target completion date	Final report date	Comments
Data quality	GDF&C	July 2008	November 2008		The review will consider the Council's arrangements for ensuring performance data is robust and we will perform spot checks on a sample of published performance indicators.
Certification of claims and returns					
Grants audit	GDF&C	July 2008	December 2008		There are no late claims to report at this stage.

Key	Title
CE	Chief Executive
GDF&C	Group Director Finance and Commercial

## Appendix 2 – Recent reports issued by the Audit Commission

### Statement of responsibilities of auditors and of audited bodies

- 5 The Audit Commission has updated the Statement of responsibilities of auditors and of audited bodies. The purpose of this Statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of an audit, the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas.
- 6 The Statement supports the Code of Audit Practice and other legislation that governs the work of the Audit Commission and its appointed auditors.
- 7 The Statement is available on the Audit Commission's website at <http://www.audit-commission.gov.uk/aboutus/downloads/statementofresponsibilities2008.pdf> and an electronic version will be circulated to members of the Audit Committee.

DRAFT





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MEETING	DATE	ITEM
AUDIT COMMITTEE	25 JUNE 2008	<b>8</b>

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## **REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: EXTERNAL AUDIT 2008/2009 ANNUAL AUDIT & INSPECTION PLAN.**

### **SUMMARY**

The External Audit providers, appointed by the Audit Commission, are rotated after maximum service of seven years to an organisation. The Council's External Auditor will therefore change from the Audit Commission to PricewaterhouseCoopers.

This report informs the Committee, of the work that is proposed for the 2008/09 audit, which includes the audit of the accounts commencing July 2009. The Audit Commission will continue to provide the audit service during the 2008/09 financial year and this work relates to the 2007/08 audit and inspection plan.

### **RECOMMENDATION**

To consider and comment on the contents of the report.

### **REPORT DETAIL**

The report, which has been circulated to officers for comment and been updated in advance of the meeting, contains seven sections a brief summary is provided below regarding the contents of each section of the report.

*Introduction* – outlining the purpose of the plan and period covered. Within this section Code of Audit Practice and Statement of Responsibility as well as relationship management arrangements are set out.

*Risk Assessment* – in this section of the report those significant risks relevant to the audit are outlined.

*Our approach to the audit* – more detail regarding the elements that make up the audit is provided in this section of the report.

*Inspection activity* – the inspections for the last year under the Corporate Performance Assessment regime are outlined in this section of the report.

*Our Team and independence* – the team and their respective responsibilities and contact details are outlined in this part of the report.

*Communicating with you* – a communications plan and timetable have been provided.

*Audit Budget and Fees* are outlined in a table and assumptions and additional charges not included in the fee are outlined in the report.

*Other engagement information* is provided in appendix A.

### **Financial Implications and risks:**

The total audit fee from the 2008/09 plan is £342,450 comprising £244,665 for audit of accounts, £98,785 for Use of Resources, Data Quality and Value for Money Conclusion; and a total inspection fee of £61,416. A further fee of £105,000 is planned for the certification of claims and returns.

The fee does not include: Pension fund audit which will now be undertaken separately and reported directly to those charged with Governance; Work relating to the National Fraud Initiative (£1,300) which will be billed directly by the Audit Commission; Any additional time required to audit grants; any additional work requested by the Council; Any additional work generated by our assumptions, outlined in plan, not being fully met.

The fee and additional known charges outlined above are currently within the available budget. Any additional fee, however, would have to be managed within the overall approved budget.

### **Legal Implications and risks:**

None arising directly from this report.

**Human Resources Implications and risks:**

None arising directly from this report.

**Equalities and Social Inclusion Implications and risks:**

None arising directly from this report.

Staff Contact: Rita Greenwood

Designation: Group Director Finance & Commerce

Telephone No: 01708 432210

E-mail address: Rita.Greenwood@haverling.gov.uk

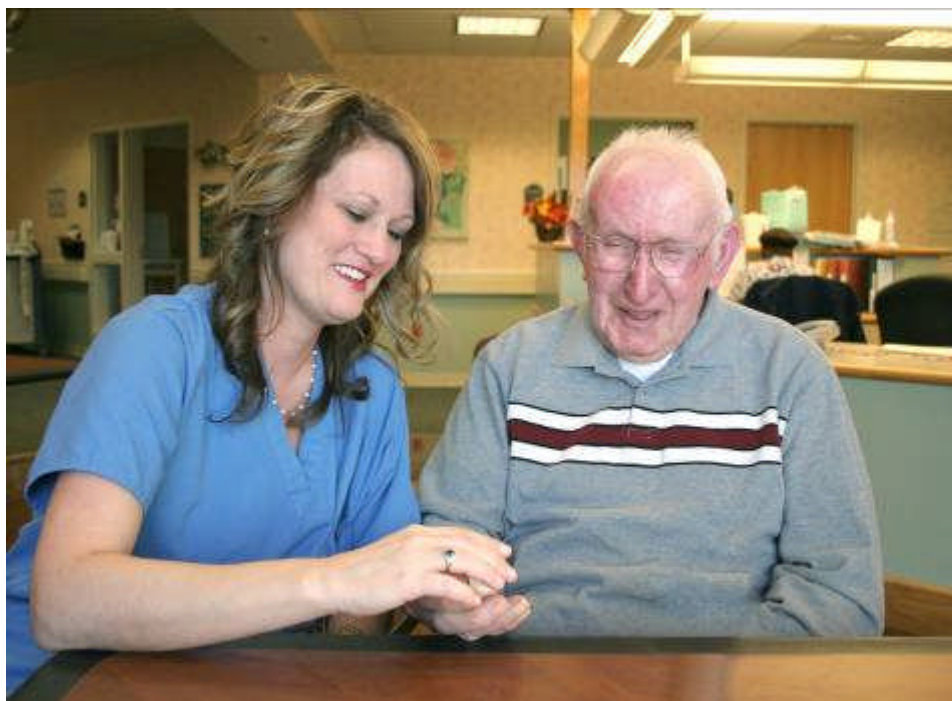
**CHERYL COPPELL**  
**Chief Executive**

**Background Papers List**

None.



# London Borough of Havering 2008/09 Audit and Inspection Plan



Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
Romford  
RM1 3BB

17 June 2008

Ladies and Gentlemen,

We are pleased to present to you our Audit and Inspection Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality.

We would like to thank members and officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit and Inspection Plan please do not hesitate to contact Jon Hayes, David Braithwaite or Ciaran McLaughlin.

Yours faithfully,

PricewaterhouseCoopers LLP

Encs

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*In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.*

*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.*

# Introduction

## The purpose of this plan

Our Audit Plan has been prepared to inform the officers and Members of the London Borough of Havering (the Council) about our responsibilities as your external auditors and how we plan to discharge them.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank Members and officers of the Council for their help in putting together this Plan.

## Period covered by this plan

We provide you with details of our plans for the audit at the beginning of the financial year. This Plan outlines our audit approach for 2008/09, including the 2008/09 final accounts audit which we will undertake in summer 2009.

The previous appointed auditor will complete the 2007/08 final accounts external audit, as well as the Use of Resources and Data Quality work to

support the Value for Money conclusion for 2007/08 and the Use of Resources Assessment to support the Audit Commission's CPA process in 2008. The Use of Resources and Data Quality work form part of the 2008/09 audit fee and we have agreed a sum of £ 69,085 with the Audit Commission for this purpose.

As the appointed auditor for 2007/08 has not yet completed his audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was issued in March 2005. This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement) issued in April 2008 and both are available from the Chief Executive.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports follow the Statement and are in line with the Code. Although reports may be addressed to officers or members of the Council, they are



prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

### **Relationship management**

During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in the Council's local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies.

Pending the appointment of a CAA Lead by the Audit Commission, Jon Hayes will continue in his role as Relationship Manager at the Council.

# Risk assessment

## Planning of our audit

We have considered the Council's operations and have assessed the extent to which we believe there are potential business and audit risks. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements or on your arrangements for the use of resources. We have considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Council and our response to these risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

## Risk assessment results

The following table summarise the results of our risk assessment and our planned response using the heading from the revised Use of Resources Approach from 2009. We will update this table, if necessary, following our interim audit visit. **Those risks marked \* are those we consider as significant for the purposes of our audit**

Risk	Audit approach
<b>Managing Money</b>	
<p><b>Adult Social Care</b></p> <p>In each of the last two financial years the Council's Adult Social Care Department has overspent against its budget. In 2005/06 it overspent by £1m and in 2006/07 it overspent by £4m. The Council has sought to proactively manage the situation in 2008/09 by increasing the budget for the service by £5m and requiring the Department to produce and deliver a savings programme to enable it to return to financial balance.</p>	<p>We will update our knowledge and understanding of the financial performance of the Department during 2008/09 during the year, using the Council's budget monitoring reports.</p>
<p><b>HRA Financial Position</b></p> <p>The Council has appealed its HRA Subsidy entitlement for 2008/09 and is currently awaiting a DCLG response, which is due in June 2008. The budget for the year has been produced on the basis that the Council will not get any Subsidy this year and this means that the financial position of the HRA is tight. We are advised by the Group Director Finance and Commercial that the Council can manage within the budget as agreed, but that it will require careful monitoring.</p>	<p>We will update our knowledge and understanding of the financial performance of the HRA during 2008/09 by reference to the Council's budget monitoring reports.</p>
<p><b>Continuing Care</b></p> <p>Agreement of continuing care liabilities between local authorities and PCTs has been a significant issue in some parts of the country, with potentially material liabilities being identified for inclusion in the accounts of one or other party. We understand that the Council is in discussions with its PCT around liabilities in respect of continuing care. The discussions are ongoing though we have been advised that the level of the Council's financial exposure can be managed within the financial strategy.</p>	<p>We will audit the continuing care balances as part of our 2008/09 accounts audit and consult with the auditors of the PCT to identify any material differences.</p>

Risk	Audit approach
<p><b>Single Status</b></p> <p>The Implementation Agreement, which forms part of the 2004 Local Government Services Pay Agreement, includes an obligation that all local authorities will complete and implement a Local Pay Review by 31 March 2007. The Council's negotiations are still continuing and will do during 2008/09. The Council received a capitalisation direction in 2007/08 and will apply for one again in 2008/09 to fund any agreed settlement.</p>	<p>As the negotiations proceed towards a conclusion we will consider how the Council's decision to disclose under FRS 12 as a contingent liability, provision or creditor is supported by evidence.</p>
<p><b>NNDR Collection Contract*</b></p> <p>The Council has entered into a contract with another borough, Barking and Dagenham to manage its NNDR collection from 17 April 2008. It is expected that this arrangement, as well as building on recent improvements in collection rates, will deliver savings to the Council.</p>	<p>We will document and assess the systems and controls put in place to ensure that the Council's NNDR is appropriately accounted for in the financial statements</p>
<p><b>Managing the Business</b></p>	
<p><b>Project Management</b></p> <p>The Council has a significant number of major capital projects in progress or at the planning stage to deliver the improvements in the Council's services that it would like to see, such as the Ice Rink and Swimming Pool, Harold Hill regeneration, and the continuing Town Centre redevelopment.</p>	<p>We will carry out a high level review of the Council's project management arrangements to determine the adequacy of the arrangements in place for projects of this size. The scope of this review will be agreed with management.</p>
<p><b>Asset Management Database*</b></p> <p>The Council is upgrading its asset management processes by implementing an asset management database during 2007/08. It is intended that the new database will be used to produce the financial information included in the 2008/09 accounts. While this is a significant improvement on the previous spreadsheet based system there is a risk that the transfer of information to the new database may introduce errors in the data.</p>	<p>We will document and assess the operation of the new Asset Management Database and if we feel we can place reliance on it we will test the operation of those controls.</p>
<p><b>Managing other Resources</b></p>	
<p><b>Local Area Agreement</b></p> <p>The Council is currently negotiating its Local Area Agreement (LAA) with Central Government and is leading the process of co-ordinating inputs and targets for partner agencies. The successful negotiation of the LAA and its delivery will be key drivers for the local area over the medium term.</p>	<p>We will monitor management's progress in agreeing its LAA during our regular liaison meetings with the Chief Executive and in putting in place appropriate performance monitoring arrangements by reviewing reports to Cabinet.</p>

# Our approach to the audit

## Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

## Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Council. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into components. We assess the risk characteristics of each component to

determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key business processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

We aim to rely on the work done by internal audit wherever possible. We will ensure that a dialogue is maintained with internal audit throughout the year. We will receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned approach

This will be our first year auditing the Council's accounts and as such we will work closely with the Head of Finance and Performance to ensure that the audit process runs smoothly. We will provide a briefing for staff on the PwC audit approach to ensure that they understand our requirements for the audit and enable them to ask questions at an early stage in the process.

## Whole of government accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit. From 2008/09, these will be based on International Financial Reporting Standards (IFRS).

## Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

For 2007/08, this conclusion is based on 12 Code criteria, covering key areas of corporate performance management and financial management arrangements. This work will be undertaken by the Council's previous auditor, from June to September 2008.

From 2008/09 onwards, there will be a requirement to undertake additional Use of Resources work to support the Value for Money conclusion. The exact extent of this work is not yet known with certainty, as proposals are currently out for consultation.

When forming our use of resources conclusion we will seek to rely on:

- Your self assessment against the criteria;
- Your internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Council.

As noted above, our conclusion will be issued as part of the audit report on your 2008/09 financial statements.

## Mandatory work for 2008/09

### Use of Resources

The Audit Commission will be required to carry out work at the Council for the 2008/09 Comprehensive Performance Assessment (CPA) in respect of the use of resources.

The use of resources assessment is a key part of CPA and will be conducted in all councils. It involves judgments on financial planning and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Council. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services.

The Audit Commission defines the scope and methodology for the work required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The audit and inspection year 2008/09 marks the year of transition from Comprehensive Performance Assessment (CPA) to Comprehensive Area Assessment (CAA).

This will be the last year in which the Audit Commission will carry out corporate assessments and programme service inspections on the current basis as part of the CPA framework. From April 2009, they will be implementing Comprehensive Area Assessment (CAA), jointly with the other public service inspectorates.

As part of the transition to CAA the scope of the use of resources assessment will broaden to reflect 'new' areas such as commissioning. It will also encompass a wider definition of resources, although this is still subject to consultation and development of the new methodology.

In future, our use of resources judgements will therefore serve two purposes: as a basis for value for money conclusions and as an input into the first results of CAA which will be reported in autumn 2009.

### **Local Government Data Quality Reviews**

The previous appointed auditor will review data quality and performance indicators specified by the Audit Commission.

The approach will comprise of three stages:

- Review of the overall management arrangements to secure data quality
- Completeness checks of reported performance information
- Data quality spot checks

### **Local government pension fund accounts**

The Audit Commission requires a separate audit of local government pension scheme accounts in accordance with the Auditing Practices Board's Practice Note 15 for the first time in 2008/09. Previously audit work was undertaken as part of the audit of your financial statements as the administering authority.

We therefore expect to undertake the audit of the pension fund separately and to prepare a separate audit plan for work on the pension fund. This and other matters relating to the pension fund audit will be presented to those charged with governance for the pension fund in late summer 2008.

### **National fraud initiative**

The National Fraud Initiative (NFI) is the national computerised data-matching exercise designed to detect fraud at public bodies. We will be required to undertake further work to ensure you provide all required data, issue fair processing notifications and effectively follow up the NFI output.

# Inspection activity

From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.

The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.

The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as three stars.

We have applied the principles set out in the CPA framework, 'CPA – The Harder Test', recognising the key strengths and areas for improvement in the Council's performance.

Strengths in the Council's performance include:

- education services;
- social care for children; and
- use of resources.

Areas for improvement in the Council's performance include:

- social care for adults; and
- aspects of housing services.

On the basis of the planning process we have identified where inspection activity will be focused for 2008/09 as follows:



Inspection activity	Reason/impact
Relationship Manager (RM)/Comprehensive Area Assessment Lead (CAAL) role.	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.
ALMO Inspection	Our housing inspectorate will carry out an inspection of your ALMO

# Our team and independence

Audit Team	Responsibilities
<p><b>Relationship Manager/CAA Lead</b> Jon Hayes j-hayes@audit-commission.gov.uk Tel: 0844 798 2895</p>	<p>To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.</p>
<p><b>Engagement Director</b> David Braithwaite <a href="mailto:david.braithwaite@uk.pwc.com">david.braithwaite@uk.pwc.com</a> Tel: 020 7804 2369</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p><b>Engagement Senior Manger</b> Ciaran McLaughlin <a href="mailto:ciaran.t.mclaughlin@uk.pwc.com">ciaran.t.mclaughlin@uk.pwc.com</a> Tel: 020 7213 5253</p>	<p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.</p>
<p><b>Audit Manager: Accounts</b> Marisa Crook <a href="mailto:marisa.crook@uk.pwc.com">marisa.crook@uk.pwc.com</a> Tel: 020 7804 8118</p>	<p>Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.</p>

### **Our team members**

It is our intention that staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

### **Independence and objectivity**

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

### **Relationships and Investments**

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

### **Independence conclusion**

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Communicating with you

## Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Timing
<b>Audit planning</b>	<b>Audit Plan</b>	<b>June 2008</b>
<b>Audit findings</b>	<b>Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)</b>	<b>September 2009</b>
	<b>Use of resources and preliminary conclusion for discussion</b>	<b>October 2009</b>
<b>Audit Reports</b>	<b>Annual Governance Report incorporating specific reporting requirements under Auditing Standard (ISA (UK&amp;I) 260), including:</b> <ul style="list-style-type: none"> <li>• Any expected modifications to the audit report</li> <li>• Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust</li> <li>• Material weaknesses in the accounting and internal control systems identified as part of the audit</li> <li>• Our views about the qualitative aspects of your accounting practices and financial reporting</li> <li>• Any other relevant matters of governance interest and</li> <li>• Summary of findings from our use of resources audit work to support our value for money conclusion.</li> </ul>	<b>September 2009</b>
	<b>Opinion on the Financial Statements and conclusion on the Councils arrangements for its Use of Resources</b>	<b>September 2009</b>
	<b>Auditor Use of Resources Assessment to inform the Audit Commission CPA process</b>	<b>November 2008</b>
	<b>Annual Audit Letter</b> This will summarise the significant matters arising from all aspects of our work for the year	<b>October 2009</b>
	<b>Other Audit Reports</b> We will report as appropriate on the results of any targeted audit work we carry out	<b>As agreed</b>

*The Audit Commission will summarise the results of inspection work in their annual Direction of Travel Statement. This will be sent to the Council and will be available to the public. The ALMO Inspection is scheduled to report in March 2009.*

# Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Councils for the 2008/09 financial year, which depends upon the level of expenditure. Based on your gross expenditure, the indicative fee for audit of the Council is £312,500 +/- 30%.

Due to this being our first year as auditors to the Council and basing our assessment on risk level previously judged by the Audit Commission, we categorise the Council as medium risk and 10% above the mid point fee. During our first year we will revisit this assessment and provide an update to the Audit Committee should the need arise. We have therefore proposed an audit fee of £342,450, which is broken down as follows:

Audit area	Planned fee 2008/09 £	Planned/ Actual Fee 2007/08 £
Audit of Accounts*	244,665	240,600
Use of Resources and Data Quality and VfM Conclusion	97,785	108,000
<b>Total audit fee</b>	<b>342,450</b>	<b>348,600</b>
<b>Total inspection fee</b>	<b>26,880</b>	<b>26,540</b>
Certification of claims and returns	105,000	105,000

\*There is a reduction of £19,000 in respect of the pension fund audit for 2008/09 which is now undertaken as a separate audit and reported directly to those charge with governance of the pension fund. Fees for this audit will be agreed separately.

Our fee for accounts work includes the following:

- Audit of the financial statements for 2008/09
- Work on whole of government accounts for 2008/09

Our fee for use of resources and data quality work includes the following:

- Use of Resources assessment 2008 ( carried out by the Audit Commission);
- Review of data quality and specified performance indicators (carried out by the Audit Commission);
- Targeted audit work looking at the effectiveness of project management arrangements in place across the Council to assess the adequacy of arrangements to support our use of resources conclusion in 2008/09; and
- Follow up of previous work.

At present we anticipate doing some work on the 2009 Use of Resources assessment during 2008/09 but we have not yet had confirmation from the Audit Commission in respect of the scale or scope of that work. Should the work required be more than is currently anticipated in the information above we will discuss the implications with management.

We have based the fee for the certification of grants and returns on the estimated cost of auditing the grants claims suggested by the Audit Commission in 2007/08. However the arrangements for the audit of the Housing Benefit Claim will change in 2007/08 and we may need to revisit this figure during 2008/09 to ensure that it remains appropriate.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls, which are adequately evidenced;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2009;
- You providing a fully supported and robust self assessment against the use of resources criteria; and
- Our use of resources conclusion and accounts opinion being unqualified.

Our audit fee does not include work in respect of the National Fraud Initiative, which is billed directly by the Audit Commission. For 2008/09 the

fee will be £1,300 (£1,300 in 2007/08).

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

#### **Certification of grant claims**

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Group Director, Finance and Commerce and her team.

#### **Additional work outside of the Code**

We are not proposing any work outside the scope of our Code audit at present but would be happy to discuss any requests for additional support with management, including in relation to the introduction of IFRS.

# Appendix A: Other engagement information

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

The Code of Audit Practice; and

The Standing Guidance for Auditors

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

## **Electronic communication**

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

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

We each recognise that systems and procedures cannot be a guarantee

that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

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

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

## **Appointed auditor**

David Braithwaite, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although David is not a partner.

### **Access to audit working papers**

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

### **Quality arrangements**

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

### **Events arising between signature of accounts and their publication**

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

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

### **Freedom of Information Act**

In the event that, pursuant to a request which the audited body has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body discloses this

report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.



*In the event that, pursuant to a request which London Borough of Havering has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and London Borough of Havering shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, London Borough of Havering discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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MEETING	DATE	ITEM
<b>AUDIT COMMITTEE</b>	<b>25 June 2008</b>	<b>9</b>

**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: INTERNAL AUDIT REPORT**

**SUMMARY**

The Audit Committee receives a progress report for each quarter of the financial year, presented to the next meeting after the end of the quarter.

This report advises the Committee of audit issues from internal audit activities for the period 01 January to 31 March.

**RECOMMENDATION**

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

**REPORT DETAIL**

**SECTION  
NO**

**PAGE REF  
(This Document)**

The progress report contains sections relating to the audit plan and activity to deliver the plan since January 2008. It also contains the Corporate Risk Register and Statement of Internal Control action plan both of which were updated in this period.

- |           |                                                                  |           |
|-----------|------------------------------------------------------------------|-----------|
| <b>1.</b> | <b>Audit Plan 2007/08</b>                                        | <b>05</b> |
|           | Schedule 1 – 2007/08 Audits Completed to Final Report Stage.     |           |
|           | Schedule 2 – 2007/08 Audits Completed to Draft Report Stage.     |           |
|           | Schedule 3 - Management summaries of Final Reports               |           |
| <b>2.</b> | <b>Effectiveness of Internal Audit &amp; Direction of Travel</b> | <b>47</b> |

<b>SECTION NO</b>	<b>PAGE REF (This Document)</b>
<b>3. SIC Action Plan</b>	<b>49</b>
<b>4. Fraud</b>	<b>57</b>
Schedule 4 - Completed work 1 <sup>st</sup> January – 31 <sup>st</sup> March 2008.	
Schedule 5 – Current investigations.	
Schedule 6 - Fraud Hotline Reports 2007/08.	
<b>5. Summary of Recommendations</b>	<b>61</b>
Tables indicating on-going and outstanding recommendations raised by internal audit are attached.	
Schedule 7 –Outstanding Internal Audit Recommendations 2003/2004.	
Schedule 8 –Outstanding Internal Audit Recommendations 2004/2005.	
Schedule 9 –Outstanding Internal Audit Recommendations 2005/2006.	
Schedule 10 –Outstanding Internal Audit Recommendations 2006/2007.	
<b>6 Benefits Comparative Information</b>	<b>64</b>
Schedule 11 – Benefits Investigations.	
Schedule 12 – BVPI 76 Security.	
<b>7. Corporate Risk Register</b>	<b>66</b>
Schedule 13 – Corporate Risk Register as at April 2008	
Schedule 14 – Graphical Corporate Risk Register.	

### **Financial implications and risks:**

Recommendations may arise from any audit undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit. There are no financial implications or risks arising directly from this report.

### **Legal implications and risks**

None arising directly from this report

### **Human Resource implications and risks**

None arising directly from this report

### **Equality and Social Inclusion implications**

None arising directly from this report

Staff Contact: Vanessa Bateman

Designation: Internal Audit & Corporate Risk Manager

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**CHERYL COPPELL**

**Chief Executive**

### Background Papers List

None.



## **SECTION 1 – AUDIT 2007/08 Plan**

Schedule 1 details the final reports that were issued between January and March 2008. Details are listed in the table below and management summaries under Schedule 3 on page 5.

### **SCHEDULE 1: 2007/2008 Audits Completed To Final Report Stage**

Report	Opinion	Recommendations				Ref
		High	Med	Low	Total	
National Non Domestic Rate	Unqualified	0	0	2	2	3a
Council Tax	Unqualified	0	2	0	2	3b
Creditors	Unqualified	5	2	0	7	3c
Tendering Processes	Unqualified	3	0	1	4	3d
Housing Benefits	Unqualified	0	0	1	1	3e
Domestic Refuse	Unqualified	0	3	2	5	3f
Use of Consultants	Qualified	8	0	0	8	3g
Main Accounting	Unqualified	0	0	0	0	3h
Debtors	Unqualified	1	2	0	3	3i
Swift	Unqualified	0	3	2	5	3j
Asbestos Management	Qualified	1	3	0	4	3k
E Procurement	Unqualified	0	3	0	4	3l
Service Desk	Unqualified	0	4	1	5	3m
<b>Total</b>		<b>18</b>	<b>22</b>	<b>9</b>	<b>50</b>	

Schedule 2 reports those audits that have been completed after the period ended. All reports have been included within this report to Committee to tie in with the presentation of the Annual Report. Management summaries are therefore also included in Schedule 3 starting page 25. Completion of these audits after 31<sup>st</sup> March was in line with the profiled plan.

### **SCHEDULE 2: 2007/2008 Audits Completed to Draft Report Stage**

		High	Med	Low	Total	
Payroll	Unqualified	0	1	0	1	3n
Pensions	Unqualified	0	0	2	2	3o
Recruitment & Retention	Unqualified	2	2	2	6	3p
Capital Accounting	Unqualified	0	2	1	3	3q
Network	Qualified	3	15	1	19	3r
Data Protection	Unqualified	0	6	3	9	3s
Cash & Bank	Unqualified	2	2	0	4	3t
Right to Buy	Unqualified	0	0	1	1	3u
Supporting People	Unqualified	0	0	0	0	3v
Register of Interests	Unqualified	0	9	1	10	3w
Joint working with the PCT	Qualified	4	6	0	10	3x
Departmental Budgetary Control – Children’s Services	Unqualified	0	4	2	6	3y
<b>Total</b>		<b>11</b>	<b>47</b>	<b>13</b>	<b>71</b>	

## SCHEDULE 3: Management Summaries for 2007/2008 Audits

<b>National Management Summary</b>	<b>Non Domestic Rate</b>	<b>Schedule 3(a)</b>
------------------------------------	--------------------------	----------------------

### 1.1 Introduction

Business rates, collected by local councils are the means by which businesses and others who occupy non-domestic property make a contribution towards the cost of local services.

Apart from properties that are exempt from business rates, each non-domestic property has a rateable value which is normally set by the Valuation Office Agency (VOA). The rateable value of the property broadly represents the yearly rent the property could have been let for on the open market. Properties are revalued every five years, the latest revaluations being dated 1<sup>st</sup> April 2005.

Havering works out the business rate bill by multiplying the rateable value of the property by the 'poundage' which the government sets from the 1<sup>st</sup> April each year for the whole of England.

Collection rates over the last three years are as follows:

Year	Net Debit	Cash Received	Collection Rate
2004/05	£51,831,455.22	£50,530,126.13	97.49
2005/06	£53,565,766.06	£52,249,471.66	96.88
2006/07	£57,752,792.82	£57,265,307.25	99.16
2007/08	£60,838,467.92	£32,153,727.42	52.85 as at August 07

### 1.2 Critical Issues that require immediate Management attention

There were no critical issues identified that require immediate management attention.

### 1.3 Significant issues that require Management action to improve the control environment.

There were no significant issues identified that require immediate management attention.

### 1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.

The application form for mandatory and discretionary relief is redrafted to include a box for "office use" in showing the decision, officer and percentage given. Scanned approval of member approval would meet Business Continuity requirements and show an electronic record of each one being approved by members.

### 1.5 Summary of recommendation(s)

The report contains two low priority recommendations.

### 1.6 Audit Opinion

As there were no critical areas and the items requiring attention were only to improve the level of management information and existing controls an unqualified opinion can be given.

**1.1 Introduction**

The Local Government Finance Act 1992 introduced Council Tax. This replaced the Community Charge on the 1<sup>st</sup> April 1993. The money raised through the Council Tax is retained to fund Council spending. The Council Tax represents only 15 to 18% of the money needed. The remainder is made up of other things such as grants from the government and fees and charges.

All properties are subject to Council Tax and to determine the amount payable they are allocated a band according to their market value as at 1<sup>st</sup> April 1991. The bands range from A to H encumbering an amount payable for each band.

Collection rates over the last three years are as follows:

Year	Net Debit	Cash Received	Collection Rate
2004/05	£98,382,430.47	£95,224,448.29	96.79
2005/06	£102,280,465.46	£99,087,294.64	96.88
2006/07	£106,423,596.48	£103,855,255.03	97.59
2007/08	£111,791,894.71	£55,627,626.21	49.76 (to 30/08/07)

**1.2 Critical Issues that require immediate Management attention**

There were no critical issues identified that require immediate management attention.

**1.3 Significant issues that require Management action to improve the control environment.**

There are two issues identified that require management action. One being the lack of information forthcoming from Homes in Havering concerning lettings and voids and secondly, the backlogs of not recovering and collecting old arrears.

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

There were no other matters requiring management attention.

**1.5 Summary of recommendation(s)**

The report contains two medium priority recommendations.

**1.6 Audit Opinion**

As there were no critical areas and the items requiring attention were only to improve the level of management information and existing controls an unqualified opinion can be given.



**1.1 Introduction**

The total creditors payments through the Council's bank account for 2006/07 were in excess of £300 million. 167,209 invoices were processed, of which 35,081 were in the same period in relation to Purchase Card payments.

**1.2 Critical Issues that require immediate Management attention**

The Head of Financial Services should review the Financial Procedure Rules taking into account the findings of this audit and other good practices.

The Head of Financial Services should review the viability of implementing a new Induction course for those Officers who have financial responsibility, which would include all cost centre managers.

Head of Pupil & Student Services review the authorised financial limits for the staff in Children and Lifelong Learning so that the "authorised signatory list," held centrally, can be updated. **This was implemented on 18<sup>th</sup> December 2007.**

It was agreed that until the new e-procurement system is implemented the Children' Commissioning Unit will complete the Certification Slip with either the CCU Reference number or the Project Code number whichever is applicable.

The Head of Technical Services should ensure that the new Contractors, Jacobs, provides accurate and valid invoices. **A commissioning and invoicing meeting is planned with Jacobs and Internal Audit will be invited to attend.**

**1.3 Significant issues that require Management action to improve the control environment.**

The Head of Financial Services should update the Financial Framework in light of the revised Financial Procedure Rules.

The Head of Financial Services should consider developing a short course to be introduced after the revised Financial Procedure Rules and Financial Framework have been approved and implemented. This would be aimed at existing cost centre managers to update them on the current rules and procedures.

**1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.**

None.

**1.5 Summary of Recommendations**

There are five high and two medium priority recommendations.

**1.6 Audit Opinion**

The Audit has concluded that the Creditors payment system is sound; however, it is further noted that the ordering system is not being consistently applied corporately and without a sound ordering system being operated in a consistent manner the payment of Invoices could be compromised.

The Head of Financial Services is in the process of reviewing the operation of the Creditors system taking into account London Borough of Havering's migration to E-Business. This is part of a full review of the Financial Procedure Rules and Financial Framework. In light of the review taking place and the fact that the Audit sample did not demonstrate any financial losses to the Council, an unqualified report is given.

## 1.1 Introduction

This review was undertaken in accordance with the 2007/2008 Internal Audit plan to review the system of Tendering Procedures for IT Contracts.

## 1.2 Critical Issues that require immediate Management attention

Introduce additional training sessions to explain the procurement process and how the Contract Rules and Procedures should be applied with an emphasis on how the Business Development Unit can assist Users. There should be two levels of training one aimed at new recruits as part of the induction programme and higher level briefing aimed at all 3<sup>rd</sup> and 4<sup>th</sup> tier Officers.

Furthermore if the Business Development Unit is involved at the outset they could not only provide advice and help they could also suggest alternative ways of procurement to further ensure VFM is achieved. This could include exploring partnership working or grouping together with other London Boroughs to negotiate better contractual arrangements including cost. A particular example of this would be new legislation which affects other Authorities.

## 1.2 Significant issues that require Management action to improve the control environment.

The cost of replacing the lock for the cabinet which houses Tenders waiting to be opened should be evaluated to see if it is cost effective as there is a risk that unauthorised access could be made as the whereabouts of all the keys is not known.

There should be a formal recorded system for dealing with Tenders and Quotes that arrive after the due time and date.

## 1.3 Other matters identified that require Management attention to ensure “good practice” within the control environment.

None.

## 1.4 Summary of Recommendations

There is are three high, one low priority and one cleared recommendation.

## 1.5 Audit Opinion

An unqualified audit opinion may be given as there are effective control systems in place for the Tender procedure with the exception of those issues mentioned above.

## **1.1 Introduction**

Havering's Housing Benefit Service, aims to help members of the public on low incomes with their rent. By providing means tested funding to enable residents to pay their rent.

When a new claim for benefit is made the Council seeks the opinion of the Rent Officer Service to determine what rent is realistic for the property. By going to an external Government body an independent and unbiased opinion is obtained.

Members of the public may seek advice on Housing Benefit at the Town Hall and receive payment of benefit either directly to their bank account or by cheque. Alternatively, payment may be made by the Council direct to the Landlord.

Housing Benefit is governed by the guidelines issued from the Department of Work and Pensions and subject to review from the DWP's own appointed inspectorate.

Recently the Housing rents function has been taken over by the ALMO (Arms Length Management Organisation) Homes in Havering.

## **1.2 Critical Issues that require immediate Management attention**

There were no critical issues identified that require immediate management attention.

## **1.3 Significant issues that require Management action to improve the control environment.**

There were no significant issues identified during the audit.

## **1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.**

The absence of clear date stamps may prove detrimental in establishing a commencement date of a claim. Emails received from fraud referrals that are not progressed have been deleted in the past. However it was agreed to transfer them into an archive folder in case of any future referrals regarding the same issue. Fraud (refresher) training for benefit staff has been recognised as a priority and is planned before the end of March 2008. This may be evaluated as becoming part the induction process for new staff on a summary basis.

## **1.5 Summary of recommendation(s)**

The report contains one low priority recommendations.

## **1.6 Audit Opinion**

As there were no critical areas and the items requiring attention were only to improve the level of management information and existing controls an unqualified opinion can be given.

**1.1 Introduction**

Previously the Authority's contractor for the collection of both domestic and trade refuse was Cleanaway. This contract expired in July 2004. The new contract was awarded to Biffa and commenced on the 1<sup>st</sup> August 2004. This contract runs until the 31<sup>st</sup> July 2011 however there is an option to extend this on an annual basis for a further three years.

The total cost centre budget for Household Waste for 2007 / 2008 is £1.8 million. The contractor budget for household waste collection totals £2.2 million.

The London Borough of Havering is committed to a 25 year contract with Shanks for the recycling and disposal of waste collected from within the borough. This Authority along with Barking & Dagenham, Redbridge and Newham make up the East London Waste Authority (ELWA). ELWA, a Waste Disposal Authority (WDA), entered into the contract with Shanks for the recycling and disposal of waste.

**1.2 Critical Issues that require immediate Management attention**

No critical issues were identified as part of the review.

**1.3 Significant issues that require Management action to improve the control environment.**

Contract monitoring of the Waste Contract has only been undertaken in the last two years. There are no written Contract Monitoring Procedures in place.

Although contractor performance has improved both in terms of the number of missed collections and increased customer satisfaction there are limited resources available within the Waste team to carry out contract monitoring / spot checks. Currently monitoring is undertaken by one officer twice a week, in order to improve contractor performance and identify service failures. Enforcement Officers are also used to undertake spot checks to investigate specific problem areas. Regular monitoring must be undertaken, however, it was noted that at times of heavy workload it may not be possible for spot checks to be undertaken.

Additional services may be requested from other departments. At present a list of officers authorised to request these services is not retained by the Waste Team. There is a risk that the officer requesting the additional services from the Waste Team has not ensured that there are sufficient funds within the budget to cover the cost of the service.

**1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.**

Financial penalties incurred by the contractor for poor performance are not documented and reconciled to the final invoice prior to payment. In addition correspondence issued to the contractor in relation to deductions to be made is not retained as evidence.

**1.5 Summary of recommendation(s)**

The report contains three medium and two low priority recommendations.

## **1.6 Audit Opinion**

An unqualified audit opinion must be given. The Department for Environment, Food and Rural Affairs (DEFRA) has introduced tonnage targets through Landfill Allowance Trading Scheme (LATS) on WDAs to reduce the amount of biodegradable waste being sent to landfill. At present there are no financial penalties in place for exceeding allowances. However a penalty of £150 per tonne over the allowance set will be introduced in target years of 2009/10 and 2012/13. Whilst any financial penalties would be the responsibility of ELWA, there would ultimately be a cost to the Authority. ELWA is currently well within its LATS allocation targets.

## **1.1 Introduction**

The 2007/2008 Internal Audit plan includes a follow up audit on the use of consultants. The original review in 2004/05 identified weaknesses which had not been fully addressed by the follow up review in 2005/06. There was a further review finalised in January 2007 which reported that 67% of the appointments examined still had weaknesses similar to those identified in previous reviews. These included no brief and/or formal contract/ official order detailing the service to be provided. Where there were contracts it was noted that the payments terms and conditions were inadequate therefore preventing officers from fully checking invoices to confirm that they are accurate and being made in accordance with the contract. It was also identified that officers were checking and signing off invoices without having any contract/agreed brief. This only allows officers to confirm the numeric accuracy but prevents them from undertaking any other checks.

These weaknesses continue to expose the Council to an increased risk of fraud and abuse over the appointment and management of consultants and is considered of sufficient magnitude that it has been included in Statement on Internal Control (SIC) weaknesses for 2007/8.

The total spend for Consultancy in 2006/7 was £1.1 million pounds based on the spend allocation to the FIS Consultancy sub code.

## **1.2 Critical Issues that require immediate Management attention**

Given the findings of this latest audit, CMT should review the outcome, corporate procedures applying to the use of Consultants, and the operation of the shared drive for the Consultants and Exceptions Register, and establish what controls and procedures they need in order to oversee and manage the spend on Consultants for LBH.

Whenever a Consultant is engaged by management for LBH details must be added to the 'Consultants Register' held on the shared drive.

Further guidance should be produced to remind Management that all budget spend on Consultants has to be coded to subjective code 183, where, on appointment suitable budgetary provision should be allocated.

Once engaged a budgetary forecast should be produced and monitored to prevent any overspend.

The exception process should be complied with for all commissions that are not planned to be subjected to competition, as required by the Contract Procedure Rules.

The 'Use of Consultants' should be included in the Corporate risk register.

### **1.3 Significant issues that require Management action to improve the control environment.**

Terms of Reference, Engagement Briefs or Work plans should be produced before the Consultant begins their commission with London Borough of Havering, this will enable formal monitoring of the work carried out and therefore ensure that what is required by the service is provided by the Contractor in a measurable sense.

Terms of Reference, Engagement Briefs or Work Plans should be included in the updated Contract Procedure Rules which is currently being updated.

### **1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

None.

### **1.5 Summary of Recommendations**

There are eight recommendations of a high priority.

### **1.6 Audit Opinion**

A qualified opinion is given based on the evidence found because the Corporate Consultant and Exceptions Register is not being fully completed and maintained by all Services. Therefore, reliable and accurate information is not available to CMT.

### **1.7 Conclusion**

Currently the Consultants and Exceptions Register is just an added administrative process which does not add value to London Borough of Havering or Service Areas, as it records only some of the Contracts let to some of the Consultants in some Service Areas. It is not a control nor does it add value to management.

To make it work as a control and add value to London Borough of Havering the Consultant and Exceptions Register needs to be updated with all contract details of all Consultants for all Service Areas. This information then needs to be managed and maintained to ensure it is accurate so that reliable management information can be produced. When the information contained in the Consultants and Exceptions Register is deemed to be complete and reliable then regular reports should be made to senior management so they can make corporate decisions on the use of Consultants for London Borough of Havering as a whole.

However, before this time consuming and resource intensive exercise is undertaken, CMT need to decide what information they need in order to oversee and manage the spend on Consultants for London Borough of Havering. Only after they have decided what they need and for what purpose, can a fully working control be developed which will aid the decision making process for managing the corporate spend on the use of consultants.



**1.1 Introduction**

The aim of the audit was to provide assurance to management that both the Main Accounting system used in 2007/8 year and the high level systems of control are functioning as intended.

This work is performed to form a view on the systems of internal financial control and, as such, control weaknesses identified will feed into the statement on internal control wherever applicable.

**1.2 Critical Issues that require immediate Management attention**

There were no critical issues identified that require immediate management attention.

**1.3 Significant issues that require Management action to improve the control environment.**

There were no significant issues identified that require immediate management attention.

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

There were no other matters that required management attention to ensure good practice.

**1.5 Summary of recommendation(s)**

The report contains no recommendations.

**1.6 Audit Opinion**

As there were no areas of weakness an unqualified opinion can be given.

## 1.1 Introduction

The debtors system "nucleus" supports the Council's central function for debt management and as such represents a key critical system which must be audited every year.

Debtors management concerns the raising of invoices for services provided by the Council, subsequent cash collection and debt recovery where outstanding debtors fall behind with payment and get into arrears.

Debtors raised invoices to the total of:

- 2006-07 28015 invoices to the value of £156,968.900
- 2007-08 27093 invoices to the value of £157,257,929.93

In the 2006-07 financial year £150,262,879.57 was collected and the current arrears figure as at 31-03-08 is:

over 90 days =	£6,409,649.04
60-89 days =	£ 714,388.02
30-59 days =	£1,034,424.89
0 - 29 days =	<u>£2,828,091.14</u>
<b>Total</b>	<b><u>£10,986,553.09</u></b>

## 1.2 Critical Issues that require immediate Management attention

There were one critical issue identified that requires immediate management attention as it was noted that debts are not being raised in a timely manner by services.

## 1.3 Significant issues that require Management action to improve the control environment.

It was found during the audit review that leavers are not deleted from the user ID database and lastly those uncollectible debts (where applicable) over six years old should be written off.

## 1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.

A new Debtors system will be implemented on Oracle towards the end of this financial year (2008-09). It is envisaged that all debts will be processed through this avenue rather than having separate debtors systems throughout the Authority.

## 1.5 Summary of recommendation(s)

The report contains one high and two medium recommendations.

## 1.6 Audit Opinion

Although an unqualified opinion is given, it is felt that the one critical area of concern could result in a long term financial loss. The problem lies with services not raising the invoices in a timely manner, and not with the debtors section.

## 1.1 Introduction

The 2007/2008 Internal Audit Plan includes an audit of the Swift Application System which is used for the management of Social Care records.

Swift is the core business system that supports operational and management information in the adult and children services.

Swift is used for the overall collation of social Care Key Performance Indicators and for the submissions of returns to Central Government.

Swift is supported in house by a dedicated ICT Swift team and externally from the system supplier Anite.

## 1.2 Critical issues that require immediate management attention

There were no critical issues identified that require immediate management attention.

## 1.3 Significant issues that require management action to improve the control environment.

There are 24 default group accounts for which user identities (IDs) and passwords are shared by the Swift team (ICT) members. Although the passwords are set to change every 42 days, these accounts all have superuser access and have access to make changes to the application. There are 311 icons on the Swift system that can be accessed by use of the shared default accounts.

Access permissions have been granted to groups and users are allocated to the groups. However, testing identified that some groups/teams have excess permissions. There is also no process in place to periodically review user and group permissions on the system.

Although the system has been set to lock out users after three unsuccessful attempts, a log is not generated or reviewed of unsuccessful login attempts.

## 1.4 Other matters identified that require management attention to ensure "good practice" within the control environment.

Swift users are not reminded of their password responsibility when granted access to the system. Although the ICT Policy is available on the intranet and includes a section on user password responsibility, we are informed by the Business Support Manager that users are not advised of this. The letter used to provide access also does not remind them of their password responsibility.

Remote access requests by the 3<sup>rd</sup> party is obtained via a call to the system administrator who logs a call with the service desk. A log of the supplier's activities on the system is also not routinely reviewed.

The Direct Payments Report and the Equipment Reports generated via the Business Objects tool were sampled and reviewed. Audit observed that the following were not included as standard on reporting:

- Report titles;
- Numbered pages and "End of report" message;

- The system name and date and time; and
- Audit was also informed that there will be no nil reports if there was nothing to report.

### **1.5 Summary of recommendation(s)**

The report contains no high risk recommendations, three medium risk recommendations and two low risk recommendations.

### **1.6 Audit Opinion**

An unqualified audit opinion can be given as audit is satisfied that there is an adequate control environment in place over the Swift Application.

To improve the control environment management need to ensure that:

- A process is established for allocating access to default accounts to named individuals instead of through generic shared accounts.
- Consideration is given to amending the letter communicating the new user details to include a reminder to users that their passwords are to be kept private, not shared and never written down.
- A process is established to review the group membership on the Swift application in order to ensure that access is allocated in line with user's job role.

The groups should also be reviewed and any excess permission identified should be removed.

- Security reports should be identified within the Swift application and reviewed regularly by the applications user administrators to identify:
  - Unauthorised access attempts (Password guessing/Hacking).
  - Unauthorised access attempts to sensitive transaction.
  - Changes in master data.
  - Changes in user profiles.

- A process should be established to ensure that a formal (written) request is received before remote access is granted to a third party on the Swift system.

Formal procedures should also be established for the regular management review of the 3rd party activities on the Swift - Anite system.

- Consideration is given to amending the format of the Business Object reports to include the following:
  - clear titles;
  - numbered pages and "End of Report" message;
  - the system name and date and time; and
  - nil reports if nothing to report.

**1.1 Introduction**

The Asbestos Management Unit is currently responsible for assessing and managing the removal of asbestos on each of the premises that are the responsibility of the London Borough of Havering (LBH). A key issue within this is health and safety and the responsibility of the Council to ensure that any works undertaken are carried out in as safe a manner as possible to protect the operatives, staff and the public.

**1.2 Critical Issues that require immediate Management attention**

There is currently no proactive plan for asbestos removal as removal usually only occurs as part of other capital works. A proactive plan would reduce the risk of incidences occurring as a result of deterioration of asbestos containing materials, especially in particularly old buildings or buildings regularly occupied by a number of people (e.g. schools).

**1.3 Significant issues that require Management action to improve the control environment.**

The new LBH Asbestos Management Policy and Code of Practice provides clear responsibilities of all officers involved in the detection, inspection and removal of asbestos. It is therefore essential that all officers involved are made aware of their responsibilities according to the new policy and able to easily access the policy at any time. As initiators of the new policy the Asbestos Management Unit have a responsibility to ensure that advertisement and distribution of the policy reaches all officers concerned.

The programme of surveys and re-surveys of LBH premises aims for an industry standard of a twelve month turnaround. Currently re-surveys are taking place an average of eighteen months since the last survey causing concern that the risk of deterioration of asbestos containing materials is increased.

All documentation and correspondence is currently retained in a paper format in the Asbestos Management Unit offices. A system allowing electronic copies of all paperwork would ensure a full audit trail, assist in managing ongoing works and help with business continuity arrangements. The ability to incorporate management reporting/information would also contribute towards this.

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

There are no other matters identified that require management attention to ensure “good practice” within the control environment.

**1.5 Summary of recommendation(s)**

The report contains one high and three medium priority recommendations.

**1.6 Audit Opinion**

A qualified opinion has been given due to re-surveys not meeting industry standard targets resulting in the potential deterioration of asbestos containing materials, and the lack of a proactive asbestos removal programme. Furthermore, officers external to the Asbestos Management Unit are not currently fully aware of their responsibilities in relation to Asbestos Management as per the new policy and there is some room to improve the robustness of management information.

## 1.1 Introduction

The 2007/2008 Internal Audit Plan includes an audit of e-Procurement within the Council.

Havering has developed the first stage of e-Procurement which allows a buyer to select items for purchase from an online catalogue or free text order from the online marketplace and add these to a requisition. After authorisation by a relevant approver an order is automatically generated and e-mailed to the supplier; e-Procurement assists in providing additional controls at the buyer stage as orders must be assigned to cost codes, which makes the payment process simpler and quicker.

The e-Procurement application has recently been rolled out to the users in the Council and approximately 200 to 300 people have been trained in its use. The application uses the functionality within the Council's Oracle Internet Procurement system and a user is then forwarded to the IDEA Marketplace where product selection takes place. Marketplace allows users to select goods from pre-approved suppliers to create a requisition.

At the time of the audit the Council was developing the e-invoicing function which will allow the supplier to electronically invoice the Council.

## 1.2 Critical issues that require immediate management attention

There were no critical issues identified that require immediate management attention.

## 1.3 Significant issues that require management action to improve the control environment.

There is no requirement for passwords used to access Oracle e-Procurement, to be complex. In addition to this the system only remembers one previous password.

Reports showing unapproved requisitions and non receipted goods are not produced. Approvers are reminded several times by e-mail to approve outstanding requisitions. Requisitioners are likewise reminded to receipt outstanding orders. Procurement administrators are also notified of outstanding e-Procurement actions.

The User Data and Security Policy states that the e-Business suite audit trail facility has been enabled for bank account and supplier details. An audit table for user responsibilities is being implemented but is not live yet.

## 1.4 Other matters identified that require management attention to ensure "good practice" within the control environment

There were no other matters identified that required management attention.

## 1.5 Summary of recommendation(s)

The report contains no high risk recommendations, three medium risk recommendations have been raised and no low risk recommendations.

## 1.6 Audit Opinion

An unqualified audit opinion can be given as audit is satisfied that there is an adequate control environment in place over the e-Procurement System.

To improve the control environment management need to ensure that:

- Logical access controls are enhanced to enforce complex passwords to be accepted and that the password history count is increased to a suitable count.
- Regular reports containing unapproved requisitions and non receipted purchase orders should be produced and reviewed on a periodic basis

The audit trail facility for User Responsibilities records all relevant information. This should be fully tested and signed off prior to implementation.

## **1.1 Introduction**

The Service Desk function at the London Borough of Havering is provided by IT and is run by four service desk operators who provide the single point of contact to around 2,800 users. Support is available from 8am to 8pm from Monday to Friday, with the 8 am - 9 am and 5pm -8pm shifts covered by computer operators.

The Service Desk currently use the 'Track-It' system, which has been in use since 2004. There are currently plans to replace this system.

The Council is currently in the process of developing its Service Desk practices to comply with those stated as ITIL (IT Infrastructure Library) best practice to the Business Systems Area, and this includes Service Desk Operations. The Service Desk Manager is ITIL qualified in Service Desk and an Incident Management Practitioner and all Service Desk Operators have passed the ITIL Foundation course.

An ITIL Service Support survey was carried out as part of this Audit, and found that the arrangements at the London Borough of Havering complies with ITIL in 6 of the 9 areas covered by the survey. These results are detailed at Annexe 1.

## **1.2 Critical issues that require immediate management attention**

There were no critical issues raised during the audit.

## **1.3 Significant issues that require management action to improve the control environment**

Track-It does not currently generate reports on call volumes handled by staff which can be used to determine the adequacy of Service Desk capacity.

Customer satisfaction surveys are not completed to provide feedback to management on customer satisfaction with the services.

Password privacy is not enforced: the system does not require passwords assigned by the Administrator or Service Desk Operators to be changed on initial log-on following a password change.

Strong passwords have not been implemented. There are no restrictions on password length, age, format or history.

## **1.4 Other matters identified that require management attention to ensure "good practice" within the control environment**

The system has not been set to lockout users after unsuccessful access attempts and users can make indefinite access attempts to the Track-It application.

## **1.5 Summary of recommendation(s)**

The report contains no high risk recommendations, four medium risk recommendations and one low risk recommendation.

## **1.6 Audit Opinion**

An unqualified audit opinion can be given as audit is satisfied that there is an adequate control environment in place over the Service Desk System.

To improve the control environment management need to ensure that:



- A workload analysis is produced detailing calls received and their impact to help with planning staffing levels for future service desk provision.
- Customer feedback on the service provided is sought and collated, evaluated and used to effect improvements and to demonstrate how the service desk is performing.
- Users are required to change assigned passwords upon first logon.
- Password controls within the Track-It application are further improved to require the use of passwords that cannot be easily guessed.
- Users are locked out of the system after three unsuccessful attempts, and require a password re-set by the System Administrator before access is re-instated.

<b>Payroll Management Summary</b>	<b>Schedule 3(n)</b>
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**1.1 Introduction**

Havering Council's total payments for Salaries and Wages for 2005/06 amounted to £185,454,554.30. This is comprised mainly of monthly payments to staff and pensioners and one-off payments to staff on short term engagements/ casual labour. There is therefore a need for sound systems of control to be in operation in order to minimise the risk of fraud and to ensure that staff are paid the correct amount by the correct date.

**1.2 Critical Issues that require immediate Management attention**

There were no critical issues identified that require immediate management attention.

**1.3 Significant issues that require Management action to improve the control environment.**

There are currently at least two variations of the PAMS 99 Leavers Form in use. As this form is used instead of the checklist recommended in the 2005/06 audit review inconsistencies on this form may lead to omissions or errors in data entry. A reminder should therefore be issued to all Heads of Service to ensure that the correct PAMS 99 Leaver Form is used[V1].

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

There are no other matters identified that require management attention to ensure “good practice” within the control environment.

**1.5 Summary of recommendation(s)**

The report contains one medium priority recommendation.

**1.6 Audit Opinion**

As there are no critical areas and the item requiring attention is only to improve the level of management information and existing controls an unqualified opinion can be given.

**1.1 Introduction**

This review is undertaken in accordance with the 2007-08 Internal Audit Plan. The review covered the pension administration system excluding investment and strategy and Finance.

The Pensions Section is responsible for administering the Local Government Pensions Scheme including the Additional Voluntary Contribution (AVC) Scheme. This includes maintaining individual scheme membership records, calculating transfer values and benefits, and liaising with the Council's Payroll Service to deduct employee's contributions and make pension payments.

**1.2 Critical Issues that require immediate Management attention**

There were no critical areas identified.

**1.3 Significant issues that require Management action to improve the control environment.**

There were no significant areas identified.

**1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.**

The current staffing levels are adequate to support the workload within the Pension section but there is a concern that when this is reduced in June 2008 the section will be unable to manage the workload resulting in a back log. Although the work that the temporary member of staff assists with may not be major areas there is a risk that non-compliance with legislative requirements due to a heavy workload may result in fines to the Council.

Although no weaknesses were found in the transfer of contributions to the Axis system, the annual reconciliation for one admitted body (Sports Leisure Management SLM) is yet to be completed for 2006-07 as a result of changes in management of SLM during the year. Completion of this will finalise all reconciliation of pension payments for the year.

**1.5 Summary of recommendation(s)**

The report contains two low priority recommendations.

**1.6 Audit Opinion**

An unqualified audit opinion may be given as the absence of reconciliations at the year end for one omitted body does not constitute a major weakness in an otherwise effective control system throughout the systems operated within the service.

## 1.1 Introduction

Part of the responsibility of the HR function is to ensure there are suitable policies, procedures and support for Managers to place the right person in the right job at the right time and to retain good performing staff in order to maximise productivity for the Council. The audit reviewed the systems and processes in place within Strategic Human Resources under the Management of the Assistant Chief Executive. LBH employs around 8000 staff of which there are approximately 3000 non-school staff.

## 1.2 Summary of Audit Findings

### Recruitment Procedures

A sample of 12 recent appointments were reviewed to assess the control environment for recruitment which also included CRB checks and signed contracts of employment. The timescales for recruitment were evaluated. The sample demonstrated that the Recruitment system is reasonable and sound. It would assist the process if as part of the Induction Process Managers are prompted to complete the appropriate forms for professional training and ensure that they are passed on to the appropriate personnel.

### Compliance with legislative requirements

The processes in place in order to establish how compliance with legislative and procedural requirements are adhered to, was assessed, and from the areas reviewed the system for HR staff to keep abreast of changing legislation is sound.

### Job descriptions and person specifications

The required supporting documentation was evident for the whole sample. Job Descriptions and Person Specifications are reviewed and updated at the time a post becomes vacant or when there is a restructuring.

### Organisational Chart

Structure charts are maintained using data from an I.T system called Cyborg by HR staff. On a monthly basis this information is reconciled with structure charts and finance/budget data and amended as necessary. During the Audit a major restructuring proposal at senior management level in the Council was announced. When the next Audit is carried out there should be a review to establish that an up to date corporate structure chart has been produced showing the new structure and that it has been distributed across the Organisation.

### Vacancies

As at February 2008 there was a 13% vacancy rate. This is monitored on a monthly basis along with over 30 other measurements on staffing issues. Members are also monitoring all posts that have been vacant for more than six months.

### Flexible working

Most types of working time arrangements are exercised allowing people with personal commitments to work at LBH and still maintain a healthy Work/Life balance.

The Council's Recruitment & Selection policy - section 7 Decision to Recruit, recommends that the Line Manager considers "*whether the post could be filled at different hours, grade or under more flexible arrangements, job share*" The various options available can then be included in the advertisement for recruitment. This sends out a positive message to the community that LBH are a forward thinking and flexible employer whilst also ensuring that the business need is satisfied. However, it could be possible for service delivery to be compromised if the method of working is not compatible with business need.

### **Staff Turnover**

The staff turnover for the period 2002 to 2006 as detailed in the Workforce Plan ranged between 11% and 12%. The average turnover for the Public Sector for this period was 11.5% and outer London Boroughs was 15%. The most current data for staff turnover is 13.7%. The HR Service Plan has objectives to support the systems required to maintain staff turnover at a healthy level. There needs to be a review of the current position to establish the progress made and survey staff to establish whether the actions taken so far have been communicated across the Organisation. Also, HR should formally consider the benefits of strengthening the interview process so that the Organisation can better understand how and why staff are moving on. Although there is not a high staff turnover compared to other London Boroughs, exit interviews provide a key control mechanism to ensure that the turnover is maintained at a healthy level and any isolated problem areas are identified and resolved. The cost of recruitment and selection is high in both staff time and finance and can adversely affect staff morale, so, is further reason to prevent as best as possible unnecessary staff turnover.

### **Performance Review**

The performance review process at LBH is called PDPA – Personal Development and Performance Appraisal. These interviews/meetings are carried out on an annual basis and carried out in two parts, one at the beginning of the year and a follow up half way through the year. HR check to see whether the PDPAs have been carried out, there is no assessment on their quality. However, there is 'Grandparent' checking by senior management who sign off each PDPA. This area was identified in the liP Health Check as an issue which needs some work on. HR are in the process of improving the PDPA process. The Investors in People (liP) Corporate Group should use the results of the Single Status process and align this to the PDPA system so that the performance management system can be based on competencies and behaviours in a measurable sense.

## **1.3 Audit Opinion**

As a result of this audit we have raised two high, two medium and two low priority recommendations.

Recommendations related to requiring a new structure chart for staff, induction process, flexible working, staff turnover and performance review.

An unqualified opinion can be given as the recruitment policies and procedures are sound. The data shows that staff turnover figures are reasonable compared with industry standards which would indicate that the retention practices are working. However, there are a number of imminent new and significant changes which could impact on the retention and performance of staff.

**1.1 Introduction**

This review is undertaken in accordance with the 2007-08 Internal Audit Plan. The review concentrated on examining the controls applied by the Directorate to address risks affecting internal controls and systems in place.

**1.2 Critical Issues that require immediate Management attention**

There were no critical areas identified.

**1.3 Significant issues that require Management action to improve the control environment.**

A lack of engagement of services regarding aspects of the capital monitoring process was noted during the audit. While it is acknowledged that some services demonstrate strengths in capital monitoring weaknesses were noted in all services tested which impacts on the overall capital programme. Documentation is often submitted late or not at all resulting in a general opinion that capital monitoring is not given the same priority as revenue monitoring. Reviewing monitoring timetables may help to encourage capital issues to be addressed alongside revenue monitoring and the provision of checklist to be used at meetings between services and finance would provide structure and ensure all issues considered. Provision of training for both services and finance would help to avoid confusion when following the capital monitoring process.

The current detail included in the CMT report to members does not highlight the long time periods taken to close schemes. Inclusion of more detail in the report would bring attention to outstanding issues and a requirement for an explanation from services would assign direct responsibility.

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

Review of current forms and documents used to remove unnecessary sections and incorporate new sections would provide consistency to the process.

**1.5 Summary of recommendation(s)**

The report contains one low and two medium priority recommendations.

**1.6 Audit Opinion**

An unqualified opinion is given as a result of our work in this area. Recommendations raised in this report serve to strengthen the system of internal control.

## 1.1 Introduction

The corporate IT Network Infrastructure and Data Centre provides the primary platform to enable the delivery of IT based public services and for the management of systems. As a result the 2007/2008 Internal Audit Plan includes an audit of the corporate Network Infrastructure and Data Centre including analysis of Wireless networks.

The Council is currently at the initial phase of adopting the best practice Information Technology Infrastructure Library (ITIL) service delivery and management framework. ITIL covers all aspects of IT service delivery and management activity and a formal ITIL aligned change control process has already been established under the Change Advisory Board (CAB) which includes network managers and members of the Business Systems management team.

Future network strategy and management arrangements will be dependent on the outcome of the recently issued Invitation to Tender for a corporate Disaster Recovery and network hardware replacement solution.

## 1.2 Critical issues that require immediate management attention

There were three critical issues identified that require immediate management attention.

The SekChek report identified 351 Organisation (O) and Organisational Units (OU) objects defined on the [Root]/LBH\_TREE. Of these, ten OUs are set to lock accounts after the incorrect login count threshold has been reached. However, as only two OUs have the detect intruder setting enabled (Testuser and MH) OUs have effective intrusion detection settings applied and 349 do not have security settings applied.

Checks on a sample of leavers in November 2007 noted that one account employee No 053165, which is still live, was used on 19/01/08 which was after the employee had left the Council on 01/01/08.

Of the 1452 Group and Role objects defined on the Council's system, 6% (84) of these do not have any members and may be redundant. A random Windows File Explorer testing for one of the internal audit staff showed that the group 'everyone' gives access to secure areas such as the BACS and other sensitive servers.

## 1.3 Significant issues that require management action to improve the control environment.

Review of the user accounts on the Network identified that some generic accounts are still registered on the system For instance. EDS, THE PLACE, NURSE, ENERGY PP, ELDAP accounts are still registered on the domain.

The client's standard for a password change interval is 40 days. However, password changes are not enforced for 235 users. This includes some users with security administration privileges, e.g. admin.

Old/previous passwords can be reused by 278 users indicating that the password history settings has not been enabled.

The Council's standard for a minimum password length is six characters. However, a zero-length (null) password can be selected for 142 accounts. This includes users with security administration privileges.

Audit review of the user set-up identified that the expiry date feature option has not been included.

All users are allowed to sign-on to the system via multiple devices concurrently at the same time.

494 accounts have not been used in the last three months, some of which are redundant accounts. Some accounts on the network were last used in 2001.

There are 15 servers defined in the directory. These should be reviewed to ensure that standardised device build configuration and security settings are established and applied, (e.g. use of lockout settings). The rights and privileges assigned to user accounts and groups are effectively controlled to prevent inappropriate shares being compromised by all users and effective virus detection and prevention software is installed and started on servers automatically when the system start-up occurs.

Dial up access to the secured gateway is logged and the log is provided to all departments. However, there is no process to monitor failed access attempts. The responsibility for monitoring has not been defined.

The following physical access controls to the server room were found to be weak:

- BT engineers are not usually escorted when working in the server room.
- There is no process for all visitors to sign into record that they have visited the server room.
- Loose cabling was in place for the NTL racks 27, 28, 29 and 30.
- Audit was unable to review the access log to the Computer Room.
- The equipment inventory is still being mapped by the server team in line with the current ITIL implementation requirements.

The following controls were found to be weak in the server room environment:

- The six Argonite gas cylinders for the fire suppression systems were last serviced in 30/01/06.
- The off site data storage facilities are located at Mercury House which is located less than 200 metres away from the main building.
- The PC17 (Unix Box) and communication servers are not supported by an Uninterruptible Power Supply. (UPS)
- There is no standby off site back up location.

There is currently no network strategy to guide the onward development of the network.



Although a change management process has been established, responses to the ITIL change control questionnaire identified an absence of control in the following areas:

- Dissemination of the purpose and benefits of change management within the organisation.
- Adherence to the procedures for initiating change.
- Not all changes are initiated through the agreed change management channels, for example the Change Advisory Board.
- Change management does not provide pertinent information concerning the number and percentage of changes approved or requested.
- Change management does not provide pertinent information concerning the business impact of changes that are requested or approved.
- Long term trend analysis is not performed or monitored to report on changes that have been made.
- Customer survey information is not being fed into the service improvement agenda.
- The customer's value perception of the services provided to them by ICT is not being monitored.

There are no formal support and maintenance contracts in place for the network devices and for network management.

Penetration tests are not regularly carried out on the Aruba network device that has been installed to check credential cracking.

#### **1.4 Other matters identified that require management attention to ensure “good practice” within the control environment**

631 computers are defined in the Council's Directory tree. Although there are policies in place for contractors, there is no process in place to review these to determine unintended workstations connected to the network.

#### **1.5 Summary of recommendation(s)**

The report contains three high risk recommendations, fifteen medium risk recommendations and one low risk recommendation.

#### **1.6 Audit Opinion**

A qualified audit opinion is given as there are weaknesses in the system of control. There are also some recommendations that are critical in nature and expose the Council to risk.

To improve the control environment management need to ensure that:

- An effective intrusion detection policy is established and consistently applied to harmonise the best use of the current intrusion settings where two of the existing 360 Novell Network Intruder Detection settings are effectively applied.

- Adequate steps should be implemented to minimise the risks associated with the use of leaver accounts.
- The current group memberships/security equivalences should be confirmed as appropriate as there are 26 accounts with Administrator rights and File Explorer testing showed that group 'everyone' gives access to secure areas such as the BACS server.
- All "Generic User IDs" should be confirmed as essential and specifically assigned to the individuals wherever possible.
- The Business Systems Policy should be amended to include a defined password change interval for the Council and the agreed Grace Login values.
- An appropriate password reuse standard should be applied to restrict users from the reuse of passwords, should be established in the Business Systems Policy and applied within the network operating system.
- The system setting to enforce strong passwords should be effectively applied as defined in section 8 of the Business Systems Policy.
- The user set up form should be amended to require an account expiry (review) date to be established for all users especially for accounts assigned to contractors and temporary staff.
- Consideration should be given to extending the restrictions from signing-on to multiple workstations at the same time to sensitive areas such as the BACS and Cashier PCs.
- Accounts that have not been used for three months are identified so that appropriate transfer of files to proxy owners can be completed and accounts closed.
- The following elements for system management should be established: Standardised device build configurations and security settings (e.g. use of lockout settings); effective control of rights and privileges assigned to user accounts and groups and effective virus detection and prevention software should be installed and started on servers automatically at system start-up time.
- A formal procedure should be established for the monitoring of remote access by the reporting and reviewing of security violations.
- Physical access controls should be improved for the access to the Computer Room within the Town Hall.
- Improvements should be made to the environmental controls that are in place within the Town Hall Computer Room.
- A formally documented and agreed network strategy should be established for the Council's network and how this will be developed in line with the main IT Strategy.

- Change Management processes should be developed to further improve change control within the Council.
- Written and formally documented support and maintenance agreements should be established with 3rd parties to provide support for the Council's network systems.
- A regular schedule should be established for penetration testing of the Council's network. This should be followed by a review of the results and an action plan for improvement.
- Appropriate incident management procedures should be established for dealing with intrusion detection events such as unauthorised devices connecting to the Council's network.

## 1.1 Introduction

The 2007/2008 Internal Audit Plan includes an internal audit of Data Protection controls with the London Borough of Havering.

The Data Protection Act 1998 came into force on 1st March 2000. This legislation gives individuals the right to request information held about them and for what purposes. Anyone processing personal data has a legal obligation to comply with the eight enforceable principles of the Data Protection Act 1998. These are as follows:

- Personal data shall be processed fairly and lawfully.
- Personal data shall be obtained only for one or more specified and lawful purposes.
- Personal data shall be adequate, relevant and not excessive in relation to the purpose or purposes for which they are processed.
- Personal data shall be accurate and, where necessary, kept up to date.
- Personal data shall not be kept for longer than is necessary for that purpose or purposes.
- Personal data shall be processed in accordance with the rights of data subjects.
- Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing and against accidental loss, destruction or damage.
- Personal data shall not be transferred to a country or territory outside the European Economic Area unless that country or territory ensures an adequate level of protection for the rights and freedom of data subjects in relation to the processing.

"Personal Data" means data which relates to a living individual who can be identified from that data (i.e. a name and address). This would also include an expression of opinion about the individual.

Some personal data known as "Sensitive Personal Data" is subject to special rules. Sensitive personal data is defined as:

- Racial or ethnic origin.
- Political opinions.
- Religious beliefs or other beliefs of a similar nature.
- Trade union membership.

- Physical or mental health or condition.
- Sexual orientation.
- The commission or alleged commission of any offence.
- Any proceedings for any offence committed or alleged to have been committed.

The Information Governance Team, managed by the Core Systems & Business Continuity Manager, are responsible for processing and co-ordinating all Subject Access Requests for the Council in compliance with Data Protection legislation.

Directorate Information Officers have been appointed within the various service areas of the Council and they help to provide a point of contact between the Information Governance Team and the individual service areas.

## **1.2 Critical issues that require immediate management attention**

There were no critical issues identified that require immediate management attention.

## **1.3 Significant issues that require management action to improve the control environment.**

Although Data Protection guidance is available on the Council's intranet site, there is currently no procedure in place to ensure that the requirement for compliance with the Data Protection Act 1998 is included as part of the new starter induction process.

There has yet to be an internal review carried out to ascertain if the Council is processing data and holding data in compliance with the requirements of the Data Protection Act 1998.

Review of a sample of data collection forms used by the Council indicated that they do not always contain a fair collection notice or opt out options from marketing and/or related activities.

The Council has not performed any further security analysis for its compliance with the Information Security best practice.

There were two instances identified where Data Sharing Protocols were in place. These were the Havering Community Safety Strategy Information Sharing Protocol and the Protocol of understanding for the sharing and exchange of CCTV images. In both instances there was no evidence to show that they had been subject to regular review to ensure their continued applicability since being first established.

Although the Business Systems policy provides high level guidance on data retention and destruction, there was no evidence to show that individual service areas had developed their own retention and destruction procedures (in line with the Business System Policy) for the data held within their areas.

## **1.4 Other matters identified that require management attention to ensure “good practice” within the control environment**

Formal identification is not always obtained prior to the release of information requested through a Subject Access Request.

The Code of Practice in respect of the Operation of the Romford CCTV system has not been subject to review since its date of issue in May 2006.

There is no policy and procedures for the use of personal data (including photographs) on the Council's website and in Council publications.

## **1.5 Summary of recommendation(s)**

The report contains no high risk recommendations, six medium risk recommendations and three low risk recommendation.

## **1.6 Audit Opinion**

An unqualified audit opinion can be given as audit is satisfied that there is an adequate control environment in place over Data Protection.

To improve the control environment management need to ensure that:

- The requirements of the Data Protection Act 1998 and the impact on staff is consistently covered as part of staff inductions.
- A compliance programme is established that would help to ensure that the Council collect processes and retain personal and sensitive data in compliance with the Data Protection Act 1998.
- Personal and sensitive data collection forms are reviewed to ensure that they include a fair collection notice as well as opt out options for the use of their data for marketing and/or other related activities within the Council.
- The Code of Practice for the operation of the Romford CCTV system is reviewed on a regular basis to ensure that it is up to date and accurate and reflects recent changes in legislation.
- A further analysis is performed to determine the level of IT Security compliance with Information Security Best Practice.
- For each Subject Access Request, adequate identification is obtained and checked prior to the release of information to individuals.
- Data sharing protocols are reviewed on a regular basis to ensure that they are up to date and accurate.
- Policies and procedures are established for the use of personal data (including photographs) on the Council's website and in Council publications.
- Data retention and destruction procedures are established for individual service areas.

## 1.1 Introduction

Income is received in many and varied ways and in a number of different places this situation is in part due to the closure of the main Cash Office in the Town Hall, on the 26<sup>th</sup> January 2007, at which time alternative systems for income collection have been devised.

The 'new' Cash Receipting system is called PARIS – 'Payment and Revenue Income Management Information System'. This has been implemented outside the Finance and Commerce Directorate.

There is still part of the old Cash Receipting system being used to process the bank tapes.

There is a working group implementing PARIS and the budget holder for any improvements lies within the Public Realm Directorate.

The Cash Control Team, who were transferred to Finance & Performance in November 2007, process monies received from the General, Head Office Collection and No.4 Housing Accounts. The items on the bank statements are processed through the PARIS system and any unidentified monies are investigated separately before being processed through PARIS on to the relevant FIS code. The bank tapes are processed through the 'old' cash receipting system on to the Financial Ledger and any suspense statement items (unidentified monies) are investigated manually and then processed through the PARIS cash receipting system.

The Cash Control Team processed 61,000 transactions with a financial value of £179 million (nb. this includes Treasury management) for the year 2007/08.

The Cheque Processing Team, who form part of the Public Realm Directorate, processed £44 million during 2007/08.

Monies are also collected at establishments around the Borough. The total income received by LBH (not including the main D/D runs such as Council Tax, NNDR etc) for the year 2007/08 was £251.4 million.

## 1.2 **Summary of Audit Findings**

### **Cash and cheque collection by Securicor and banking by Havering Staff**

There is no one system in place to ensure that all income:-

- is collected and receipted;
- is accurately recorded;
- is banked intact;
- is actually received by LBH; and
- complies with the Councils Financial Framework, Financial regulations, established departmental procedures and legislation.

No one person has overall responsibility for ensuring that all income due to the Authority is received. There is no definitive system or information about what is happening.

Gaining a full overview of what is collected, in what form and how it is processed so that it appears on the correct FIS code has not been fully achieved during this audit, as there are many people with a part view of the systems in place.

### **Post Opening in the Town Hall and Mercury House**

There is limited assurance that all postal and hand delivered remittances are accounted for properly and safeguarded against any kind of loss.

A formal working group to plan and organise the move to and operation of the 'new' post room, should enable the 'new' procedures to be sound and conform as closely as possible to the Department of Work and Pensions (DWP) guidelines, in the most cost effective manner. Within this process the needs of other users such as Housing Benefits and Finance together with input from Internal Audit on the control environment should be considered and a practical way forward agreed.

### **Safes in Mercury House**

There is no central knowledge or record of what is held in safes, how many there are and who uses them. A full review of safes in all the Romford Council Buildings would facilitate the completion of a full risk assessment.

### **Cash Control Team**

Currently the process to deal with items not credited directly to FIS is a time consuming manual process. The situation can be improved by implementing the new Browser Suspense Module for PARIS, however timescales for implementing the first module have yet to be agreed and the budget holder for the PARIS system is outside Finance & Commerce.

### **Bailiff's Income**

Bailiff's take their income to the Cheque Processing Team for them to process and transport to the Bank. It would be more efficient and cost effective for the Bailiffs to bank the monies themselves as they are out and about in the Community as part of their job.

### **Cheque Processing Team**

The processes in place in the Cheque Processing Team are sound, the Team Leader was the Chief Cashier and she has transposed all the good practice that was exercised in the Cash Office when it was operational

## **1.3 Audit Opinion**

There are too many systems to provide assurance that all income is identified and to determine whether all income due to the Authority is received, promptly processed and banked intact to the correct code.

Although robustness and efficiency of systems in place and consistency of approach needs to be addressed the audit has not identified any misappropriation.

An unqualified opinion is given for the overall system.



**1.1 Introduction**

This review is undertaken in accordance with the 2007-08 Internal Audit Plan. The review covered the Homes in Havering, Right to Buy System. Right to Buy is a system by which council tenants have the opportunity to apply, and if successful buy their council property.

Homes in Havering are responsible for managing tenant's applications for right to buy properties. Legal services are responsible for communicating between relevant departments and the buyer's solicitor.

**1.2 Critical Issues that require immediate Management attention**

There were no critical areas identified.

**1.3 Significant issues that require Management action to improve the control environment.**

There were no significant areas identified.

**1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.**

Staff should firstly be aware that the nominated money laundering officer is Vanessa Bateman, and that the legal department staff should receive money laundering training as soon as it becomes available

**1.5 Summary of recommendation(s)**

The report contains one low priority recommendation.

**1.6 Audit Opinion**

An unqualified audit opinion may be given as the report is only asking that training is given to staff members

**1.1 Introduction**

This review is undertaken in accordance with the 2007-08 Internal Audit Plan. The review concentrated on examining the controls applied by the Directorate to address risks affecting internal controls and systems in place in the delivery of the Supporting People programme.

**1.2 Critical Issues that require immediate Management attention**

There were no critical areas identified.

**1.3 Significant issues that require Management action to improve the control environment.**

There was one significant issues required to improve the control environment.

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

There are no other matters identified that require Management attention to ensure “good practice within the control environment.

**1.5 Summary of recommendation(s)**

The report contains one medium priority recommendation relating to commissioning body reports.

**1.6 Audit Opinion**

An unqualified opinion is given as a result of our work in this area.

## 1.1 Introduction

Officers working for the council are required, by the Employee Code of Conduct to declare any interests that may be relevant or potentially lead to a conflict of interest, with their role within the Council. Under the Local Government Act 1972, disclosures must be made in writing by any employee with direct / indirect pecuniary interests in contracts. Their Corporate Management Team (CMT) is responsible for identifying who needs to make a declaration, signing off the declarations made and ensuring that annual updates are provided.

Related party transactions are declarations of interest made by Members and Senior Management that must be reported in the annual final accounts.

There are occasions when Council employees are offered gifts and hospitality. In order to comply with the Council's "Employers Organisation Code of Conduct for Local Government Employees" the Council has introduced gift and hospitality registers in order to adequately demonstrate that appropriate action had been taken in these instances and to allow for monitoring and regular reviews to be undertaken.

## 1.2 Critical Issues that require immediate Management attention

No critical issues were identified during the audit review.

## 1.3 Significant issues that require Management action to improve the control environment.

Audit trails were not complete across all directorates therefore preventing audit to verify that all officers required to have a declaration of interests in place has one and that they are updated annually. A nominated officer from each directorate should maintain the register and report to the Corporate Management Team (CMT) regularly of any issues identified.

There is no deadline for completion of the annual update of the register of interest declarations and all new starters are not automatically required to sign declarations as part of their induction.

There was a lack of awareness regarding the policies in place. It is considered that regular promotion of both the register of interests and the gifts and hospitality register would resolve this.

It is felt that a central Gifts and Hospitality register would make arrangements across directorates more robust and ensure that update of intranet and checks on compliance are more efficient and effective.

Improvements could be made to the Gifts and Hospitality register entry slips, this would allow key information to be included, and a complete audit trail of decisions to be evidenced.

## 1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.

By amending the register of interests declaration form B, to identify the signatures on

the form, to include a “print name” space, the officer who has authorised would be apparent.

Many authorities have implemented electronic systems to facilitate the collection and monitoring of annual declarations of interest and entries on gifts and hospitality registers. This could be a consideration going forward in this area.

**1.5 Summary of recommendation(s)**

The report contains nine medium and one low priority recommendations.

**1.6 Audit Opinion**

No critical issues were identified during the audit review, a number of medium priority recommendations relating to the need for a more streamlined and embedded system of control have been identified. Overall an unqualified audit opinion is given.

## 1.1 Introduction

Adult Social Services & Transport help approximately 8000 vulnerable residents of Havering each year. Users of the service are frail older people and adults with disabilities or mental health problems. We have approximately 700 staff including home care workers, residential and day care workers, social workers occupational therapists and managerial/administrative staff.

Services are delivered via call centres, office bases, care homes, day care units and in peoples own homes. Many services are also delivered jointly with other agencies. For example, services to people with learning disabilities and with mental health problems are jointly commissioned and provided with the local Primary Care Trust and NHS Trusts.

In 2006, the Department of Health White Paper "Our Health, our care, our say" set out a new direction for improving the health and wellbeing of the population in order to achieve:

- Better prevention and early intervention for improved health, independence and wellbeing;
- More choice and a stronger voice for individuals and communities;
- Tackling inequalities and improving access to services; and,
- More support for people with long term needs.

The Local Government and Public Involvement in Health Act (2007) placed a duty on upper tier local authorities and PCTs to undertake Joint Strategic Needs Assessment (JSNA). JSNA is a process that will identify the current and future health and wellbeing needs of the local population, informing the priorities and targets set by Local Area Agreements and leading to agreed commissioning priorities that will improve outcomes and reduce health inequalities. The JSNA will be jointly undertaken by PCT and London Borough of Havering (LBH).

A Joint Intermediate Care Group has been set up with the purpose of planning, commissioning and monitoring the intermediate care services in Havering and to report on progress to the Chief executives and officers/Directors of LBH and Havering Primary Care Trust (HPCT).

## 1.2 Critical Issues that require immediate Management attention

There were the following critical issues identified, there is no overall code of governance in place for the partnership, governance arrangements need to be in place for the overall partnership filtered from senior management level, there is no joint risk register in existence and there is a need to have a formal agreement/contract for ICES.

## 1.3 Significant issues that require Management action to improve the control environment.

It was found during the audit review that there is a need to have a contingency in place in the event for the S75 agreement failing, the post for joint commissioning officer in mental Health needs to be utilised, there is an absence of a transition team to effectively plan resources, the risk share agreement will need close monitoring to ensure it reflects the spend, there is an absence of an overall complaints system and alternatives to ICES need to be evaluated.

**1.4 Other matters identified that require Management attention to ensure “good practice” within the control environment.**

There were none identified.

**1.5 Summary of recommendation(s)**

The report contains four high and six medium recommendations.

**1.6 Audit Opinion**

A qualified opinion is given based upon the lack of senior level governance arrangements, the budgetary arrangements for pooled services and lack of contracts/agreements in place which had contributed to mismanagement of the finances.

## **1.1 Introduction**

The role of the Service Finance Manager is dependent upon the needs of the Head of Service and Cost Centre Managers and as a result the level of involvement in budget monitoring will be different for each Service and cost centre.

Under Financial Regulation 1.3 cost centre managers are responsible for ensuring that the net controllable expenditure, i.e. expenditure minus income, on the Cost Centre(s) for which they are responsible, does not exceed the budget. They are accountable for the cost centre/activity budget and must be satisfied that all financial systems and processes operating within their service are appropriate and robust. Service performance monitoring is also an integral part of the budget monitoring process.

The Service Finance teams will support the Cost Centre Manager, but also need to have a level of independence to ensure information produced is accurate. This is because the CFO ultimately has a legal responsibility for the 'proper administration of the Council's financial affairs' and the Finance Managers have professional responsibility to the CFO through the Head of Financial Services.

## **1.2 Critical Issues that require immediate Management attention**

There were none identified.

## **1.3 Significant issues that require Management action to improve the control environment.**

It was found during the audit review that income monitoring needs improving in that grant income is not known to have been received by the authority and debts raised through Nucleus are not monitored for payments.

Profiling is not based on actual commitments as there is no corporate wide commitment accounting system in place. Some cost centre managers run their own local commitment systems and those examined proved to be effective and simple to use. There is no budget cut off date to allow the service to verify data and provide accurate financial reports. Both of these are corporate issues rather than service ones but need to be considered as these had been raised previously in adult social services budgetary control report.

## **1.4 Other matters identified that require Management attention to ensure "good practice" within the control environment.**

Training needs to be given to cost centre managers in the printing and understanding the data contained within these new reports from Discoverer.

The reintroduction of monitoring late payments made will also improve income monitoring and aid the reconciliation process.

## **1.5 Summary of recommendation(s)**

The report contains four medium and two low recommendations.

## **1.6 Audit Opinion**

An unqualified opinion is given based upon the evidence provided throughout the audit. There are a number of areas in the action plan which would enhance the current procedure.

## **SECTION 2 – EFFECTIVENESS OF INTERNAL AUDIT & DIRECTION OF TRAVEL**

In 2007 the effectiveness of the Internal Audit Service was self assessed against the Check List – Compliance with the Code of Practice for Internal Audit 2006.

The following is an extract from the report provided following the subsequent peer review of the self assessment completed by London Borough of Redbridge. “The self-assessment submitted by the London Borough of Havering has been scored on a 0 – 2 basis, 2 being fully implemented, 1 for partial implementation and 0 for non-implementation. A score of 336 has been achieved out of a possible 374 which places the review in the ‘Partial Compliance’ category, meaning the standard has been met with minor areas for improvement”.

The table below details recommendations and provides the Committee with an update regarding progress towards implementation.

<b>Recommendation</b>	<b>Priority</b>	<b>Management’s Response</b>	<b>Target Date (dd/mm/yy)</b>
That the corporate strategy for prevention and detection of fraud and corruption along with financial regulations give consistent advice as to which instances of fraud should be reported to Internal Audit.	Medium	Completed	01/12/2007
That a protocol be implemented defining the working relationship with regulators / inspectors and elected members.	Medium	Will be implemented as part of the review of the internal audit manual	30/09/2008
The Internal Audit Strategy detail how it will identify and address local and national issues and risks, in addition it should outline the resources and skills required to deliver the Internal Audit Strategy.	High	Completed	01/03/2008
The retention of documents policy needs to clearly make reference to the Data Protection Act and the Freedom of Information Act.	Medium	Will be implemented as part of the review of the internal audit manual.	30/09/2008
A formalised policy is required in terms of who can access audit files and records.	Low	Will be implemented as part of the review of the internal audit manual.	30/09/2008

A follow up peer review is currently underway and London Borough of Tower Hamlets have been provided with evidence to support the action taken to improve the audit service in the last year. The results of this exercise are yet to be reported, it is hoped a verbal update can be provided at the meeting.



The Internal Audit Team was forced to reassess its structure in 2007/08 as the two managers within the team left in quick succession early in the year shortly followed by a Senior Auditor. Interim management arrangements were put in place via a part time secondment from Deloitte and Touche. In March 2008 this secondee was permanently employed as the Internal Audit & Corporate Risk Manager.

During 2007/08 the structure of the team has been reviewed. An Audit Technician post was created and filled, and this officer is now working towards his Association of Accounting Technicians qualification whilst being trained basic auditing techniques. Temporary Principal Auditor – Systems and Contracts and Senior Auditor – Proactive Fraud posts were also created to trial how these new posts supported achievement of the teams objectives. An Agency member of staff was appointed to the Principal Auditor post and an auditor seconded from the systems audit part of the team to the fraud team. As a result of these changes there is now an establishment of ten in the audit team and this has allowed the size of the audit plan to increase by approximately 400 days.

Currently there are eight team members in audit, however two are agency employees. Two of the four vacant posts have been advertised and interviews take place in June.

A review of the success of the additional fraud post in the team is underway and if it is agreed to create a permanent post then it is hoped that this will be advertised in July 2008, along with the vacant auditor post. Until this time the salaries attributed to the vacant posts is being allocated to the cost of agency staff, in order to ensure that reasonable momentum is achieved in the delivery of the 2008/09 audit plan.

## SECTION 3 – SIC ACTION PLAN

Significant Issue and action already taken.	Actions (planned) <i>Deadline March 2008.</i>	Responsibility	Progress
<p><b>1) Although significant progress has been made in this area the following areas remain a priority: disaster recovery, business continuity and succession planning.</b></p> <ul style="list-style-type: none"> <li>• Business Continuity Policy Strategy and Plan in place.</li> <li>• Business Impact Analyses undertaken.</li> <li>• Disaster Recovery Solution identified.</li> <li>• Council Continuity Plan in place.</li> <li>• Documentation of systems.</li> <li>• ICT plan in place.</li> </ul> <p><i>This issue is now satisfactorily closed and will not feature on the 2007/08 Annual Governance Statement.</i></p>	<ul style="list-style-type: none"> <li>• Ensure all policies are reviewed and approved periodically.</li> <li>• Further evolution of the Business Continuity Strategy and Plan.</li> <li>• Specific focus on succession planning.</li> <li>• Ensure sufficient skilled staff to deliver key services.</li> <li>• Ensure staff recruitment and retention processes comply with relevant legislation and local policy.</li> <li>• Business continuity specialist to support production of service level continuity plans.</li> <li>• Internal Audit in 2007/08 of the Council's business continuity arrangements and compliance with relevant guidance.</li> </ul>	<p><b>Head of Land &amp; Property Services</b></p> <p><b>Head of Business Systems</b></p>	<ul style="list-style-type: none"> <li>• All Council Business Continuity (BC) work now in accordance with BS25999 (BC Standard Guidance).</li> <li>• Emergency Planning (EP) &amp; BC Policies reviewed and rewritten and a procedures manual written.</li> <li>• Corporate BC Plan reviewed and rewritten.</li> <li>• Major Emergency Plan (MEP) reviewed.</li> <li>• Access Database designed and constructed to undertake full review of Business Impact Analysis at Section and Service Level.</li> <li>• Database used to review DR resource requirements (including people [type and skill set], ICT, equipment etc).</li> <li>• Training to 2<sup>nd</sup>/3<sup>rd</sup> Tier Managers throughout each service to a) educate re: BC b) to devolve responsibility for BC to Section management and c) to complete data input into database.</li> <li>• Instructions Manual for use of database in place</li> <li>• Survey of Suppliers' BC Practises and resilience preparation undertaken via web survey (run by Procurement).</li> <li>• Homes in Havering (HiH) (key partner) also employing database to deliver robust BC Planning.</li> <li>• All Policies, Procedures, Instruction manuals etc on Intranet. Internet site (public facing) reviewed and redeveloped.</li> <li>• ICT to receive output from database to develop DR plan. This is expected by end of 2007.</li> <li>• The tender process for the establishment of a DR capability is now at the short list stage and is moving according to plan.</li> </ul>

<p><b>1) Although significant progress has been made in this area the following areas remain a priority: disaster recovery, business continuity and succession planning.</b></p> <ul style="list-style-type: none"> <li>• Business Continuity Policy Strategy and Plan in place.</li> <li>• Business Impact Analyses undertaken.</li> <li>• Disaster Recovery Solution identified.</li> <li>• Council Continuity Plan in place.</li> <li>• Documentation of systems.</li> <li>• ICT plan in place.</li> </ul> <p><i>This issue is now satisfactorily closed and will not feature on the 2007/08 Annual Governance Statement.</i></p>	<ul style="list-style-type: none"> <li>• Ensure all policies are reviewed and approved periodically.</li> <li>• Further evolution of the Business Continuity Strategy and Plan.</li> <li>• Specific focus on succession planning.</li> <li>• Ensure sufficient skilled staff to deliver key services.</li> <li>• Ensure staff recruitment and retention processes comply with relevant legislation and local policy.</li> <li>• Business continuity specialist to support production of service level continuity plans.</li> <li>• Internal Audit in 2007/08 of the Council's business continuity arrangements and compliance with relevant guidance.</li> </ul>	<p><b>Head of Land &amp; Property Services</b></p> <p><b>Head of Business Systems</b></p>	<ul style="list-style-type: none"> <li>• All Council Business Continuity (BC) work now in accordance with BS25999 (BC Standard Guidance).</li> <li>• Emergency Planning (EP) &amp; BC Policies reviewed and rewritten and a procedures manual written.</li> <li>• Corporate BC Plan reviewed and rewritten.</li> <li>• Major Emergency Plan (MEP) reviewed.</li> <li>• Access Database designed and constructed to undertake full review of Business Impact Analysis at Section and Service Level.</li> <li>• Database used to review DR resource requirements (including people [type and skill set], ICT, equipment etc).</li> <li>• Training to 2<sup>nd</sup>/3<sup>rd</sup> Tier Managers throughout each service to a) educate re: BC b) to devolve responsibility for BC to Section management and c) to complete data input into database.</li> <li>• Instructions Manual for use of database in place</li> <li>• Survey of Suppliers' BC Practises and resilience preparation undertaken via web survey (run by Procurement).</li> <li>• Homes in Havering (HiH) (key partner) also employing database to deliver robust BC Planning.</li> <li>• All Policies, Procedures, Instruction manuals etc on Intranet. Internet site (public facing) reviewed and redeveloped.</li> <li>• ICT to receive output from database to develop DR plan. This is expected by end of 2007.</li> <li>• The tender process for the establishment of a DR capability is now at the short list stage and is moving according to plan.</li> </ul>
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<p><b>2) Continued focus is required to ensure robust processes for the Corporate handling of complaints.</b></p> <p><i>At March 2008 the significant efforts to address the issues in this area are yet to be fully completed. This issue will feature on the 2007/08 Annual Governance Statement and be monitored during 2008/09.</i></p>	<ul style="list-style-type: none"> <li>• Thorough review of approach.</li> <li>• Implementation of the Cabinet report recommendations;</li> <li>• Enhancements to the technology and a wider roll out. This to be complete by March 2008.</li> <li>• Report considered by cabinet in August.</li> </ul>	<p><b>Head of Customer Services</b></p>	<ul style="list-style-type: none"> <li>• Overview and Scrutiny topic group investigation reported to Adjudication and Review Committee and then Cabinet in July 2007. Report Outlines: <ul style="list-style-type: none"> <li>➢ Chief Executive has launched new Values for staff in the Council.</li> <li>➢ Chief Executive and Corporate Management Team have spent time considering the Customer Services Policy.</li> <li>➢ Restructure of Senior Management has considered this to be an area where increased focus and capability is required.</li> <li>➢ Strong Commitment to Complaints and this is communicated out along with the escalation procedures.</li> <li>➢ New process launched.</li> <li>➢ Training programme commencing in June 2008.</li> <li>➢ CRM system being enhanced to assist in improving complaint handling</li> </ul> </li> </ul>
<p><b>3) There is a continued need for focus on service pressures and budgetary control within Adult Social Services so this remains an area of focus.</b></p> <p><i>Although pressures continue in this area, it is concluded that internal control issues have been addressed. Therefore this issue will not feature on the 2007/08 Annual</i></p>	<ul style="list-style-type: none"> <li>• Strategic review of service delivery.</li> <li>• Formal report for CMT and Audit Committee to be compiled in response to the 2006/07 audit report and resulting recommendations.</li> <li>• Continue with the system integrity project and improve control and information.</li> <li>• Recruitment to key posts.</li> <li>• Increased financial delegation and</li> </ul>	<p><b>Group Director Sustainable Communities</b></p> <p><b>Group Director Finance &amp; Commercial</b></p>	<ul style="list-style-type: none"> <li>• Monitoring meetings periodically.</li> <li>• Local action plan is monitored and reported.</li> <li>• A review of departmental budgetary control in 2006/07.</li> <li>• Additional Senior Management support introduced and reporting lines adjusted.</li> <li>• Overall improvement plan in place by interim management support.</li> <li>• Formal report for Corporate Management Team and Audit Committee being prepared pending review by interim management support.</li> <li>• Business Management post now covered and working well along with additional H/R support. Structure being reviewed to ensure such roles are in permanent structure</li> <li>• Accountability and delegation levels reviewed amended and enforced.</li> </ul>

<p><i>Governance Statement.</i></p>	<ul style="list-style-type: none"> <li>responsibility.</li> <li>Improved income systems.</li> <li>Follow up of the 2006/07 audit report.</li> </ul>		<ul style="list-style-type: none"> <li>Work on improving areas continues including income, staffing, contracts and overall strategy.</li> <li>Project for automation of Homecare system and Homecare modernisation commenced.</li> <li>Formal arrangements with the PCT including new protocols to resolve issues being finalised.</li> <li>Performance management system implemented within service.</li> <li>Regular detailed projections being prepared for 2008/09.</li> <li>Future needs assessments taking place.</li> <li>Close working contact with all involved.</li> </ul>
<p><b>4) Working in partnership to achieve joint objectives will continue to be a key area of focus in the coming year. Progress is documented in the last year however continued effort is required to ensure robust arrangements exist and benefits to the community are maximised.</b></p> <p>Although significant efforts and progress have been made in this area. It continues to be an issue and ensuring consistent approaches are applied across the Council is a challenge</p>	<ul style="list-style-type: none"> <li>Focus on building corporate knowledge of all current and potential partners.</li> <li>Ensure partnership organisations have adequate governance arrangements to promote community outputs.</li> <li>Review database to assess any issues.</li> <li>Ensure risk management arrangements assist in achievement of objectives.</li> <li>Monitor reporting arrangements.</li> <li>Internal audit in 2008/09</li> </ul>	<p><b>ACE Strategy &amp; Communications</b></p>	<ul style="list-style-type: none"> <li>Partnership risk report has been produced and distributed.</li> <li>Self evaluation checklist produced.</li> <li>A partnership toolkit has been rolled out.</li> <li>The Toolkit was launched at an event where the leader and the chief executive spoke to key staff of the Council and partner organisations.</li> <li>Audit completed with an unqualified opinion.</li> <li>The partnership toolkit is available on a dedicated intranet area together with a database of partnerships. This was reported fully to the Audit Commission as part of the recent Use of Resources (UoR) self assessment.</li> <li>A national management trainee has been working with Heads of Service to further develop our approach to partnerships. A report has been provided to CMT.</li> </ul>

<p>for 2008/09. This issue will therefore feature in the 2007/08 Annual Governance Statement.</p>			
<p><b>5) Since the formation of Homes in Havering, the Council's Arms Length Management Organisation (ALMO), the Council is presented with new challenges and although arrangements have been put in place it is imperative that the Council ensures that robust management information is available.</b></p> <p>Although significant efforts and progress have been made in this area. The arrangements between Homes in Havering and the Council are significant in the achievement of the Council's vision and goals. This issue will therefore feature in the 2007/08 Annual Governance Statement.</p>	<ul style="list-style-type: none"> <li>• Ensure that strong links exist between the two organisations to ensure support in the achievement of individual and joint objectives.</li> <li>• Ensure channels for communication and provision of management information are maintained.</li> <li>• Support to ALMO in preparing for the Audit Commission's inspection in September 2007.</li> </ul>	<p><b>Head of Housing and Health</b></p>	<ul style="list-style-type: none"> <li>• The strong links can be evidenced by the minutes of frequent meetings between the Head of Housing and the C/Ex of HiH and the HiH Executive Departmental Management Team (EDMT). Also frequent meetings occur between staff within the Council's Financial Services and the Company Secretary of HiH. The minutes show the range of issues discussed, clear decisions with Action Leader and the fact that progress is made on these issues.</li> <li>• The relationship between the Council and the ALMO was inspected by the Housing Inspectorate in September 2007 and, although their report is not ready for publication the Inspectors stated that the Council ALMO relationship was strong.</li> <li>• Every month HiH performance staff provide the Performance Manager within the Housing Service a Performance Indicator Management Information (PIMI) or Performance Indicator and Management Information Booklet. The Housing Performance Manager audits the results and will query any result that is not consistent. The PIMI is then referred to a Performance Board made up of the Housing Needs &amp; Strategy Manager, Housing Performance Manager, HiH Chief Executive and HiH EDMT. The results and joint action are then reported to the Lead Member and Chair of the Board at the end of the meeting. Evidence for this is the PIMI and minutes.</li> <li>• Council staff and Councillors have been very involved in supporting the ALMO for the Inspection through the</li> </ul>

			<p>Paths to Excellence Meetings. These were all minuted and clearly show how involved senior Council staff were and still are.</p>
<p><b>6) Issues have been identified with regards to compliance with Contract Procedures Rules in terms of the Council's use of consultants.</b></p> <p><i>Sufficient progress to address this issue has been achieved and therefore it will not feature on the 2007/08 Annual Governance Statement.</i></p>	<ul style="list-style-type: none"> <li>• Annual review of the use of consultants by a Strategic Procurement Steering Group.</li> <li>• Follow up audit of compliance with revised procedures in 2007/08.</li> <li>• Embed systems of management of consultants.</li> </ul>	<p><b>Head of Financial Services</b></p>	<ul style="list-style-type: none"> <li>• The issue of guidance on the appointment of consultants.</li> <li>• Establishing a shared area for lodging appointments electronically, in a register; which can be easily reviewed by officers.</li> <li>• Annual report of use.</li> <li>• A report was submitted to CMT March 2007. CMT agreed a number of actions to address the control weaknesses identified in the audit report.</li> <li>• Guidance was issued by the Group Director Finance &amp; Commercial in March 2007.</li> <li>• A consultants' checklist has been designed to enable managers to record the reasons why they are making an appointment, and to provide guidance on the nature of such appointments.</li> <li>• The Financial Framework has been updated.</li> <li>• A shared area has been established and a template created for managers to record consultant appointments.</li> <li>• The annual financial review of consultant spend is currently being compiled and this will be considered in due course by Strategic Procurement Steering Group (SPSG).</li> <li>• The Use of Consultants Audit has now been completed; although some issues remain there is an improvement in the system of control in this area.</li> <li>• A follow up audit is planned for 2008/09 to provide management with further assurance that implemented controls are operating as intended.</li> </ul>

<p><b>7) The quality of the data being produced within the Council and how this data is used is key to the performance management systems as well as being integral to sound decision making at all levels of the organisation.</b></p> <p><i>This issue is now satisfactorily closed and will not feature on the 2007/08 Annual Governance Statement.</i></p> <p><i>However, data quality of management information from 3<sup>rd</sup> parties inc partner organisations is an issue to be considered, with the movement to Corporate Area Assessment.</i></p>	<ul style="list-style-type: none"> <li>• Review arrangements in place to ensure quality data is produced first time.</li> <li>• Ensure that appropriate actions are taken to address issues identified during monitoring and reporting of data.</li> <li>• Raise awareness of officers with regards to the importance of data quality.</li> </ul>	<p><b>ACE Strategy &amp; Communications</b></p>	<ul style="list-style-type: none"> <li>• Aug '07 Data strategy was reviewed and revised accordingly in consultation from internal audit.</li> <li>• Action Plan agreed listing issues identified in the Data Quality Review. Actions completed include; 1 The Council's approach to data quality covers all key performance information reported and is used by the Council to inform decision making. 2 The Council ensures all information systems are clearly documented and that robust quality assurance arrangements exist for all key performance information. 3 The Data Sharing Protocol for Havering Partnership has been strengthened and signed up to, along with the Performance Management Framework for the HSP. 4 Staff roles and responsibilities for data quality are defined explicitly. 5 Senior approval and authorisation is obtained for all performance data submitted to central government departments and other external bodies.</li> <li>• Monthly updates and discussions on data quality are channelled through the Corporate Performance Management Group.</li> <li>• Report due 01/08 to CMT on management arrangements for Data Quality and the training requirements / updated guidance sheets for this and the e-performance management database that we are currently acquiring.</li> <li>• External audit of 2006/07 statutory performance indicators resulted in no qualifications and four amendments, our best ever result.</li> </ul>
<p><b>8) The transport operation is also an area for focus going forward.</b></p> <p><i>This issue is now satisfactorily closed and</i></p>	<ul style="list-style-type: none"> <li>• Ensure clear accountability for control over activity and subsequent charges.</li> <li>• Increase transparency in charges.</li> </ul>	<p><b>Head of Housing and Health</b></p> <p><b>Group Director Finance and Commercial</b></p>	<ul style="list-style-type: none"> <li>• Regular budget monitoring of revenue spend that is minuted. Also reviewing the 2006-2007 out-turn to analyse lessons to be learned in relation to causes of over-spend.</li> <li>• There has been a comprehensive review of costs and recharges and move to a clear basis for charging in a</li> </ul>



<p><i>will not feature on the 2007/08 Annual Governance Statement.</i></p> <p><i>However more specific issue, related to fuel usage, has been identified and will be monitored in 2008/09.</i></p>	<ul style="list-style-type: none"> <li>• Ensure efficient and effective use of resources.</li> <li>• Review of potential options for long-term delivery of service.</li> </ul>		<p>transparent and controllable way for clients.</p> <ul style="list-style-type: none"> <li>• Accounting arrangements simplified.</li> <li>• Service Level Agreement being finalised.</li> <li>• Review of service with Lead Members, Client Departments and in light of Depot Re-Provision continues.</li> <li>• Regular exception reporting being put in place on all matters.</li> <li>• New computer system Tranman implemented.</li> </ul>
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## **SECTION 4 – FRAUD AND INVESTIGATION WORK**

### **Schedule 4 - Fraud Investigations completed 1<sup>st</sup> January to 31<sup>st</sup> March 2008**

<b>Ref</b>	<b>Description</b>	<b>Result of audit/Action taken</b>
1.	(T8kaan) Inappropriate comments added to internal computer system.	Member of staff disciplined.
2.	(T8kaas) Alleged mis representation of entries on flexi records.	Insufficient evidence in order to pursue. Management to review records maintained.
3.	(T8kaax) Preparation and attendance at Employment Tribunal.	Agreement reached prior to tribunal.
4.	(T8laac) Deletion of work related emails and excessive use of Groupwise system.	Investigation identified misuse and abuse of Groupwise system for personal use and deletion of working documents. Management terminated Agency member of staffs contract.
5.	(T8laad) Alleged cheque fraud - Housing Benefit cheque altered to £8,500	Member of public attempted to claim £8,500 from Council having attempted to clear cheque for payment although cheque not cleared through banking system. Metropolitan Police investigating a number of similar fraudulent cheques.
6.	(T8jaab) Misuse of telephones for personal use.	Investigation identified excessive personal use when presented with evidence Agency member of staff subsequently resigned.
7.	(T8kaah) Right to Buy Application. Alleged that home was no longer principal home of tenant/applicant.	Investigation confirmed tenant living with relatives. Tenancy relinquished following meeting with relatives and tenant.
8.	(T8kaal) Alleged sublet	Insufficient evidence, investigation unable to confirm sublet following various enquires.
9.	(T8laab) Alleged sublet	Insufficient evidence, investigation unable to confirm sublet following various enquires.
10.	(T8kaao) Abuse of Council time by staff	Insufficient evidence at time of investigation. Management to monitor attendance, time and visiting records.
11.	(T8kaau) Alleged unauthorised expenditure and misappropriation of equipment.	Following investigation and interviews member of staff resigned prior to disciplinary process.
12.	Review allegations relating to behaviour.	Lack of response from tenants to confirm various matters resulted in insufficient evidence being available.
13.	(T8kaaw) Alleged sublet	Occupancy of tenant confirmed. No case to answer.
14.	(T8laaa) Alleged sublet	Insufficient evidence, investigation unable to confirm sublet following various enquires.

<b>Ref</b>	<b>Description</b>	<b>Result of audit/Action taken</b>
15.	(T8kaaa) Unauthorised expenditure and misappropriation of equipment	Investigation identified unauthorised expenditure and use of equipment. Management to recover outstanding payments and retrieve equipment.
16.	(T8kaar) Fraudulent Student Loan applications	Investigations confirm false documentation. Two cases referred to Metropolitan Police. Applications suspended and management to recover repayment of previous loans/grants.
17.	(T8laan) Fraudulent/altered cheque.	Investigations resulted in Bank refunding payment.
18.	(T8laao) Alleged continued employment of member of staff following prosecution for Housing Benefit Fraud.	Allegation confirmed as correct but management review decision to continue employment. Further evidence confirmed that member of staff also over claimed Single Person Discount and repaid £2,200. Management to review employment status.
19.	(T8kaav) Attempted cashing fraudulent/altered HB cheque.	Cheque not cleared. This was one of a number of cheques being altered and the matter has been passed to Kent Police who are dealing with the original cheque incident.
20.	(T8laak) Groupwise emails not being access or reviewed and alleged misuse and abuse of the Groupwise system for personal use.	Evidence produced for management confirming allegations and when interview member of staff resigned.
21.	(T8jaah) Fraud Hotline reports	Three cases reported and six investigations completed either by Internal Audit or Council Tax.
22.	(T8jaai) Requests from other agencies	Seven requests received and information supplied.

As at 1<sup>st</sup> April 2008 the following cases were being progressed.

**Schedule 5 - Current Investigations.**

<b>Ref</b>	<b>Description</b>
T8gaax	National Fraud Initiative 2006/07.
T8iaao	Illegal payments to member of staff.
T8iaar	Non adherence to procurement procedures.
T8jaah	Fraud Hotline.
T8jaai	Other Agency requests for information.
T8jaaj	Review of proxy access requests.
T8kaaj	Theft and misappropriation of receipts.
T8kaay	Alleged misuse and abuse of Internet during working day by member of staff.
T8kaaz	Overcharging of leaseholder repair costs.
T8laag	Witness statement and appearance Employment Tribunal.
T8laah	Improvement grant and HB claim.
T8laai	Alleged misuse and abuse laptop by member of staff.
T8laaj	HB overpayment request to investigate from other local authority.
T8laal	Occupancy and sublet checks.
T8laam	Review of web based emails – Usage during the working day by staff.
T8laap	Internet misuse and abuse – Group report
T8laaq	Use of fuel bearer cards and fuel cards.

## SCHEDULE 6 - FRAUD HOTLINE REPORTS 07/08

Cases that have been reported are either concluded being investigated or passed to other areas of the Council to review.

RefNo	Caller	Issue	Details/result of investigation
009/07	Member of the public	Day to day repair costs which leaseholders are currently receiving.	Information discussed with Head of Service who has been asked to review the claim and justify the reallocation of charges and confirm work has been completed. <i>Head of Service to report outcome to Internal Audit by April 2008. Elevated to Group Director for action.</i>
010/07	Member of the public	The caller stated that her former husband was claiming Single Person Discount (SPD) but she was aware that other individuals including her daughter were also living at the property.	A review of Housing Benefit and Council tax identified that neither SPD nor Housing Benefit were being claimed. <i>No further action required.</i>
011/07	Anonymous	A tenant is in receipt of SPD claiming that only herself and her child live at the property, however the caller alleges that the tenant moved her boyfriend in a few months ago.	A review of the relevant account on Academy Council Tax found that the tenant is claiming single person discount. <i>Passed to CT Investigation Team. SPD cancelled.</i>
012/07	Anonymous	The owner of a property was renting a maisonette and running a business from the same address. The caller believes the property is receiving a SPD but he believes more than one person lives there. The caller also concerned that there is building works going on that do not have planning permission.	A review of Council Tax accounts cannot take place at the moment due to annual billing. <i>Passed to CT investigation Team. Details also passed to Planning to consider allegations of building works. No evidence available to confirm allegation following inspections.</i>
013/07	Anonymous	Allegation that a member of the public is using a Blue Badge that has been issued to someone else.	Various checks to be carried out including HB records, Blue Badge records re lost or stolen cards and visit member of the public to establish if badge is being used. <i>Investigation in progress.</i>

## Section 5 - SUMMARY OF INTERNAL AUDIT RECOMMENDATIONS

### Categorisation of recommendations

High: Fundamental control requirement needing implementation as soon as possible

Medium: Important Control that should be implemented

Low: Pertaining to Best Practice

### Schedule 7 - Outstanding Internal Audit Recommendations – 2003/04

Review in 2003/04	HoS Responsible	Outstanding			Position as at end Dec 07		
		High	Medium	Low	In Progress	Not Started	Position/ Status Unknown
Community Care Packages	Bob Morgan		1		1		
Homecare	Bob Morgan		1		1		
Community Care Placements	Bob Morgan		1		1		
Libraries	Dylan Champion		1		1		
<b>Total</b>		<b>0</b>	<b>4</b>	<b>0</b>			

**Schedule 8 - Outstanding Internal Audit Recommendations – 2004/05**

Review in 2004/05	HoS Responsible	Outstanding			Position as at end Dec 07		
		High	Medium	Low	In Progress	Not Started	Position/ Status Unknown
Crime & Disorder Reduction CCTV	Christine Dooley		2		2		
<b>Total</b>		<b>0</b>	<b>2</b>	<b>0</b>			

**Schedule 9 - Outstanding Internal Audit Recommendations – 2005/06**

Review in 2005/06	HoS Responsible	Outstanding			Position as at end Dec 07		
		High	Medium	Low	In Progress	Not Started	Position/ Status Unknown
Prov of Services Learning Disabilities	Bob Morgan		1		1		
Stock & Plant Pro-Active	Barry Kendler		1		1		
Personnel	David Ede		1		1		
Provision of Residential Placements and Home Care for the Elderly	Bob Morgan/Steve Cody		2		2		
Repairs and Maintenance Contracts	Mark Butler			2	2		
E Commerce	Dylan Champion		1		1		
New Employees Pro-active	David Ede		1		1		
<b>Total</b>			<b>7</b>	<b>2</b>			

**Schedule 10 - Outstanding Internal Audit Recommendations – 2006/07**

Review in 2006/07	HoS Responsible	Outstanding			Position as at end Dec 07	Not Started	Position Unknown
		High	Medium	Low	In Progress		
Honoraria	David Ede		1	1	1	1	
Construction online	1- Christine Dooley		1				
Commissioning of Transport Services within Childrens' Services	Barry Kendler, Maurice Emberson		2		2		
Use Of Consultants	Mike Stringer		1		1		
Constitution	Christine Dooley			1	1		
Special Education Needs	Sue Allen			1			1
Council Tax	Jeff Potter		1		1		
Repairs and Maintenance Contracts	Mark Butler	1		1	2		
Software Licence	Ray Whitehouse		1		1		
Post Completion Project Assessment	Mark Butler			1			1
Payroll	Jeff Potter		1		1		
Providing Services for the Physically Disabled	Bob Morgan	1	1		1		
Oracle Financials General Ledger and Accounts Payable Application	Mike Stringer		2		2		
Creditors	1 - Mike Stringer, 1 - Mike Stringer/Christine Dooley		2		2		
PC Controls	Ray Whitehouse		1		1		
Governance	Barry Kendler		1	2	3		
Liquidated & Ascertained Damages	Bob Wenman		1	1	2		
<b>Totals</b>		<b>2</b>	<b>16</b>	<b>8</b>			



## **SECTION 6 - Benefits Comparative Information**

The results against local performance targets for the above period are shown in the table below. It should be noted the latest comparator information is not available for 2007/08. LBH is currently ahead of target in all areas of performance.

### **Schedule 11 – Benefits Investigations**

	LBH Data		Comparator Data			
	2007/8 Target	Achieved YTD	National Average	All London Average	Outer London Average	LBH
Official Cautions administered	27	34	N/A	N/A	N/A	N/A
Administrative Penalties administered	27	28	N/A	N/A	N/A	N/A
Prosecutions (convictions)	24	27	N/A	N/A	N/A	N/A

Summonses Issued	24	31
Administrative Penalties value	Not set	£20,108.14
Prosecution Costs	Not set	£31,524.51
Prosecution Costs Awarded	Not set	£6,000.00

## Schedule 12 - BVPI 76 – Security

The Security Best Value Performance Indicators (BVPIs) contribute to the overall Benefits BVPIs which in turn have a major impact on the overall LBH score. The outturn figures for BVPI 76c and 76d are cumulative and indicate the targets will be exceeded by the end of the year.

Again, it should be noted that the latest comparator information is not available for 2007/08.

BVPI	Description	LBH Data		Comparator Data			
		Annual Target	Outturn YTD	National Average	All London average	Outer London average	LBH
76b	Number of investigators employed, per 1,000 caseload	0.35	0.34	N/A	N/A	N/A	N/A
76c	Number of investigations, per 1,000 caseload	34	30.03	N/A	N/A	N/A	N/A
76d	Number of prosecutions and sanctions, per 1,000 caseload	4.3	4.98	N/A	N/A	N/A	N/A

(Average live caseload 2007/08 = 17,881)

# Schedule 13 – Graphical Corporate Risk Register

<b>IMPACT</b>	4		<p>9. Lack of Infrastructure Development (Cynthia Griffin) - 3</p>	<p>10. Breakdown in Social Cohesion (Cheryl Coppel) - 3</p> <p>21. Violent Extremist Activity (Cheryl Coppel) - 3</p>	
	3	<p>6. Causing harm to people we owe a duty of care (Christine Dooley) - 2</p> <p>7. Children's Act: Every Child Matters (Andrew Ireland) - 3</p>	<p>13. Business Continuity and Emergency Planning (Rita Greenwood) - 3</p> <p>14. Perception of the Organisation and Poor Reputation (Cynthia Griffin) - 2</p>	<p>1. Recruitment and Retention (Rita Greenwood) - 2</p> <p>2. Succession Planning (Rita Greenwood) - 3</p> <p>3. London Olympics (Cynthia Griffin) - 3</p> <p>4. Organisational capacity/capability (Cheryl Coppel) - 2</p> <p>15. Partnerships (Cynthia Griffin) - 2</p>	<p>17. ALMO/Decent Homes Standard (Cynthia Griffin) - 3</p>
	2		<p>5. CPA Inspection (Cheryl Coppel) - 1</p> <p>8. Community Safety (Christine Dooley) - 2</p> <p>16. Financial Arrangements (Rita Greenwood) - 2</p> <p>18. Contract Dependency (Rita Greenwood) - 2</p> <p>19. Compliance with Legislation (Christine Dooley) - 2</p> <p>20. LAA (Cynthia Griffin) - 2</p>	<p>12. Poor Management of Council's Assets (Rita Greenwood) - 3</p>	
	1				
		1	2	3	4
<b>LIKELIHOOD</b>					
		Risk response is sufficient	Moderate scope for improvement of risk response	Significant scope for improvement of risk response	

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MEETING	DATE	ITEM
<b>AUDIT COMMITTEE</b>	<b>25 June 2008</b>	<b>10</b>

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**REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: UPDATE ON OUTSTANDING AUDIT RECOMMENDATIONS  
2005/06**

**SUMMARY**

This report updates the Committee on the recommendations raised by Internal Audit in 2005/06 and not yet implemented by management.

**RECOMMENDATION**

1. To note the contents of the report.
2. To question management on progress to date.

**REPORT DETAIL**

1. Appendix A contains a schedule of all outstanding 2005/06 audit recommendations, as at 31<sup>st</sup> March 2008. Each recommendation has been reviewed and input from relevant managers sought to clarify the position.
2. At the end of March eight 2005/06 recommendations remained unimplemented. One had failed to meet the anticipated deadline identified by management.
3. One of the eight can now be closed off. For the remaining seven revised deadlines have been agreed.

**Financial implications and risks:** Recommendations may arise from any audit undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obligated to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit. There are no financial implications or risks arising directly from this report.

**Legal implications and risks:** None arising directly from this report

**Human Resource implications and risks:** None arising directly from this report

**Equality and social inclusion implications:** None arising directly from this report

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**CHERYL COPPELL**

**Chief Executive**

**Background Papers List**

None.

Audit Report 05/06	Recommendation	Original Target Date	Revised Target Date(s)	Head of Service	Risk Rating	Updated Status
Provision of services to those with Learning Disabilities	The service needs to review its contractual arrangements. This will include establishing a definitive list of all care providers, to identify which suppliers have signed and returned an up to date contract. These contracts need to be held centrally and a copy also held in legal.	31/12/08	31/12/08	Bob Morgan	Medium	This is subsumed in work with Corporate Procurement to provide a Departmental Contract Register to include Learning Disabilities.  This recommendation is not yet due to be completed.
Provision of residential placements and home care for the elderly	Instruct all his managers to produce and finalise written procedure notes for their sections and distribute them to all staff. Also assess the benefits of having one overall Adult Services Manual that contains all the procedures notes for the different sections to ensure that there is a consistent approach being followed across the whole section.	Not Specified.	30/06/08	Bob Morgan/ Steven Cody	Medium	Work is progressing in documenting procedures within the departmental IT system. The Systems Integrity Board has documented a number of core finance related processes.

Audit Report 05/06	Recommendation	Original Target Date	Revised Target Date(s)	Head of Service	Risk Rating	Updated Status
Stock and Plant	<p>The Financial Framework should include a section on maintaining the Fleet List emphasising the need to record vehicles on the Fleet List immediately to ensure that they are covered by the Authority's insurance arrangements.</p> <p><i>Note – on review of this recommendation it is noted that it may not be appropriate to include such detail in the Financial Framework, therefore it is agreed that local guidance is necessary as apposed to what was originally recommended.</i></p>	30/06/06	30/07/08	Barry Kendler	Medium	<p>The delay in implementing this recommendation was linked to the financial issues around Adult Social Services of which, until July 2007 Transport Services was part. From 2nd July 2007 the Group Director of Finance &amp; Commerce commenced a review of Transport Services including Depot provision, financial framework, procurement and fleet management systems. To assist her the Head of Housing &amp; Public Protection became Acting Head of Service for Transport. The Transport Board has made good progress on the review and the Transport Manager has now been commissioned to draft a comprehensive Transport Procedures Handbook for completion by July 08. This action will be taken to address risk as it is not considered appropriate to update financial framework.</p>

Audit Report 05/06	Recommendation	Original Target Date	Revised Target Date(s)	Head of Service	Risk Rating	Updated Status
Personnel	Internal Compliance testing should be carried out on a sample basis to ensure that all recruitment processes meet the service standards.	31/3/06	n/a	David Ede	Medium	PML April 08 - Compliance testing carried out randomly. To be reviewed further following implementation of the HR restructuring.  This recommendation is now implemented.
Repairs and Maintenance Contracts	In conjunction with the client section's nominated officer determine the level of overall budget monitoring that there is to be undertaken and include these details in the procedure notes for the management of the service.	31/10/06	30/09/08	Mark Butler	Low	In Progress - to be concluded as part of retendering of non-housing repairs contract, currently underway
Repairs and Maintenance Contracts	When the contract is re-tendered, in conjunction with Legal Services and Corporate Procurement, seek prices for a) the SoR rates for the full contract term and b) a shorter term but provision for it to be extended to the full term, in order to award the contract on those terms that are most beneficial to the Council. The Technical Services Manager	30/4/07	30/09/08	Mark Butler	Low	In Progress - to be concluded as part of retendering of non-housing repairs contract, currently underway



Audit Report 05/06	Recommendation	Original Target Date	Revised Target Date(s)	Head of Service	Risk Rating	Updated Status
	should also ensure that the SOR items are sufficiently detailed to identify the works likely to be undertaken on Schools and other Corporate Buildings.					
e-Commerce	Intra-day recovery procedures should be formulated to identify if transactions could be recreated in the event of the main processing facility. This will minimise the risk of possible loss of revenue, in addition to reputation damage, due to loss of services and transactional data of customers.	31/07/06	TBC	Dylan Champion	Medium	Intra day recovery is predicted by item 5 and will be added to the data flow documentation as above.  Update required from DC – not received by deadline so verbal update will be provided at the meeting.
New Employees Pro-active	A standard checklist should be produced to be used when an individual leaves the employment of the Authority. The checklist should identify whether:  All items of equipment / assets, where applicable, have been returned by the individual, including ID / Car Park Pass / Mobile Telephones and USB Keys.	31/12/06	TBC	David Ede	Medium	Most of these checks are currently undertaken by HR in consultation with line managers following receipt of letter of resignation. All of these are itemised in any event in the letter sent from HR confirming acceptance of resignation. Checklist remains to be drafted but remains to be agreed and circulated to line managers with guidance which also still requires drafting to

Audit Report 05/06	Recommendation	Original Target Date	Revised Target Date(s)	Head of Service	Risk Rating	Updated Status
	<p>An appropriate exit meeting has been held with the individual and documented. If a meeting is not held a reason should be recorded. The individual has only taken leave they are entitled to. The individual's flexi record was not in deficit. If it was, that the necessary period of deduction has been made from their salary. Notification has been sent to Computer Services to stop access to the computer systems and e-mail facility.</p> <p>Arrangements have been made to cancel the individuals ID / Car Park Pass. All keys, where applicable, have been returned and signed for.</p> <p>The individual line manager will be responsible for ensuring that the checklist is completed and forwarded to Human Resources to be retained on the individual's file.</p>					<p>ensure completion. - NO CHANGE</p>





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MEETING	DATE	ITEM
AUDIT COMMITTEE	25 June 2008	<b>11</b>

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## **REPORT OF THE CHIEF EXECUTIVE**

**SUBJECT: ANNUAL REVIEW OF THE EFFECTIVENESS OF AUDIT COMMITTEE**

### **SUMMARY**

This report reviews the role of the Audit Committee against guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and makes recommendations for action to further improve the arrangements in place.

### **RECOMMENDATION**

1. To comment and confirm the results of the self assessment attached as Appendix 1.
2. To consider the criteria where full compliance is not evident and agree any action considered necessary.
3. To review the Committee's terms of reference and suggested amendments and comment.
4. To decide whether a revised terms of reference should be referred to the Governance Committee for formal approval.
5. To agree if action should be taken to address the other 'not met' criteria.

### **REPORT DETAIL**

A self assessment checklist provided by Cipfa has been used to assess the Audit Committee's effectiveness. The self assessment has been undertaken by the Internal Audit and Corporate Risk Manager with input from other relevant officers. There are 74 criteria overall and a met, not met or n/a rating has been attributed to each. Comments have been noted where further clarification or consideration of action is required, by the Committee.

The self assessment is broken down into areas and the results are as follows:

Composition and Establishment includes 23 criteria of which two are not fully met. The current terms of reference and a suggested update are attached as appendix B and C of this report.

Internal Control and Risk Management contains seven criteria all of which are met.

Regulatory Framework has six criteria for the Committee to assess themselves against. All are currently met.

There are 21 criteria with regards Internal Audit all are currently met.

There are eight criteria for External Audit. In two areas the Committee needs to consider its compliance.

Administrative Arrangements includes 6 criteria all of which are currently met.

There are three criteria under other issues. Consideration is needed for the criterion which is not currently met. It is suggested that no action is necessary.

As part of this review other examples of good practice were considered that may not have been specifically highlighted within the self assessment tool. These include:

- External Audit provided a session on 'Effective Audit Committees' with no significant actions arising;
- Robust challenge of information is evident in the minutes;
- Timetable for training is not just an ad hoc programme, but is in place going forward and reviewed periodically;
- Members Development Group exists and Leader of the Council is involved in work to enhance competencies generally; and
- Chairmanship and membership have not been subject to change.

### **Financial Implications and risks:**

None arising directly from this report, however the existence of an effective audit committee is fundamental in ensuring the Council maintains robust systems of internal control. Failure of the Audit Committee to undertake its duties in an effective manner may result in appropriate action not being taken to address issues that arise.

### **Legal Implications and risks:**

Any amendments to the Committee's Terms of Reference need to be reported to and agreed by Governance and Council.

**Human Resources Implications and risks:**

None arising directly from this report.

**Equalities and Social Inclusion Implications and risks:**

None arising directly from this report.

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**CHERYL COPPELL**

**Chief Executive**

**Background Papers List**

Cipfa publication 'Audit Committees – practical guidance for Local Authorities'.

## SELF ASSESSMENT CHECKLIST – Review 2008

**Status Key**

1 = must do; 2 = should do; 3 = could do

		Met	Not Met	N/a	Comments
<b>COMPOSITION, ESTABLISHMENT AND DUTIES</b>					
1	Does the Audit Committee have written terms of reference that adequately and realistically define the committees role in accordance with CIPFA guidance		Not Met		The current Terms of Reference do not contain sufficient detail when assessed against guidance.
1	Have the terms of reference been approved by the full Council?	Met			
2	Are the terms of reference reviewed annually to take into account governance developments and the remit of other committees within the organisation?		Not Met		See Appendix C containing current terms of reference for review and comment. Issue of annual review of terms of reference to be raised at next Governance Group.
1	Has the membership of the committee been formally agreed and a quorum set?	Met			
1	Are committee members sufficiently independent of other key committees of this council?	Met			
1	Are meetings free and open without political influences being displayed?	Met			
1	Does the committee meet regularly?	Met			

		Met	Not Met	N/a	Comments
2	Are decisions reached promptly?	Met			
1	Does the authority's s151 officer or deputy attend all meetings?	Met			
2	Does the committee have the benefit of attendance of appropriate officers at its meetings?	Met			
1	Are the key officers available to support the Committee?	Met			
2	Can the Committee access other Committees as necessary?	Met			
3	Are agenda papers circulated in advance of meetings to allow adequate preparation?	Met			
2	Has the committee established a plan for the conduct of its own work across the year?	Met			
1	Has the Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Met			
2	Are changes to the Committee's current and future workload discussed and approved at Cabinet level?	Met			
2	Does the Committee report regularly to the Cabinet?	Met			
1	Is induction training provided to members?	Met			
2	Is more advanced training available as required?	Met			



		Met	Not Met	N/a	Comments
2	Have all members skills and experiences been assessed and training available / given for identified gaps?	Met			
2	Do members have sufficient knowledge of the organisation to identify key risk areas and to challenge both line management and the auditors on critical and sensitive matters?	Met			
2	Does at least one Committee member have a financial background?	Met			
2	Does the Committee prepare an annual report on its work and performance in the preceding year for consideration by Cabinet?	Met			
<b>INTERNAL CONTROL AND RISK MANAGEMENT</b>					
2	Has the Committee formally considered how it integrates with other committees that are reviewing risk?	Met			
2	Has the Committee formally considered how its work integrates with wider performance management and standards compliance?	Met			Agreed to reconfirm the relevant roles of Audit and Governance Committee to ensure both are clear and no duplications or overlaps arise.
1	Does the Committee take a role in overseeing:- <ul style="list-style-type: none"> <li>• Risk Mangement Strategies</li> <li>• Internal Control Statements</li> <li>• Anti-fraud arrangements</li> <li>• Whistleblowing Strategies</li> </ul>	Met			

		Met	Not Met	N/a	Comments
2	Has the Committee been briefed on its assurance responsibilities with regard to internal control and risk management, particularly with regard to the statement on Internal Control, the Assurance Framework, and the Chief Auditor's Opinion?	Met			
2	Has the Committee reviewed whether the reports it receives are timely and have the right format and content to ensure its internal control and risk management responsibilities are discharged?	Met			
2	Is the Committee satisfied that Cabinet has been advised that assurance reporting is in place to encompass all the organisations responsibilities?	Met			
2	Is there clarity over the timing and content of the assurance statements received by the Committee from the Chief Auditor?	Met			
<b>REGULATORY FRAMEWORK</b>					
2	Does the Committee maintain an overview of the council's constitution in respect of contract procedures rules, financial regulations and codes of conduct and behaviour?			N/a	This falls within the remit of the Governance Committee, and the Standards Committee for the Members Code of Conduct.
1	Does the committee review any issue referred to it by the Chief Executive or a director, or any council body.	Met			
1	Does the Committee monitor the effective development and operation of risk management and corporate governance in the council.	Met			Audit Committee monitor Risk Management. Corporate Governance is on Governance Committee agenda.

		Met	Not Met	N/a	Comments
1	Does the committee monitor council policies on “Raising Concerns at Work” and the antifraud and corruption strategy and the council’s complaints process?	Met			
1	Does the Committee oversee the council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice?			N/a	This falls within the remit of the Governance Committee.
2	Does the Committee consider the council’s compliance with it’s own and other published standards and controls?	Met			
<b>INTERNAL AUDIT</b>					
1	Do formal terms of reference exist, defining Internal Audit’s objectives, responsibilities and reporting lines?	Met			
1	Are the terms of reference approved by the Committee and routinely reviewed?	Met			
2	Do the terms of reference adequately specify the relationship between the Chief Auditor and the Audit Committee?	Met			
2	Are the key principles of the terms of reference set out in the Financial Standing Orders?	Met			
1	Does the Committee input to the strategic audit approach?	Met			
1	Does the committee input to the Internal Audit Plan at the beginning of the financial year?	Met			
2	Does the Committee consider any material changes to the plan?	Met			

		Met	Not Met	N/a	Comments
2	Are audit plans derived from clear processes based on risk assessment with clear links to the Assurance Framework?	Met			
1	Does the Audit Committee receive periodic / annual report from the Chief Auditor on the work of Internal Audit?	Met			
3	Has the Committee established a process whereby it reviews any material objection to the plans and associated assignments that cannot be resolved through negotiation?	Met			
2	Does the committee effectively monitor the implementation of management actions arising from audit reports?	Met			
1	Does the Chief auditor have a direct line of reporting to the Committee and its chairman?	Met			
2	Are any scope restriction placed on Internal Audit and, if so, What are they and who establishes them?	Met			
2	Is Internal Audit free from any operating responsibilities or conflicts of interest that could impair its objectivity?	Met			NB. Risk Management responsibilities sit with the Internal Audit Team, however this is considered in the auditing of such activities and independent auditors will be used.
2	Has the Committee determined the appropriate level of detail it wishes to receive from Internal Audit?	Met			
1	Does the Committee hold periodic private discussions with the Chief Auditor?	Met			
2	Does the Committee review the effectiveness of Internal Audit and the adequacy of staffing and resources within Internal Audit?	Met			

		Met	Not Met	N/a	Comments
3	Has the Committee agreed a range of Internal Audit performance measures to be reported on the routine basis?	Met			
1	Are summaries of quality questionnaires from clients reviewed?	Met			
2	Does the Committee review the effectiveness of Internal Audit and the adequacy of staffing and resources within Internal Audit?	Met			
3	Has the Committee agreed a range of Internal Audit performance measures to be reported on the routine basis?	Met			
1	Are summaries of quality questionnaires from clients reviewed?	Met			
2	Is there appropriate cooperation with the External Auditors?	Met			
3	Are there any quality assurance procedures to confirm whether the work of the Internal Auditors is properly planned, completed, supervised and reviewed?	Met			
<b>EXTERNAL AUDIT</b>					
1	Does the Audit Committee have an input to the External Auditors audit plans and strategy?	Met			
2	Has the Committee satisfied itself that work not relating to the financial statements work is adequate and appropriate?	Met			
1	Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Met			
2	Does the committee receive and monitor actions taken in respect of prior years reviews?	Met			

		Met	Not Met	n/a	Comments
1	Does the Committee review the External Auditors reports / annual audit letter?	Met			
1	Does the Committee hold periodic private discussions with the External Auditor?		Not Met		Suggested that Committee Chair invites External Auditor to annual private meeting. Action to be considered by Committee.
2	Does the Committee assess the performance of External Audit?	Met			
1	Are reports on the work of other inspection agencies presented to the Committee?		Not Met		Suggested no action necessary as changes to inspection regime as we move to Corporate Area Assessment will mean that inspections are harmonised. To be considered by Committee at meeting.
<b>ADMINISTRATIVE ARRANGEMENTS</b>					
2	Does the Committee have a work plan covering the coming year?	Met			
1	Are papers circulated in good time and are minutes received as soon as possible after the meetings?	Met			
2	Does the Committee meet the appropriate number of times to deal with planned matters?	Met			
1	Are Committee papers distributed in sufficient time for members to give them due consideration?	Met			
2	Are Committee meetings scheduled prior to important decisions being made?	Met			

		Met	Not Met	n/a	Comments
2	Is the timing of Committee meetings discussed with all the parties involved?	Met			
<b>OTHER ISSUES</b>					
3	Has the Committee considered the costs that it incurs: and are the costs appropriate to the perceived risks and the benefits?		Not Met		Suggested no action necessary as Annual Report details the activity of the Committee. To be considered by Committee at meeting.
2	Does the committee assess its own effectiveness periodically?	Met			
3	Does the Annual Report and Accounts of the Authority include a description of the Committee's establishment and activities?	Met			

## APPENDIX B

### Current Terms of Reference for Audit Committee from the Councils Constitution.

Audit 6 Councillors, or the number of councillors determined by Council from time to time.

#### **Internal control**

- To consider and monitor the adequacy and effectiveness of the authority's risk management and internal control environment and to make recommendations to full Council where necessary.

#### **External audit**

- To monitor the adequacy and effectiveness of the External Audit Service and respond to its findings.

#### **Internal audit**

- To support the Group Director Finance & Commercial with his or her delegated responsibility of ensuring arrangements for the provision of an adequate and effective internal audit.
- To monitor the adequacy and effectiveness of the internal audit service and to receive and monitor an annual internal audit plan from the audit manager.
- To receive and approve the Annual Statement of Accounts.
- To monitor proactive fraud and corruption arrangements.



## **APPENDIX C**

### Suggested Revised Terms of Reference for Audit Committee

#### **Membership**

Audit 6 Councillors, or the number of councillors determined by Council from time to time.

#### **Responsibilities**

The Audit Committee will annually agree a work programme to monitor, review and comment on the following areas:-

##### ***Internal Control & Risk Management***

Monitoring the adequacy and effectiveness of the authority's risk management and internal control environment, receive the Head of Internal Audits annual report and opinion, and to make recommendations to full Council where necessary.

Monitor implementation of audit recommendations in reasonable timescale.  
Approval of relevant policy and strategy documents.

##### ***Internal Audit including Anti Fraud and Corruption arrangements***

Performance and effectiveness of service  
Consideration of summaries of specific audit reports.  
Approval of Audit Plan and relevant policy and strategy documents.

##### ***Financial Management***

Receive and approve the Annual Statement of Accounts. Consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the audit that need to be brought to the attention of Council.

##### ***External Audit***

Performance, effectiveness and value for money of service.  
Findings of external audit work.  
Appointment of External Auditor via liaison with the Audit Commission.



# Haverling

L O N D O N   B O R O U G H

<b>AUDIT COMMITTEE</b> <b>ADDITIONAL PAPERS</b>
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<b>7.30pm</b>	<b>Wednesday, 25 June 2008</b>	<b>Haverling Town Hall, Main Road, Romford</b>
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## Item 5

**ANNUAL STATEMENT OF ACCOUNTS 2007/2008 – CONTAINING ANNUAL GOVERNANCE STATEMENT**

**Additional documentation attached – Statement of Accounts 2007/08**

**For information about the meeting please contact:**  
**Norman Bond (01708) 432439**  
**E-mail: [Norman.Bond@haverling.gov.uk](mailto:Norman.Bond@haverling.gov.uk)**



London Borough of Havering  
Statement of Accounts  
For the Financial Year  
2007/08

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## Explanatory Foreword

### 1. Introduction from the Responsible Financial Officer

I am pleased to introduce the Council's statement of accounts for 2007/08. Havering Council is a large and wide ranging organisation whose goals are:

- To ensure a clean, safe and green borough;
- To achieve excellence in education and learning;
- To provide opportunities for all through economic social and cultural activity;
- To value and enhance the lives of every individual;
- To deliver high customer satisfaction and a stable Council Tax.

This publication incorporates all the financial statements and disclosures required by statute. These Statements are as follows:

- Income and Expenditure Account
- Statement of Movement in General Fund Balance
- Statement of Recognised Gains and Losses
- Balance Sheet
- Cash Flow Statement
  
- Housing Revenue Account
- Collection Fund
- Pension Fund
  
- Group Income and Expenditure Account
- A reconciliation of the Surplus/Deficit of the London Borough of Havering and the Group Surplus/Deficit
- Group Statement of Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement

The Group Accounts consolidate the results of Homes in Havering Limited, a private company limited by guarantee whose sole member is the London Borough of Havering. The company was formed to provide a housing management service to the Council with effect from 1<sup>st</sup> July 2006. As such, 2007/08 represents the first full year of operations under these arrangements.

### 2. SORP 2007

The Statement of Recommended Practice (SORP) 2007 sets out the proper accounting practices required by statute to be followed in preparing the statement of accounts. The Council's accounts therefore reflect a number of changes introduced by the SORP 2007 in both presentation and in accounting policy. The substantive changes are as follows:

- The replacement of the Fixed Asset Re-statement Account with the Revaluation Reserve.
- The replacement of the Capital Financing Account with the Capital Adjustment Account.
- Additional presentation and disclosure requirements in respect of financial instruments.
- An additional disclosure in connection with the creation of a Business Improvement District effective from 1<sup>st</sup> April 2007.
- An additional disclosure in connection with the Local Area Agreement including an explanation of the impact upon the Council's accounts.

Further information on these changes is set out in the Statement of Accounting Policies and in the notes to the accounts.

### 3. Review of 2007/08

The Havering element of the Council Tax increase was held at 3.5% (as compared to Retail Price Index inflation of 4.4%); however the Council has continued to identify increased efficiencies which have enabled resources to be redirected to priority services.

Amongst the financial achievements of the year, it is particularly pleasing to note that:

- Overall financial performance was consistent with longer term goals as set out in the medium term financial strategy and Corporate Plan. The level of general reserves has been maintained at £10 million as required by the strategy.
- Treasury management has delivered strong performance at a time of increased uncertainty in the market. Interest arising

from investment performance and a favourable cashflow assisted in supporting cost pressures in priority front line services and has provided financial support for the implementation of key corporate projects.

- The Capital programme plays a key part in the Council's longer term strategy. Investment performance continues to support the delivery of the programme and capital slippage has been minimised through effective programme management.
- I am particularly pleased that the Council has been judged as performing well and awarded a three star rating (out of a possible four) by the Audit Commission as part of the Comprehensive Performance Assessment. It incorporates an assessment of our "use of resources" which has been judged as level three. The Council is judged to be performing well and consistently above minimum requirements in all categories of the "Use of Resources Assessment".
- The Council's performance in achieving "Value for Money" is recognised in the Comprehensive Performance Assessment.
- Adult Social Services continue to represent a significant cost pressure as is being experienced nationally. Demographic trends suggest that this will remain a major budgetary issue in the foreseeable future. Nevertheless, I am pleased to note that the impact of cost pressures in this area were contained within the Council's overall budget strategy and financial stability has been maintained.

**4. Revenue Expenditure and Services Provided**

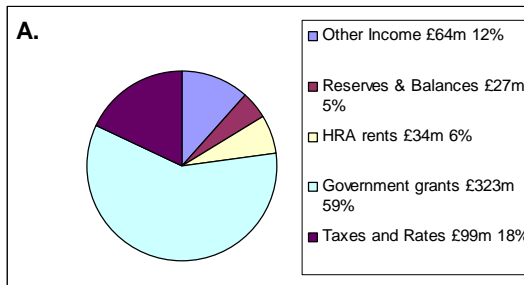
**A. REVENUE FUNDING**

The Council's total revenue spending (as set out in the Income and Expenditure account) is funded from various sources as illustrated on the right.

Taxes and rates include business rates and domestic Council taxes.

Government grants include the Revenue Support Grant and specific grants.

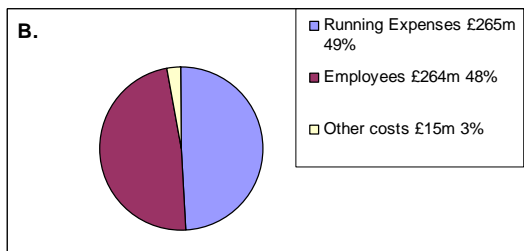
Other income includes fees and charges for services and bank interest.



**B. REVENUE EXPENDITURE**

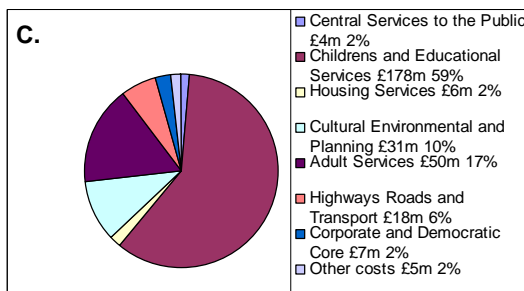
This chart shows the main categories of expenditure over all its services.

Running expenses include all maintenance of buildings, vehicles costs, purchases of supplies and services and net recharges between Council services. Employee costs accounts for 48% of total service expenditure.



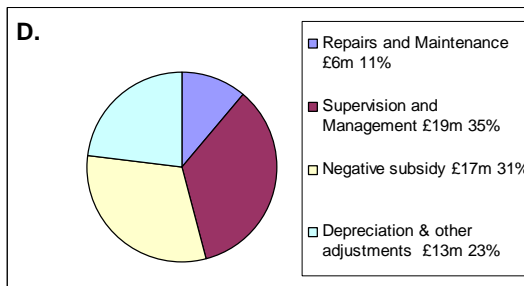
**C. SERVICES PROVIDED**

This chart shows the proportion of the Council's net expenditure on the different service areas (as shown in the Income and Expenditure account). Education spending is shown gross of Dedicated Schools Grant.



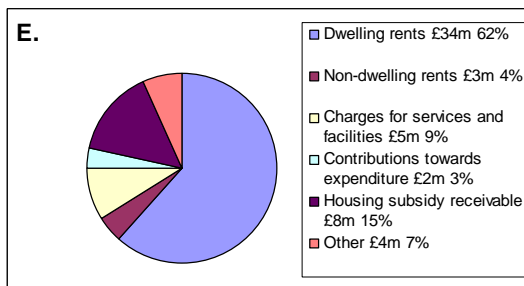
**D. HOUSING REVENUE EXPENDITURE**

This chart shows the main categories of expenditure within the Housing Revenue Account totalling £55m in 2007/08.



**E. HOUSING REVENUE INCOME**

This chart shows the main categories of income within the Housing Revenue Account totalling £55m which is used to fund HRA expenditure as set out in chart D.





## 5. The 2007/08 Budget

The main components of the General Fund Budget for 2007/08 and how they compare with actual income and expenditure are set out below.

	Original Budget	Outturn	Difference
	£'000	£'000	£'000
<b>Total Budget</b>	<b>290,259</b>	<b>289,880</b>	<b>379</b>
Financed by:			
Revenue Support Grant	7,015	7,015	0
NNDR	41,801	41,801	0
Dedicated Schools Grant	141,827	141,743	(84)
Collection fund surplus(deficit)	500	(279)	(795)
Other	0	500	500
<b>Precept on the Collection Fund</b>	<b>99,116</b>	<b>99,116</b>	<b>0</b>

Note: The precept on the Collection Fund is met from Council Tax and Business Rates. For more details see page 61 to the accounts.

The outturn for the year was delivered in line with the approved budget. During the year, additional resources were allocated to key priorities within Adult Social Services. This enabled an additional £5 million to be directed towards meeting customer needs.

This additional funding was released through a combination of savings, under-spending and use of contingencies. The most significant contributor being additional interest earnings from stronger investment performance and cashflow management.

## 6. Capital

In 2007/08 the Council spent £48.4 million on capital projects. The main areas of capital expenditure were:

- expenditure of £10.3m on the enhancement and improvements of Council dwellings;
- £14.1m on schools and other education facilities;
- £8.1m on roads, parking and lighting;
- £4.1m on libraries leisure and sports;
- £2.0m on environmental improvements;
- £1.9m on public offices;
- £2.0m on IT software and other costs and

- £2.3m on grants for social housing and other improvements in the community.

Like most local authorities the Council has been financing a substantial level of its capital expenditure from the sale of assets. In 2007/08 £12.9m of capital expenditure was financed in this way. The balance of the funding requirement came from capital grants (£18.1m), loans (£4.8m), revenue contributions (£2.0m) and Major Repairs Allowance (£10.6m). Total long term loans outstanding owed to external lenders amounted to £45.8m. This sum should be viewed in relation to the Council's fixed assets, which have a net book value of £1,144m as at 31 March 2008.

## 7. Reserves and Balances

The General Fund working balance stood at £10 million (excluding schools balances) as at 31 March 2008 (£10 million as at 31 March 2007). Earmarked reserves and balances were increased by £9.6 million to £26.6 million.

## 8. Further Information

Further information about the accounts is available from:

Group Director Finance and Commerce  
Town Hall  
Romford  
RM1 3BD

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For 2007/08 the inspection period is planned for 18 July 2008 to 17 August 2008. These dates are advertised in the local press.

**Rita Greenwood, CPFA**  
**Group Director Finance and Commerce**  
**25 June 2008**

**Councillor David Grantham**  
**Chairman, Audit Committee**  
**25 June 2008**

E mail [finance@havering.gov.uk](mailto:finance@havering.gov.uk)  
Website [www.havering.gov.uk](http://www.havering.gov.uk)

## Statement of Responsibilities for the Statement of Accounts

### The Council's Responsibilities

The Council is required to:

- Make proper arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director Finance and Commerce
- Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Group Director Finance and Commerce's Responsibilities

The Group Director Finance and Commerce is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the code of practice").

In preparing the Statement of Accounts, the Group Director Finance and Commerce has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code of practice.

The Group Director Finance and Commerce has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

**Councillor David Grantham**  
Chairman, Audit Committee  
25 June 2008

**Rita Greenwood**  
Group Director Finance and Commerce  
25 June 2008

## ANNUAL GOVERNANCE STATEMENT

This statement provides assurance to all stakeholders that within the London Borough of Havering processes and systems have been established, which ensure that decisions are properly made and scrutinised, and that public money is being spent economically and effectively to ensure maximum benefit to all citizens of the Borough.

### Scope of responsibility

The London Borough of Havering is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Havering also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, The London Borough of Havering is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The London Borough of Havering has approved and adopted a code of corporate governance, which is consistent with the principals of the CIPFA/SOLACE\* Framework *Delivering Good Governance in Local Government*. The code sets out details of how the public and staff can expect the Council to be managed. Accountability, effectiveness, integrity, and openness are among the principles the code is based upon. The code also details how the Council conducts its business and how it relates to the community. This includes service delivery arrangements; structures and procedures; risk management and standards of conduct. The code is available on the Council's website and is within the Constitution of the Council. Other information on governance can also be found on the Council's website by following the link to Council and then democracy / corporate governance. A copy of the code can be requested in other formats and languages.

This statement explains how London Borough of Havering has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

\* Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives

### The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of London Borough of Havering's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at London Borough of Havering for the year ended 31 March 2008 and up to the date of approval of the draft statement of accounts.

### The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described in more detail below:

#### Vision and purpose

**'Living Ambition' - aiming for the highest quality of life in London is a 20 year vision for the London Borough of Havering.**

The Council will work with partners and the local community to seize opportunities and shape a future for Havering that is bright, bold and rewarding for everyone who lives, visits, or works in the borough. The 'Living Ambition' agenda will be delivered by striving towards five goals:

- Goal for Environment : to ensure a clean, safe and green borough;
- Goal for Learning : to achieve excellence in education and learning;
- Goal for Towns and communities : to provide opportunities for all through economic, social and cultural activity;
- Goal for Individuals : to value and enhance the lives of every individual;
- Goal for Value : to deliver high customer satisfaction and a stable Council tax.

Underpinning the Vision are new Values, to which all officers will be expected to work, in order to build a more effective organisation. The Council's Values are:

*One Council* - By combining our talents and presenting a single face to our customers, we will build our reputation as a unified organisation rather than individual departments.

*Learning from experience* - We can continuously improve how we do things by learning from each other. If we meet new challenges with innovative thinking we can develop new ways of working and pass on the knowledge.

*Integrity* - We will earn the respect of others by behaving honestly and openly and delivering on promises.

*You matter* - We can build better relationships with colleagues, customers and partners if we develop a better understanding of their needs. We are not a business to business organisation but a people to people one.

*Can do* - By being positive and accepting change and the risks it entails, we can be more optimistic and positive when faced with problems and create a more decisive but adaptive organisation.

*Fair to all* - If we value diversity and combat discrimination we will be able to champion and empower all the Members of our staff and community and provide an example for all.

### **Performance Management**

The performance management framework has several functions:

- Focussing priority setting around needs along with the priorities of the Council and the public;
- Maximising the effective delivery of the services and the efficient use of resources through the facilitation of joint planning both across Council services and with partner organisations; and
- Ensuring relevant, timely and accurate information is available to measure and monitor performance and on which to base decisions.

Performance management is carried out via a series of meetings individually and at team level across the services. Performance monitoring is undertaken as part of those processes and the information collected feeds into a report to all Members, through the Members Monthly Pack. The Improvement and Delivery Board, comprising both Members and officers, meet to review performance on a regular basis. The Overview & Scrutiny Committees also consider the performance reports – along with those that they have independently commissioned – and carry out their own reviews. Heads of Service also produce a quarterly pack which summarises their service performance and progress against objectives.

An annual summary of performance against the statutory and key local performance indicators is published on the website. An annual report is also produced for distribution as hard copy, summarising performance and plans.

The Council's strategy and soon to be produced policy and guidelines on data quality lay down clear guidelines to the effect that all performance measures must be produced to the same robust standard; any performance data that is to be considered for publishing can be subject to either internal or external audit.

The Council's financial management approach is led through its Medium Term Financial Strategy, which is produced in the summer, setting out the approach to financial planning for the subsequent three financial years. A series of Star-Chamber style sessions review performance, define the savings and spending targets for each Service area; these along with the results of market research into public opinion, studies of the needs in the Borough and the requirements of the Council's priorities go to define the objectives in Service Plans, which are linked to the Council's objectives via 'the Golden Thread'.

There are a number of strategies linked directly with the MTFs; this includes the Capital Strategy, the Corporate Asset Management Plan, the Risk Management Strategy, the ICT Strategy and the Workforce Planning Strategy.

### **Council 's Constitution**

The constitution sets out the roles and responsibilities of officers and Members and provides details of how decisions are made and who can make them. It also contains the rules for managing our finances and resources effectively.

Details of those functions remaining with full Council are set out together with full Cabinet and individual Cabinet Member powers. All the terms and references of the various Committees of the Council are set out. All these provide clear accountability and effective leadership and decision making. There is an extensive Scheme of Delegation to officers enabling them to manage their areas of responsibility on a day to day basis. Where a key decision is to be taken, the Council publishes details in the Forward Plan.

### **Codes of Conduct**

The Council has an Employee Code of Conduct for officers supported by the requirement to make declarations of interest and to declare gifts and hospitality. Interests must be declared by officers above a certain grade or who hold specific decision making and procurement positions. Officers are required to decline gifts and hospitality to ensure that they are not inappropriately influenced. The Code and related policies and procedures are communicated via induction sessions for new staff and are available via the intranet. Periodically awareness campaigns occur to remind officers of their responsibilities. The relevant Corporate Management Team member is tasked with ensuring that appropriate arrangements are in place and the systems are reviewed at least every three years by internal audit. The most recent review was concluded in March 2008.

A Code of Conduct for Council Members was revised by the Government in 2007 and was adopted by the Council on 18<sup>th</sup> July 2007 ahead of the October deadline. Training has been provided to Members on the new Code and all Declarations of Interests have been made under the new Code. As part of the adoption of the new Code, the Council Protocols on Member/Officer Relations and Planning have been reviewed and adopted and a new Protocol on Gifts and Hospitality has been made and this was approved by the relevant Committees and Council.

### **Financial Rules and Regulations**

The Council has Financial and Contract Procedure Rules and Financial and Procurement Frameworks along with other policy and procedural documents in place to guide officers in their every day duties and ensure appropriate process and controls are adhered to. Schemes of delegation are also in place along with authorised signatories lists to detail appropriate levels of responsibility. Compliance with the various financial rules and regulations is monitored by Management and considered during audits of systems and processes. The Financial Procedure Rules were updated and approved in March 2008 and the Financial and Procurement Frameworks are also currently under review. The Contract Procedure Rules are also currently under review and will be approved by Cabinet in July 2008.

### **Effective Audit Committee**

The Audit Committee operates in accordance with the relevant CIPFA guidance. Its effectiveness is reviewed annually and an annual report is produced for the Committee. The Committee's terms of reference, outlined in the Constitution, contain responsibilities relating to internal control, external audit, and internal audit. Eight Members sit on the Audit Committee representing the Conservative and Residents Groups of the Borough. The Audit Committee meets five times per year. The Committee has an annual work plan and training programme and reports on its performance to Council annually.

### **Compliance with laws, regulations and internal policies**

The Constitution sets out the legal framework for decision making and the publishing of those decisions. There is a scrutiny system in place to ensure that the work of the Council complies with all appropriate policies, laws and regulations. Overview and Scrutiny Committee has the power to call in and challenge all decisions of Cabinet and individual Cabinet Members and key decisions of staff. Legal, Finance and Human Resources staff clear every Cabinet, Council and Committee report and every Lead Member decision, for compliance with laws, policies and regulations. The Statutory Officers also provide advice to Members at all appropriate times. Statutory appointments have been made for Adults and Children and a Lead Member for Children has been appointed.

Internal policies and procedures exist to guide officers and ensure compliance with legislation and proper practice. Policies and procedures are reviewed at least annually.

### **Counter Fraud and Confidential Reporting**

The Council has a corporate strategy for the prevention and detection of fraud and corruption. The effectiveness of the arrangements in place are reviewed annually and results reported to the Audit Committee. Ad hoc promotion of the strategy takes place throughout the year as part of the fraud strategy action plan. Integral to these arrangements is the Confidential Reporting, also known as Whistleblowing, policy which is communicated to staff via induction, the intranet and ad hoc awareness initiatives. The effectiveness of arrangements are reviewed annually and reported to Audit Committee. The results of fraud investigations are publicised to further promote the arrangements in place, as appropriate.

The Council also participates in the National Fraud Initiative (NFI), a computerised data matching exercise lead by the Audit Commission, designed to detect fraud perpetrated on public bodies. Havering has been praised on their efforts on this exercise.

### **Complaints**

Customer relationships and complaints handling was identified in 2007 as one of the areas in need of renewed impetus. The Chief Executive has considered such areas during the recent restructure of her Corporate Management Team (CMT). Reports have been considered by the Adjudication and Review Committee, who have overall responsibility for complaints handling. CMT have also spent time considering the importance of the Customer Services Policy and have agreed to build on current systems and fully integrate the Council's 'front office' ensuring all contacts receive a prompt response and more importantly resolution. This work has commenced with new service standards and a training programme.

### **Training and Development**

The Council has a commitment that every member of staff has a review and annual appraisal to discuss performance, targets and personal development. It also has a commitment to provide a minimum of three days training per annum and in September 2007 opened a new dedicated training centre in Rainham. The Council provides a range of training opportunities for managers and staff to ensure they can deliver services effectively. These include a Leadership Programme, Leaders' and Managers' toolkit, recruitment and selection, Health and Safety, Project Management and IT training. It also provides training / briefing on procurement procedures, finance for non-financial managers and risk management.

Members have their own development programme to keep them up to date with changes and support their training needs. Training is supplemented by information through briefings, bulletins and it is planned to run a series of mini-conferences. Their training includes Finance and the Code of Conduct, Licensing and secure accommodation review. The high standard of the training was recognised in a positive assessment in April 2008 for the Member Development Charter.

### **Communication and Consultation**

The Council strives to identify and develop new effective mechanisms to communicate and consult with the community. The Corporate Plan takes account of consultation as well as local and national priorities. The Council has adopted and implemented the Equality Standard, achieving level one and aiming to achieve levels two and three by the end of 2008/09. A wide number of forums take place to consult with all Members of the community, particularly targeting hard to reach groups.

The Council maintains a website to provide information and a point of contact to the residents of the Borough. The publication 'Living' is also issued two weekly communicating information regarding Council activities.

An extensive consultation process is carried out as part of the development of the MTFS and detailed annual budget. Views are sought through various media and the budget itself is subject to scrutiny through Cabinet, Overview & Scrutiny and Area Committees.

## Partnerships

There are seven theme areas and champions within the Havering Strategic Partnership (HSP) structure. These are:

- Community Participation;
- Community Safety;
- Environment;
- Prosperous Community;
- Older People;
- Health and Wellbeing;
- Children and Young People.

Theme Delivery Champions, for accountability purposes, report to the Programme Board on progress against the Community Strategy Action Plan and any other relevant work for the theme. Delivery Champions relate the aims and progress of the theme area to the Assembly in very general and accessible terms making it accessible for smaller groups and businesses to be involved in local decision making and scrutiny.

Through the HSP structure elected Members and other community representatives can engage more fully in the work of the HSP. Each theme champion will work with Cabinet Members to develop and implement the LAA programme.

The HSP is not legally constituted, and the Council, as the accountable body has to ensure that clear and robust financial and performance monitoring arrangements are in place. The Council's own performance management arrangements are strong and its performance team works closely with the HSP.

A partnership toolkit has been developed by the Council to log and rank the partnerships to which resources are applied. It is being used to manage partnerships outside of the HSP e.g. major providers. The toolkit will be further developed in 2008/09 to provide additional guidance to the lead officers and promote a consistent approach to partnership working across the organisation.

## Review of effectiveness

The London Borough of Havering has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the Governance Group within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based.

## Constitution

The Monitoring Officer keeps the Constitution under continual review having delegated powers to make amendments arising from written reports, organisational changes, and legal requirements and to correct errors. Other amendments are considered by Governance Committee and Council. Following a Senior Management Restructuring in May 2008, a substantial part of the Constitution has been reviewed and amended to reflect the new officer structure.

## Governance Group and Corporate Management Team

The Council's officer governance group is charged with reviewing the governance arrangements and monitoring any actions designed to improve the framework; close links exist between this group and the Corporate Management Team, who take an active interest in Governance issues. The group have implemented a timetable for the annual review and considered guidance provided by CIPFA; a self assessment against the six principles of good governance has also been completed and an action plan drawn up.

### **Governance and Audit Committees**

The Council 's Governance Committee, attended by the Leader of the Council , and other Group Leaders, is charged with overseeing the Council 's governance arrangements and received a report outlining the on-going work of the governance group during the financial year in March 2008. The Governance Committee is responsible for approving the code and the Annual Governance Statement and officers from both this and the Audit Committee, being responsible for monitoring the work of Internal Audit, have been integral in the process to produce this statement.

### **Overview and Scrutiny**

The overview and scrutiny function reviews decisions made by Members. The focus of their role is to provide a challenge and to support the development of policies. At their meetings they consider performance information; using such things as the quarterly Head of Service packs and monthly Members packs.

### **Internal Audit**

Internal Audit is an independent appraisal function that measures, evaluates and reports upon the effectiveness of the controls in place to manage risks. In doing so Internal Audit supports the Group Director Finance and Commerce in her statutory role as Section 151 officer. Annually a Head of Internal Audit Opinion and annual report provide assurance to officers and Members regarding the system of internal control; this assurance has also been considered in the production of this statement.

### **Management**

The responsibility for the system of internal control sits with management therefore each Head of Service is required to complete their own assessment and declaration with regards to the arrangements in place within their respective areas. These declarations have been considered when compiling this statement. The Council has embedded risk management processes and relevant policies and the strategy are reviewed and approved annually by Audit Committee. Service Risk Registers are maintained as part of business planning process and independently reviewed bi-annually, with results reported to the Risk Management Group, who are in turn responsible for periodic review of and updates to the Corporate Risk Register.

### **External Inspectors**

The Council is subject to review and appraisal by a number of external bodies; results of such reviews are considered within the performance management framework. The work of the Council 's External Auditor, currently the Audit Commission, is reported to the Audit Committee. The Audit Commission provided an unqualified opinion for 2006/07 within their Annual Governance Report with regards to Value for Money. The Council 's accounts are audited annually by the external auditor. The results of all external reviews have also been considered in the process of compiling this statement.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Management Team and the Governance Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

### **Significant governance issues**

The issues identified in the 2006/07 Statement on Internal Control have been monitored by management throughout the year with review periodically to challenge actions and progress by both Corporate Management Team and the Audit Committee. Evidence of this review as well as the detail regarding actions can be found within the Audit Committee agendas on the website. Of the eight issues highlighted in the 2006/07 Statement on Internal Control, five had been fully addressed at the end of March 2008, the remaining three were issues with wide reaching implications and although significant progress has been made in each area it is felt that the issues remain open. The three issues are therefore detailed below along with the further planned actions to ensure that focus on these areas is maintained throughout 2008/09.



<b>Significant Issue</b> and action already taken	<b>Planned action</b>	<b>CMT Lead</b>
<p>1. Complaints Handling.</p> <ul style="list-style-type: none"> <li>➤ Review by overview and scrutiny, adjudication and review and CMT.</li> <li>➤ Enhancements to technology.</li> <li>➤ New approach approved by Cabinet – including a strong commitment to complaint resolution.</li> </ul>	<p>Implement and Promote new approach; Monitor and report on performance including Customer Satisfaction; and the Implementation of a new system.</p>	<p>Group Director Culture &amp; Community</p>
<p>2. Partnership working including changes to funding arrangements.</p> <ul style="list-style-type: none"> <li>➤ Partnership toolkit rolled out.</li> <li>➤ Increased emphasis on partnership working.</li> <li>➤ Robust arrangements in place regarding strategic partners.</li> </ul>	<p>Re-promote toolkit and ensure it clearly guides lead officers in the Council s approach to partnership management; Extend good practice from strategic partnerships throughout organisation; and Audit 2008/09.</p>	<p>Group Director Culture &amp; Community</p>
<p>3. Homes in Havering.</p> <ul style="list-style-type: none"> <li>➤ Close links between organisations.</li> <li>➤ Worked together to prepare for 2007 inspection of ALMO.</li> <li>➤ Performance Management process in place and regular meetings occur.</li> </ul>	<p>Develop relationships and protocols further and have clear shared objectives; implement joint risk management procedures to ensure maximum achievement of objectives. Reduce bureaucracy between the two organisations and prepare for next inspection.</p>	<p>Group Director Culture &amp; Community</p>

In addition to those issues highlighted above the procedures to review and monitor Governance Arrangements in 2007/08 have highlighted the following:

<b>Significant Issue</b> and action already taken	<b>Planned action</b>	<b>CMT Lead</b>
<p>4. Data Quality – including Partner organisations.</p> <ul style="list-style-type: none"> <li>➤ Development of a data quality strategy; and</li> <li>➤ Implementation of an electronic performance management system that will enable timelier reporting by partners.</li> </ul>	<p>Data quality training, policies and guidance rolled out with Havering Performs – the performance management system; Refresh the strategy – annual review due July 2008; and Internal and External Audits planned 2008/09.</p>	<p>Group Director Finance &amp; Commerce</p>
<p>5. Community Engagement</p> <ul style="list-style-type: none"> <li>➤ Completed governance self assessment to highlight areas of weakness;</li> <li>➤ Senior Managers away day dedicated to equality and diversity and new</li> </ul>	<p>Monitor action plan resulting from self assessment. Implement robust procedures for collection of National Indicators. Internal Audit on Local Area Agreements/Community Strategy 2008/09 plan.</p>	<p>Group Director Culture &amp; Community</p>

values launched;  ➤ Restructure of Senior Management to support the increased impetus and joint working in this area.		
-----------------------------------------------------------------------------------------------------------------------------	--	--

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

Lead Member .....

Chief Executive.....

**Independent auditor's report to be included on completion of the audit**



## Statement of Accounting Policies

### General Principles

The Accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This code sets out the application of Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) on local authority accounts. The accounts have also been prepared to comply with the Accounts and Audit Regulations 2006.

### Accruals Basis of Accounting

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Fees charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled the balance of debtors is written down and charge made to revenue for income that might not be collected.

### Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

The maximum life attributed to software assets is currently five years on the grounds that it is a reasonable estimate of the life of computer systems and is the life applied to computer hardware for depreciation purposes. The assets are amortised to revenue on a straight line basis.

### Tangible Fixed Assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts. Expenditure on tangible fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides, for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged direct to service revenue accounts.

Havering has the following de minimis rules for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

works to buildings	£5,000
infrastructure	£5,000
office and information technology	£5,000
other furniture and equipment	£5,000

There are no de minimis limits for the following categories: land acquisition, vehicles & plant, energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets & deferred charges.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

Council dwellings are valued at existing use value for social housing as specified by the Department of Communities and Local Government (DCLG).

Other operational land and buildings have been included in the Balance Sheet at the lower of net current replacement cost and net realisable value in existing use.

Infrastructure assets have been included on the basis of depreciated historical cost.

Community assets are included at historical cost where known or otherwise at £1 per asset.

Vehicles, plant and equipment are included at depreciated historical cost.

Non-operational assets have been included at the lower of net current replacement cost and net realisable value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in value but as a minimum every five years. Increases in value are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Fixed asset valuations are certified by G.K. Green, FRICS, the Property Strategy Manager in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institute of Chartered Surveyors.

### **Depreciation**

Depreciation is provided for on a straight line basis on all tangible fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy: -

- buildings other than investment properties are depreciated over their estimated useful lives;
- newly acquired or completed assets are not depreciated in the year of acquisition or completion;
- land is not depreciated;
- infrastructure assets are depreciated over a 20 year period;
- equipment assets are depreciated over a 5 year period;
- vehicles and plant are depreciated over the life assigned by the Transport Manager.

The depreciation charge begins in the year following the capital expenditure.

### **Disposals**

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal. Any revaluation gain in the Revaluation Reserve is transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are treated as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory allowances and deductions) is payable to the Government. The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are apportioned to the Reserve from the Statement of Movement in the General Fund Balance.

The written off value of disposal is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement in General Fund Balance.

**Impairment**

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of the financial year for evidence of reductions in value. Where impairment is identified as part of the review or as a result of a valuation exercise this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account.
- Otherwise –written off against any revaluation gains attributable to the relevant asset in the revaluation reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but where there were accumulated revaluation gains in the Revaluation Reserve for the asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

**Charges to Revenue for Fixed Assets**

Service revenue accounts, central support services and trading accounts are charged with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted capital financing requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

**Deferred Charges**

Deferred charges represent expenditure which may properly be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred in the year have been written off as expenditure to the relevant service account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or from borrowing a transfer is made to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement in the General Fund Balance so that there is no impact upon the level of Council Tax.

**Government Grants and Other Contributions**

Government Grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Income is credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants for fixed assets, initially to the Grants Unapplied Account and then to the Grants and Contributions Deferred Account once used to finance the assets.

Grants to cover general revenue expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating expenditure.

In accordance with the SORP, amounts are released from the Grants & Contributions Deferred Account to the net cost of services in the Income and Expenditure Account to offset any provision for depreciation charged to revenue in respect of the fixed assets to which the grants relate. Grants towards expenditure on fixed assets are also written off to the Capital Adjustment Account via the Income and Expenditure Account if the expenditure they finance is not materially increasing the value of the assets. As the impact of these adjustments should remain neutral for Council Tax purposes a corresponding adjustment has been made in the Statement of Movement in the General Fund Balance.

Capital grants received in respect of deferred charges are credited to the Grants Unapplied Account and then

netted off against the deferred charge once incurred before it is written off to revenue.

### **Leases**

The Council has no finance leases at present.

Rentals payable under operating leases are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

### **Financial Liabilities**

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based upon the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year of the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are required to be credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. No such transactions took place in the year.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Council holds no assets falling under this category.

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised costs. Annual credits to the Income and Expenditure Account for interest receivable are based upon the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure account is the amount receivable for the year of the loan agreement.

The Council has not made any loans at less than market rate (soft loans).

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure account.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure account.

### **Reserves**

Capital reserves are divided between cash-backed and non-cash backed reserves. The cash-backed reserves which can be used to fund new capital expenditure are the Usable Capital Receipts Reserve, the Major Repairs Reserve and the Grants Unapplied Reserve. The non cash-backed reserves are the Capital Adjustment Account, the Revaluation Reserve, and Deferred Receipts Accounts which represent balances arising from past funding, valuation surpluses or deferred income.

Revenue reserves are either Earmarked Reserves or General Reserves. Reserves are created by appropriating amounts from the Statement of Movement in General Fund Balance. When expenditure is to be financed from a reserve, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back to into the General Fund Balance statement so that there is no net charge against Council Tax for that expenditure.



More details of all reserves are given on pages 45 to 48 of the accounts.

### **Provisions**

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by the transfer of economic benefits, but where the timing of transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based upon the best estimate of the likely settlement. When payments are eventually made they are charged to the provision set up on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement is made) the provision is reversed and credited back to the relevant service revenue account.

### **Overheads and Support Service Costs**

The cost of support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007 (BVACOP). The total absorption costing principle is used: the full cost of overhead and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional democratic organisation.
- Non Distributed costs – the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable to non operational properties.

These two categories are defined in the BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

### **Interests in Companies and Other Entities**

The Council has a material interest in another legal entity, 'Homes in Havering', which having the nature of a subsidiary requires the Council to prepare group accounts. In the Council's own single entity accounts the interest in the entity is recorded as an investment (i.e. at cost less any provision for losses).

### **Stocks**

The Council has a number of small stocks, which are mainly valued on an historical basis. They are all reviewed regularly and any deemed obsolete are written off.

### **VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

### **Pension Provision**

The Council participates in two different pension schemes to meet the needs of employees in particular services. Both schemes provide Members with defined benefits related to pay and service. The schemes are as follows:

#### **Teachers**

This is a national scheme administered by the Department for Education and Skills (DfES). The employer's pension cost charged to the accounts is fixed by the contribution rate set by DfES on the basis of a notional fund.

#### **Other Employees**

Other employees are eligible to join the Local Government Pension Scheme. This is a funded defined benefit scheme, which is administered by the Council.

The Local Government Scheme is accounted for as a defined benefit scheme:

- The liabilities of the London Borough of Havering Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees.
- Liabilities are discounted to their current prices using a discount rate of 5.3% (based on the indicated rate of return on the annualised yield on iBoxx over 15 year AA rated corporate bond index)
- Assets of the L.B. of Havering Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – mid market value
  - unquoted securities – professional estimate
  - unlisted securities – average of the bid and offer rates
  - property – market value

The change in the Net Pension Liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of service earned this year allocated in the Income and Expenditure account to the revenue accounts of the services for which the employee worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to Net Operating Expenditure in the I and E account.
- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the I and E account.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the I and E account.
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the I and E account as part of Non Distributable Costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made in the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- Contributions paid by the L.B. of Havering Pension Fund – cash paid as employers' contributions to the fund

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund each year. In the Movement on the General Fund Balance this means that there are appropriations from the Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the fund but unpaid at the year end.

#### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## Statement of Environmental Impact

The London Borough of Havering, with significant ownership of land, buildings, facilities and fleet and overseeing management of infrastructure and green spaces, recognises its significant environmental impact. The Council is committed to the principles of sustainable development, including the protection and improvement of the environment. The main areas of focus for the Council are:

- Energy and fuel (carbon emissions and air quality)
- Waste and Recycling
- Procurement
- Biodiversity

### Energy and Fuel

The Council's commitment to mitigating against and adapting to the anticipated effects of climate change is evidenced in its recently published 'Climate Change Strategy' and 'Sustainable Energy Strategy'. These documents set out the Council's long term programme for reducing the borough's carbon footprint, not only the carbon produced by the services provided by the Council but also that of the activities carried out in the borough as a whole. Next year will see work carried out in identifying the carbon emissions from individual council services and an action plan put in place to reduce these emissions.

The Council's main uses of energy are for heating and powering Council buildings, street lighting, employee commuting and travel during work which together are responsible for approximately 60,000 tonnes per year or 5% of the borough's total CO<sub>2</sub> emissions. The Council's building stock includes a number of inefficient properties for which the potential exists to substantially reduce energy consumption. The Council also has a high number of employees who use their own vehicles to travel on Council business. As part of its programme to reduce this energy consumption, the Council will accurately measure its energy consumption and associated greenhouse gas emissions in the future.

### Council Buildings

Council buildings, including schools, are responsible for the majority of the Council's energy use and greenhouse gas emissions. Therefore the key focus of the Council's efforts to improve energy performance must be on its corporate building stock. The Council owns a large number of properties covering a wide variety of building types ranging from the Town Hall, offices, and community centres to schools and swimming pools. The Council's total electricity, gas and oil bill for 2006/07 was in the region of £4.2 million consuming 226GWhs of energy. The Council will set a good example to all other stakeholders in the borough by demonstrating good practice in reducing this energy use.

### Council Fleet

Transport management software is currently being used to ensure Council drivers follow the most efficient routes with Council fleet vehicles. As of April 2008, new fleet management software is being used by the Council's Transport Department to monitor fuel usage of all fleet vehicles.

### The Council's Energy Performance

The Council is working to improve information on the energy consumption of its' building stock and fleet vehicles so as to better identify the efficiency measures that can be taken. These measures will then be implemented across the Council's properties and vehicles (subject to ongoing economic viability and supply considerations, e.g. when major capital investment is required, or vehicles require replacement).

Energy efficiency policies are a key component of the Council's Corporate Asset Management Plan. The Council's existing Sustainable Construction Strategy ensures that high standard of energy efficiency is an integral part of any new build or refurbishment undertaken by the Council on its own premises, including schools. That strategy will be reviewed to ensure that it meets current standards of best practice with regards energy efficiency. The Council will continue to ensure that any refurbishment and new build undertaken by, or on behalf of, the Council will incorporate cost effective best practise techniques in order to achieve a high standard of energy efficiency.

The Council's Transport Department has achieved a Green Mark Level 1 environmental certification status for their depot and workshop facility, and is in the process of renewing it for 2008-09. This is a certification process which entails demonstrating that the management is taking responsibility for the environmental impact of their facility and activities, and can lead to development of an Environmental Management System or ISO14001. The Transport Department has partly completed the Green Fleet review, an independent review by the Energy Saving Trust on all aspects of the Council's fleet from an environmental perspective, with the aim to identify potential emissions reductions.

**Waste and recycling**

The London Borough of Havering's efforts on waste reduction and recycling are guided by the Havering Municipal Solid Waste Management Strategy (2006-2020), and the Council is a member of the East London Waste Authority (ELWA), which the Havering Strategy fits within its regional strategy. Reviews will be undertaken in 2008 and 2009 to assess performance of the Council's waste reduction and recycling efforts and to review operational approaches to waste management within the Borough.

Recycling programmes are currently being undertaken in five of the Council's Corporate buildings. This has involved purchase of orange recycling bags and additional bins which have been placed alongside regular rubbish bins in all five buildings, and arranging for collection. For 2007-08, 30.6 tonnes has been recycled from these Corporate buildings.

**Procurement**

At the strategic level, environment and sustainability have been incorporated into corporate procurement procedures. Sustainability features prominently in the Corporate Procurement Strategy 2006-09. Guidance for considering environmental issues in contracts is included within the Corporate Procurement Framework. Guidance on Whole-Life Costing is also included in the Framework, and a training course on Whole-Life Costing is offered for staff six times a year.

Environmental criteria have been included in the Pre-Qualification Questionnaire for bidders. In 2008, an Environmental Checklist for tender evaluation was developed, and will be piloted on a number of corporate contracts throughout the year. Havering has signed up to the Mayor of London's Green Procurement Code programme, and has thus made the commitment to achieve progressive environmental targets through procurement.

**Biodiversity**

The Havering Biodiversity Action Plan (HBAP) guides the Council's efforts on biodiversity and conservation. The HBAP gets its direction from the Mayor of London's Biodiversity Strategy and the National Biodiversity Action Plan and Biodiversity Strategy. The Council has set an LAA1 Stretch Target which require four Local Nature Reserves to be designated by 2010. Havering Council is a key partner in the East London Green Grid, which aims to enhance open spaces in priority regeneration areas in East London.

Since 2006, two Local Nature Reserves have been designated by Natural England (through application from the Council), with two more in process this year and a further two by 2010. Two parks have been awarded Green Flag status this year, which is a national standard for green spaces and parks, overseen by Communities and Local Government. These two parks will renew their Green Flag status this year and two more will aim to achieve the award. The Council has been involved in projects this year that contribute to implementation of the East London Green Grid Strategy: developing the Rainham to Purfleet Path with local partners (opening up parts of Rainham marshes to local communities) and being awarded funding with Sustrans' Connect2 project for enhancing cycle routes through the Ingrebourne Valley.

## Income and Expenditure Account 2007/2008

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last financial year. It includes all day to day expenses and related income on an accruals basis as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

<b>2006-2007</b>				<b>2007-2008</b>
<b>Net</b>				<b>Net</b>
<b>Expenditure</b>	<b>Notes</b>	<b>Expenditure</b>	<b>Income</b>	<b>Expenditure</b>
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
4,409	Central Services to the Public	24,043	19,769	4,274
25,490	Cultural, Environmental and Planning	42,445	11,606	30,839
26,264	Children's and Education Services	13	229,217	193,347
16,963	Highways, Roads and Transport Services	22,771	4,772	17,999
7,187	Housing General Fund Services	65,093	62,585	2,508
2,062	Housing Revenue Account	52,575	49,286	3,289
46,642	Adult Social Services	71,917	21,830	50,087
159	Coroner's Court	156	-	156
7,443	Corporate and Democratic Core	7,744	451	7,293
1,757	Non Distributed Costs	5,054	-	5,054
<b>138,376</b>	<b>Net Cost of Services</b>	<b>521,015</b>	<b>363,646</b>	<b>157,369</b>
20	(Gains) or losses on the disposal of fixed assets			0
8,718	Levies counting as Havering Expenditure	9		9,242
0	Trading accounts net (surplus)/deficit			0
2,378	Interest payable and similar charges			2,174
85	Loss on Investments			0
4,585	Contribution of housing capital receipts to Government Pool			4,552
(5,396)	Interest and other investment income			(7,086)
3,500	Pensions interest cost and expected return on pensions assets	49		8,080
<b>152,266</b>	<b>Net Operating Expenditure</b>			<b>174,331</b>
(94,986)	Demand on Collection Fund			(99,116)
(250)	Collection Fund Transfer for estimated (surplus)			(500)
0	Collection fund provision for estimated deficit in 2007/08			795
(7,724)	Government Grants (not attributable to specific services)			(7,365)
(39,963)	Distribution from Non-Domestic Rate Pool			(41,801)
<b>9,343</b>	<b>Net General Fund (Surplus)/ Deficit</b>			<b>26,344</b>

## Statement of Movement in General Fund Balance

The Income and Expenditure Account shows the Council's actual performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise Council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss of income to the Income and Expenditure account but is met from the useable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

The General Fund balance compares the Council's spending against Council tax that it raised for the year taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the out-turn on the Income and Expenditure Account and the General Fund balance.

<b>2006-2007</b>	<b>2007-2008</b>
<b>£'000</b>	<b>£'000</b>
<b>9,343</b> Deficit for the year end on the Income and Expenditure account	<b>26,344</b>
(8,220) Net additional amount required by statute and non-statutory proper accounting practices to be debited or (credited) to the General Fund Balance for the year	(26,778)
<b>1,123</b> (Increase) / Reduction in General Fund balance for the year	<b>(434)</b>
(19,775) General Fund balance brought forward	(18,652)
<b>(18,652)</b> General Fund balance carried forward	<b>(19,086)</b>
8,626 Amount of General Fund balance held by schools under local management schemes	9,058
<b>(10,026)</b> General Fund balance carried forward net of schools balances	<b>(10,028)</b>

**Rita Greenwood**  
Group Director Finance and Commerce  
25 June 2008

## Statement of Total Recognised Gains and Losses

The Statement of Total Recognised Gains and Losses brings together all the recognised gains and losses of the Authority during the financial year.

<b>2006/07</b>		<b>2007/08</b>
<b>£'000</b>		<b>£'000</b>
(9,343)	Surplus or (deficit) on the Income and Expenditure Account for the Year	(26,344)
11,994	Surplus or (deficit) arising on the revaluation of fixed assets	90,291
(880)	Actuarial gains and (losses) on pension fund assets and liabilities	19,820
(452)	Increase or (decrease) in collection fund surplus	(1,514)
(2,646)	Right to buy discounts	(988)
(86)	Other gains and (losses) required to be included in the STRGL	66
<b>(1,413)</b>	<b>Total recognised gains and (losses) for the year</b>	<b>81,331</b>

## Balance Sheet as at 31st March 2008

The Balance Sheet reflects the Authority's position at the end of the year for all activities and services.

Balances relating to the Pension Fund and Trust Funds have been excluded.

31 <sup>st</sup> March 2007 £'000		Notes	31 <sup>st</sup> March 2008 £'000	
	Fixed Assets			
2,324	Intangible Fixed Assets	16		1,045
	Tangible Fixed Assets:	17		
	Operational Assets			
544,645	- Council Dwellings			612,069
451,012	- Other Land and Buildings			444,414
10,260	- Vehicles, Plant and Equipment			7,847
41,369	- Infrastructure Assets			44,738
1,091	- Community Assets			1,088
28,631	Non-operational Assets			33,056
<b>1,079,332</b>	<b>Total fixed Assets</b>			<b>1,144,257</b>
3,202	Long-term Debtors	25		2,818
2,224	Deferred Premiums on the early repayment of debt			0
<b>1,084,758</b>	<b>Total Long-Term Assets</b>			<b>1,147,075</b>
	Current Assets			
223	- Stocks and Work in Progress			291
41,582	- Debtors (net of provision for bad debts)	27		33,942
81,507	- Investments (net of provision for losses)	24		103,115
13,981	- Cash in Hand	28		14,882
<b>1,222,051</b>	<b>Total Assets</b>			<b>1,299,305</b>
	Current Liabilities			
(1,375)	- Borrowing repayable within a year	24		(8,309)
(44,161)	- Creditors	31		(47,599)
(5,711)	- Cash Overdrawn			(7,683)
<b>1,170,804</b>	<b>Total Assets Less Current Liabilities</b>			<b>1,235,713</b>
(45,797)	Borrowing maturing in more than a year	24 & 29		(38,797)
(32,020)	Government grants-deferred	30		(31,361)
(7,371)	Unapplied Capital Grants & Contributions	30		(10,442)
(299)	Deferred discounts on early repayment of debt			0
337,060	Asset relating to defined pension schemes	50	314,520	
(567,000)	Liability relating to defined pension schemes	50 & 51	(532,780)	(218,260)
(4,858)	Provisions	32		(5,003)
<b>850,519</b>	<b>Total Assets Less Liabilities</b>			<b>931,850</b>
767,464	FARA / Revaluation Reserve	35		109,076
245,666	CFA / Capital Adjustment Account	36		965,794
0	Financial Instruments Adjustment Account	37		(1,700)
23,481	Usable Capital Receipts	38		27,873
3,062	Deferred Credits	26 & 34		2,681
2,213	Major Repairs Reserve	34		26
17,019	Earmarked Reserves	39		25,978
19,193	General Reserves	40		19,785
2,081	Housing Revenue Account Balance			1,831
280	Collection Fund Balance	41		(1,234)
(229,940)	Pension Reserve	49		(218,260)
<b>850,519</b>	<b>Total Net Worth</b>			<b>931,850</b>

Rita Greenwood  
Group Director Finance and Commerce  
25 June 2008



Cash Flow Statement as at 31<sup>st</sup> March 2008

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

<b>2006/07</b>		<b>Note</b>	<b>2007/08</b>	
<b>£'000</b>			<b>£'000</b>	<b>£'000</b>
<b>Revenue Activities</b>				
213,896	Cash paid to and on behalf of employees		218,273	
234,914	Other operating cash payments		247,912	
21,262	Housing Benefit paid out		24,315	
47,439	National non-domestic rate payments to national pool		59,356	
25,178	Precept payments		26,807	
4,585	Payments to capital receipts pool		3,763	
<b>547,274</b>	<b>Total Outflow</b>			<b>580,426</b>
34,725	Rents (after rebates)		36,274	
104,640	Council Tax receipts		109,007	
56,557	National non-domestic rate receipts		60,790	
39,963	National non-domestic rate receipts from national pool		41,801	
7,724	Revenue support grant		7,365	
133,791	Dedicated Schools Grant		141,743	
66,237	DWP grant for benefits	59	66,755	
36,141	Other Government Grants	59	45,878	
50,204	Cash received for goods and services		51,709	
32,579	Other operating cash receipts		38,530	
<b>562,561</b>	<b>Total Inflow</b>			<b>599,852</b>
<b>(15,287)</b>	<b>Revenue Activities Net Cash Flow</b>	53		<b>(19,426)</b>
<b>Returns on Investment and Servicing of Finance</b>				
1,740	Interest paid & prepaid -premiums (outflow)		2,493	
(3,984)	Interest & discounts received (inflow)		(5,988)	
<b>(2,244)</b>	<b>Net Cash Outflow (Inflow) from Servicing of Finance</b>			<b>(3,495)</b>
<b>Capital Activities</b>				
42,713	Purchase of fixed assets (outflow)		41,620	
10,506	Other capital cash payments (outflow)		3,667	
(22,057)	Sale of fixed assets (inflow)		(22,009)	
(14,400)	Capital grants received (inflow)	60	(20,959)	
-	Other capital cash income (inflow)		-	
<b>16,762</b>				<b>2,319</b>
<b>(769)</b>	<b>Net Cash (Inflow)/Outflow Before Financing</b>	54		<b>(20,602)</b>
<b>Management of Liquid Resources</b>				
547,037	Short-term deposits made (outflow)		609,312	
(538,989)	Short-term deposits repaid (inflow)		(587,704)	
<b>8,048</b>	<b>Net Increase/(decrease) in investments</b>	55		<b>21,608</b>
<b>Financing</b>				
8,275	Repayments of loans & finance leases (outflow)		2,150	
(14,383)	New loans raised (inflow)		(2,085)	
<b>(6,108)</b>	<b>Net (Inflow)/outflow from financing</b>	56		<b>65</b>
<b>1,171</b>	<b>Net Decrease in Cash</b>	57		<b>1,071</b>

## Notes to the Core Financial Statements

### 1. Building Control

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the Building Control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non-chargeable activities. The net cost of this service is included in Cultural, Environmental and Planning Services.

	Chargeable £000	Non Chargeable £000	Total £000
<b>Expenditure</b>			
Employees	467	295	762
Premises	26	18	44
Transport	19	2	21
Supplies & Services	62	38	100
Central & Support Services	136	48	184
<b>Income</b>			
Building Regulation Charges	(772)	0	(772)
Miscellaneous	0	(6)	(6)
<b>(Surplus)/Deficit for the year</b>	<b>(62)</b>	<b>395</b>	<b>(333)</b>
<b>2006/07</b>	<b>(227)</b>	<b>460</b>	<b>233</b>

### 2. Agency Income & Expenditure

There were no agency activities in 2007/08 or 2006/07.

### 3. Local Authorities (Goods & Services) Act 1970

The Council is empowered by the Act to provide goods and services to other public bodies. Services provided by the Council to other bodies inside and outside the borough amounted to £235,700 (£64,000 in 2006/07).

### 4. Pooled Budget

Under the National Health Services Act 2006 & Local Government Acts 1972 & 2000 a partnership arrangement was established with the Havering Primary Care Trust. The agreement provides for The London Borough of Havering (LBH) to host a pooled budget between the two partners. This includes integrated services and joint commissioning and is to provide Health & Social Care Services for Adults with Learning Disabilities (LD) qualifying for such provision. Services can be provided to those clients either in borough or at their current location in the United Kingdom, depending on needs and circumstances.

In 2007/8 LBH contributed £11.3m to the pool arrangement out of a total pooled expenditure of £18.2m, the balance of £6.9m being provided by Havering Primary Care Trust. These figures include the LBH funding of the pool deficit of £1.4m and these results are all reflected in the Council's financial statements. The LD Development grant of £206k provided through central government supports the HPCT element of this funding, while other income contributing to LBH's work in this service area, including pooled activity, is not formally part of the pool.

### 5. Employees' Remuneration

The number of employees (including teaching staff) whose remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000 were:

			2007/08	2006/07
£50,000	-	£59,999	161	152
£60,000	-	£69,999	74	57
£70,000	-	£79,999	16	15
£80,000	-	£89,999	11	15
£90,000	-	£99,999	10	7
£100,000	-	£109,999	1	3
£110,000	-	£119,999	2	-
£120,000	-	£129,999	-	1
£130,000	-	£139,999	1	-
£140,000	-	£149,999	-	-
£150,000	-	£159,000	2*	1
			<b>278</b>	<b>251</b>

The 2006/07 data has been re-stated in line with the updated definitions of remuneration set out in the code of practice.

\* includes one off termination costs in 2007/08.

**6. Publicity Account**

Local Authorities are required by section 5 (1) of the Local Government Act 1986 to keep a separate account of expenditure on publicity, including advertising for staff. The details of expenditure in 2007/08 relating to publicity are as follows: -

	2007/08	2006/07
	£'000	£'000
Staff Advertising	484	809
Other publicity	370	423
	<b>854</b>	<b>1,232</b>

**7. Members Allowances**

Payments in the year were £1,130,302 including expenses (£971,315 in 2006/07). Additionally, payments to co-opted Members totalled £2,340 (£3,600 in 2006/07).

**8. Audit Costs**

The Council incurred the following fees relating to external audit and inspection:

	2007/08	2006/07
	£000	£000
Fees payable to the Audit Commission with regard to external audit services carried out by appointed auditor	350	347
Fees payable to the Audit Commission in respect of statutory inspection	27	164
Fees payable to the Audit Commission for the certification of grant claims and returns	110	105
	<b>487</b>	<b>616</b>

**9. Levies Counting as Havering's Expenditure**

Havering must pay levies to the following bodies:

	2007/08	2006/07
	£000	£000
East London Waste Authority	8,556	8,117
Environment Agency		
- Thames	150	94
- Anglian	8	11
London Pensions Fund Authority	262	237
Lee Valley Regional Park	266	259
<b>Total Levies</b>	<b>9,242</b>	<b>8,718</b>

**10. Related Party Transactions**

Information in respect of material transactions with related parties, not disclosed elsewhere in the Statement of Accounts, is as follows: -

2007/08	Payments by the Council £'000
London Borough of Havering Pension Fund	
Payment of employers pension contributions	19,180

**Membership of other organisations:**

Members, the Chief Executive, Group Directors and Heads of Service have made declarations of their interests in the following organisations, which in most cases relate to official Council appointments:

Payments by the Council	2007/08 £'000
Age Concern (Havering) Councillor June Alexander Councillor Steven Kelly Councillor Georgina Galpin chose Age Concern (Havering) as her appeal charity as Mayor.	610
East London Waste Authority (ELWA) Councillor Steven Kelly Councillor Barry Tebbutt Group Director of Public Realm is a Director of ELWA	9,151
Groundwork East London Councillor Michael White	73
Havering and Barking Relate Councillor Pam Light Councillor Keith Wells	75
Havering Association for People with Disabilities Councillor Steven Kelly Councillor Patricia Mylod Councillor Linda Van den Hende	85
Havering College of Further & Higher Education Councillor Mark Gadd Councillor Paul Rochford	255
Havering Theatre Trust Councillor June Alexander Councillor Wendy Brice-Thompson Councillor Andrew Curtin Councillor Gillian Ford Councillor Linda Hawthorn Councillor Roger Ramsey Councillor Paul Rochford	459

Councillor Geoffrey Starns	
Local Government Association Councillor Michael Armstrong Councillor Andrew Curtin Councillor Steven Kelly Councillor Barbara Matthews Councillor Eric Munday Councillor Michael White	66
London Assembly Councillor Roger Evans (Greater London Authority precept)	26,675
London Boroughs Grants Scheme Councillor Roger Ramsey	799
London Riverside Ltd Councillor Michael White	245

Corporation, which receives funding from the DCLG for delivery of economic regeneration in the Thames Gateway area.

Councillor Michael White represents the Council on the board of the Centre for Engineering and Manufacturing Excellence Ltd (CEME), a company limited by guarantee. CEME is one of the Council's regeneration and skills partners and the Council made payments to CEME of £270,000 in 2006/07. This includes payment of rent for accommodation for training and other purposes.

Councillor Michael Armstrong is a trustee of Cleanaway Havering Riverside Trust and Cleanaway Havering Riverside Maintenance Trust. The Trusts provide external funding to the Council for environmental and community projects.

Councillor Michael White is a board member of the London Thames Gateway Urban Development

## 11. Business Improvement Districts

The Council is the billing authority for the London Riverside Business Improvement District managed by Ferry Lane Action Group which provides a cleaner, safer more secure business environment and to promote the interest of the business community within the BID. The Council collects a levy from business rate payers on behalf of the BID body.

	2007/08 £000	£000	2006/07 £000
Bid Levy Income		(139)	0
Less: Costs of collecting levy	13		0
Payment to the Bid company	131		
Payment for services provided by other parties	13		0
Total expenditure		157	0
Deficit for the year		(18)	0
Surplus brought forward		0	0
Transfer from reserves		18	0
Surplus carried forward		0	0

## 12. Trading Accounts

	2007/08 Income £000	2007/08 Expenditure £000	2007/08 (Surplus)/ Deficit £000	2006/07 (Surplus)/ Deficit £000
<b>a) Open Air Market</b> – The Council operates an open air market three days a week	(812)	526	(286)	(250)
<b>b) Other Trading Accounts</b>				
Highways	(3,328)	3,297	(31)	(521)
Leisure Management	0	0	0	498
Schools/Welfare Catering	(4,183)	4,391	208	601

The surplus and deficits from these trading accounts are included within the relevant service in the Income and Expenditure Account.

## 13. Deployment of Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Dedicated Schools Grant became payable with effect from 1<sup>st</sup> April 2006. This specific grant is included within the net cost of services section of the Income and Expenditure account. A corresponding reduction is made in the level of general grants which is reflected in the final section of the I and E account in 2007/08.

Details of the deployment of DSG receivable for 2007/08 are as follows:

	Schools Budget Funded by Dedicated School Grant		
	Central Expenditure	Individual Schools Budget	Totals
	£,000	£,000	£,000
Original grant allocation to Schools Budget for the current year in the authority's budget	14,019	127,808	141,827
Adjustment to finalised grant allocation	(84)	0	(84)
DSG receivable in the year	13,935	127,808	141,743
Actual expenditure in the year	12,714	129,159	141,873
(Over)/underspend for the year	1,221	(1,351)	(130)
Planned top up funding of ISB from Council resources	0	0	0
Use of schools balances brought forward	0	(1,351)	(1,351)
(Over)/underspend from prior year	14	7,881	7,895
<b>(Over)underspend carried forward to 2008/09</b>	<b>1,235</b>	<b>6,530</b>	<b>7,765</b>

The central expenditure carry forward contains funding which has been earmarked to cover Single Status back pay, the exact cost of which is as yet unknown. Schools will need to meet the cost of this liability once the Council has reached an agreement on the implementation of Single Status.

**14. Local Area Agreement (LAA)**

The Council is a participant in a LAA – a partnership with other public bodies involving the pooling of Government grants to finance works towards jointly agreed objectives for public services.

The Havering Strategic Partnership (HSP) works to promote the improvement and development of the London Borough of Havering, and its vision and aims reflect this.

The LAA partners are:

Job Centre+, Learning and Skills Council, Havering College, Benefits Agency, Primary Care Trust and the London Borough of Havering.

Havering Council acts as the accountable body for the LAA. This means that the Council is responsible for managing the distribution of the grant paid by the Government Office to the partners involved, but the Council does not determine which bodies are due payments. This is determined either by the Government Office or the partnership. In this context, the Council acts as an agent to the partnership and therefore has not recognised the full amount of LAA grant in its financial statements but only that part to be spent by the Council in providing its services.

The total amount of LAA grant received by the LSP in 2007/08 is £1,056,200, The Council received £127,500 of this to fund its own services.

As accountable body, the Council is potentially responsible for repaying to the Government any element of the grant that is found to have been used by its partners. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for such an eventuality.

## 15. Note of reconciling items for the Statement of Movement on the General Fund Balance

2006/07		2007/08
£'000		£'000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	
(12,506)	Depreciation and Impairment of fixed assets	(40,100)
(1,223)	Excess of depreciation charged to the HRA over the Major Repairs Allowance element of Housing Subsidy	(2,302)
12,480	Government Grants Deferred amortisation matching depreciation and impairments	18,654
(11,365)	Write down of deferred charges to be financed from capital resources	(1,008)
(20)	Net loss on sale of fixed assets	0
0	Difference between the amounts debited /credited to the I and E account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts	149
(16,700)	Net Charges made for retirement benefits in accordance with FRS17	(27,320)
(29,334)	Sub Total	(51,927)
	<b>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year</b>	
875	Minimum revenue provision for capital financing	940
1,783	Capital expenditure charged in year to the General Fund Balance	2,051
(4,586)	Transfer from useable capital receipts to meet payments to the Housing Capital Receipts Pool	(4,552)
18,070	Employers contributions payable to the pension fund and retirement pensions payable direct to pensioners	19,180
16,142	Sub Total	17,619
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund balance for the year</b>	
(263)	Housing Revenue Account balance	(250)
0	Voluntary revenue provision for capital financing	0
5,235	Net transfer to or (from) earmarked reserves	7,780
4,972	Sub Total	7,530
<b>(8,220)</b>	<b>Net Additional amount required to be credited to the General Fund Balance for the year</b>	<b>(26,778)</b>

**16. Movement in Tangible Fixed Assets 2007/08****a) Operational Fixed Assets**

	<b>Council Dwellings</b>	<b>Other land and buildings</b>	<b>Vehicles plant and equipment</b>	<b>Infra-structure assets</b>	<b>Community assets</b>	<b>Total Operational</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net Book Value as at 1 April	<b>544,645</b>	<b>451,012</b>	<b>10,260</b>	<b>41,369</b>	<b>1,091</b>	<b>1,048,377</b>
Revaluations	101,363	9,802			4,779	115,944
Additions	10,367	15,401	4,540	13,731	50	44,089
Transfers						0
Disposals	(3,895)	(10,021)		(3)	(4,779)	(18,698)
Impairment	(30,147)	(15,224)	(3,289)	(7,157)	(50)	(55,867)
Depreciation	(10,264)	(6,556)	(3,664)	(3,202)	(3)	(23,689)
<b>Net Book Value as at 31 March</b>	<b>612,069</b>	<b>444,414</b>	<b>7,847</b>	<b>44,738</b>	<b>1,088</b>	<b>1,110,156</b>

**b) Non-operational Fixed Assets**

	<b>Investment Properties</b>	<b>Surplus Assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net Book Value as at 1 April	<b>23,672</b>	<b>4,958</b>	<b>28,630</b>
Revaluations	5,213	303	5,516
Additions			
Transfers			
Disposals		(897)	(897)
Impairment	(163)	(9)	(172)
Depreciation	(3)	(18)	(21)
<b>Net Book Value as at 31 March</b>	<b>28,719</b>	<b>4,337</b>	<b>33,056</b>

**17. Movement in Intangible Fixed Assets & Deferred Charges 2007/08**

	<b>Renewal, Mobility &amp; Other Grants</b>	<b>Other Deferred Charges</b>	<b>Total Deferred Charges</b>	<b>Intangible Fixed Assets Software &amp; System Development</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April	<b>149</b>	<b>122</b>	<b>271</b>	<b>2,053</b>
Transfer - Reclassified Capital Expenditure	2,302	1,310	3,612	714
Grants & contributions				
Written off to revenue	(2,451)	(1,432)	(3,883)	(1,722)
<b>Balance at 31 March</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,045</b>



## 18. Fixed Asset Valuation

The following statement shows the progress of the Council 's rolling programme for the revaluation of fixed assets. The valuations are certified by G.K. Green, FRICS, the Property Strategy Manager, in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Assets Valuation Standards Committee of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies

<b>Fixed Assets:</b>	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Comm-unity</b>	<b>Infra-structure</b>	<b>Vehicle, Plant, Machinery &amp; Eqpt</b>	<b>Non-operation al Assets</b>	<b>Total Value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Valued at historical cost	334	12,304	1,088	44,738	7,847		66,311
Valued at current value in:							
2007/2008	611,735	67,595				20,718	700,048
2006/2007		26,581				49	26,630
2005/2006		12,659				1,841	14,500
2004/2005		49,853				5,296	55,149
2003/2004		275,422				5,152	280,574
<b>Net Book Value</b>	<b>612,069</b>	<b>444,414</b>	<b>1,088</b>	<b>44,738</b>	<b>7,847</b>	<b>33,056</b>	<b>1,143,212</b>

## 19. Information on Assets Held

Fixed Assets owned by the Authority include the following:

	<b>Number as at</b>	
	<b>31 March 2008</b>	<b>31 March 2007</b>
<b>Housing Property</b>		
Council Dwellings	10,820	10,874
Housing Garages	2,817	2,755
Housing Commercial Property	307	310
Other Housing Property	119	121
Housing Surplus Property	1	1
<b>General Fund Operational Buildings</b>		
Central Administrative Offices	7	7
Social Services Homes & Offices	29	32
Indoor Sports Centres	4	4
Libraries & Arts Centres	11	11
Queens Theatre	1	1
Primary Schools	55	55
Secondary Schools	12	12
Special schools	3	3
Other Education Property	56	56
Depots & Nurseries	2	2
Surface Car Parks	25	25
Multi-storey Car Parks	1	1

Cemetery & Crematorium Buildings	5	5
Social Halls	13	13
Public Conveniences & Market	29	29
Refuse & Street Cleansing Buildings	4	4
Outdoor Recreation	56	57
GF Vehicles, Plant & Equipment	198	198
<b>Infrastructure Assets</b>		
Highways (km)	612	612
Street Lights	17,529	16,951
<b>Community Assets</b>		
Cemeteries & Crematorium Land	5 sites	5 sites
Parks Land	138 sites	138 sites
Allotment Land	28 sites	29 sites
Civic Regalia	11 items	11 items
Environmental Protection	9 sites	9 sites
Historic Buildings & Memorials	5 sites	5 sites
<b>Non-operational Land &amp; Buildings</b>		
Commercial & Industrial	141	141
Surplus Property	17	17

There are also 2 foundation schools & 13 voluntary aided schools in the borough which are not owned by the Council and whose fixed assets are not included in this Balance Sheet.

## 20. Financing of Capital Expenditure & Movement in Capital Financing Requirement

The following statement shows how Havering's capital expenditure was financed and the consequent change in underlying borrowing:

Capital Expenditure	2007/08 £000	2006/07 £000
Operational Fixed Assets	44,088	42,340
Intangible Fixed Assets	714	1,244
Deferred Charges	3,612	10,505
<b>Total Capital Expenditure</b>	<b>48,414</b>	<b>54,089</b>
<b>Less financed from</b>		
Capital Receipts	(13,056)	(27,432)
Major Repairs	(10,433)	(6,071)
Revenue Funds	(2,051)	(1,783)
Grants & Contributions	(18,089)	(15,244)
<b>Increase in Need to Borrow Supported by Government</b>	<b>4,785</b>	<b>3,559</b>

The following statement shows the make-up of Havering's Capital Financing Requirement under the Prudential Code:

Capital Financing Requirement	31 March 2008 £000	31 March 2007 £000
Tangible Fixed Assets	1,143,212	1,077,008
Intangible Fixed Assets	1,045	2,324
Fixed Asset Restatement Account		(767,464)
Capital Financing Account		(245,666)
Revaluation Reserve	(109,076)	
Capital Adjustment Account	(965,794)	
Grants Deferred Account	(31,360)	(32,020)
<b>Net Requirement</b>	<b>38,027</b>	<b>34,182</b>

The following statement shows how Havering's Capital Financing Requirement under the Prudential Code changed:

Capital Financing Requirement	2007/08 £000	2006/07 £000
Balance at 1 April	34,182	31,509
ADD		
Supported borrowing	4,785	3,559
DEDUCT		
Minimum Revenue Provision	(940)	(875)
Capital receipts set aside	0	(11)
<b>Balance at 31<sup>st</sup> March</b>	<b>38,027</b>	<b>34,182</b>

## 21. Capital Commitments

Estimated future capital commitments are shown below. Payment for these schemes will be incurred in the years 2008/09 to 2009/10.

	Commitment 31 March 2008 £000
<b>General Fund</b>	
Arts, Culture, Sport & Leisure	9,270
Roads, Footways and Bridges	4,516
Education Capital Schemes	11,369
Town Centre & Environmental Improvements	3,132
Office Accommodation, Equipment, ICT and Vehicles	10,569
Other Smaller GF Schemes	4,122
<b>Total General Fund Commitments</b>	<b>42,978</b>

	Commitment 31 March 2008 £000
<b>Housing</b>	
Double glazing & window replacement	941
Remedial structural & electrical works	12,510
Improvements for Sheltered Accommodation & Disabled	1,400
Central heating & energy efficiency	480
Other Small Housing Schemes	1,900
<b>Total Housing Commitments</b>	<b>17,231</b>
<b>Total Capital Commitments</b>	<b>60,209</b>

## 22. Fair Value Calculation

SORP 2007 requires the fair value of each class of financial asset and liability to be disclosed in the notes to the statement of accounts, where this is different from the carrying amount stated in the Balance Sheet. Fair value is defined as the amount for which an asset could be exchanged or a liability settled. The fair value of the instruments is determined by calculating the Net Present Value of future cashflows, which provides an estimate of the value of payments in the future in today's terms.

	Nominal / Principal £'000	Fair Value £'000
<b>Financial Assets</b>		
Cash	9,615	9,615
De Escalator	5,000	5,029
Fixed Term Deposits	88,500	90,636
	<b>103,115</b>	<b>105,280</b>
<b>Financial Liabilities</b>		
Market Loan	7,000	6,542
Temporary Borrowing	1,309	1,309
PWLB Loans	38,797	43,419
	<b>47,106</b>	<b>51,270</b>

### 23. Leases

#### a) Finance Leases

There are currently no assets held under finance leases. There are no un-discharged obligations under finance leases.

#### b) Vehicle, Plant & Equipment Operating Leases

Operating lease rentals paid in the year amounted to £474,730 (2006/07 £608,801). Outstanding commitments under operating leases are as follows:

Year	Annual commitments £'000
2008/09	249
2009/10	119
2010/11	6
2011/12	5
2012/13	5
Later years	0

### 24. Financial Instruments

#### Financial instrument balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term	
	2007/08 £000	2006/07 £000
<b>Financial Liabilities at amortised cost</b>		
Total Borrowings	38,797	45,797
	<b>38,797</b>	<b>45,797</b>
<b>Loans and Receivables</b>	0	0
	<b>0</b>	<b>0</b>
<b>Total Investments</b>	<b>0</b>	<b>0</b>

	Current	
	2007/08 £000	2006/07 £000
<b>Financial Liabilities at amortised cost</b>		
Total Borrowings	8,309	1,375
	<b>8,309</b>	<b>1,375</b>
<b>Loans and Receivables</b>	103,115	67,993
	<b>103,115</b>	<b>67,993</b>
<b>Total Investments</b>	<b>103,115</b>	<b>67,993</b>

#### Financial instruments gains/losses

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities measured at amortised cost	
	2007/08 £000	2006/07 £000
<b>Interest Expense</b>	2,174	2,378
Interest payable and similar charges in Year	2,174	2,378

	Financial Assets Loans and Receivables	
	2007/08 £000	2006/07 £000
<b>Interest Income</b>	7,086	5,396
Interest and Investment Income in year	7,086	5,396

#### Fair value of Assets and Liabilities carried at Amortised Cost

Loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

for loans from the Public Works Loans Board (PWL) and other loans payable, premature repayment rates from PWLB have been applied to provide the fair value under PWLB debt redemption procedures;

no early repayment or impairment is recognised;

The fair value of trade debtors and creditors is taken to be the invoiced or billed amount.

Details of carrying amount and fair value are shown below:

	Interest rates %	Carrying Amount 31/3/08 £	Fair Value 31/3/08 £
PWLB debt	3.7% to 6.9%	38,797	43,419
Market Loan	3.6%	7,000	6,542
Temporary Borrowing		1,309	1,309
Total debt		47,106	51,270
Creditors		47,599	46,295
<b>Total financial liabilities</b>		<b>94,705</b>	<b>97,565</b>
Investments less than 1 year		103,115	105,280
Debtors			
<b>Total investment and receivables</b>		<b>103,115</b>	<b>105,280</b>

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. SORP 2007 requires the fair value of each class of financial asset and liability to be disclosed in the Notes to the Statement of Accounts.

The purpose of this valuation is to enable the user to evaluate quantitatively the authority's financial position and performance.

#### Methodology and Assumptions

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain.

#### Discount rates used in NPV calculation

The rates used in this valuation were obtained from the market on 31<sup>st</sup> March 2008, using bid prices where applicable

#### Assumptions

It is noted that the following assumptions do not have a material effect on the fair value of the instrument:

Interest is calculated using the most common market convention ACT/365  
Where Interest is paid/received every 6 months on a day basis, the value of interest is

rounded to 2 equal instalments  
For fixed term deposits it is assumed that interest is received on maturity, or annually if duration is greater than 1 year  
The Interest value and date has not been adjusted where a relevant date occurs on a non working day

#### Explanation of differences between carrying and fair value

The Council 's portfolio of loans includes a number of fixed rate loans which were taken out when interest rates were higher than those available for similar loans at the Balance Sheet date. Should the Council wish to settle these loans earlier than current terms, a premium or penalty charge will be payable to the lender. Conversely, where the Council has loans with rates lower than current market rates, earlier settlement of these will attract a discount. The net effect of these factors has resulted in a higher fair value amount for financial liabilities.

#### Nature and extent of risk arising from financial instruments

##### Key risks

The Council 's activities expose it to a variety of financial risks, the key risks are:

Credit risk – the possibility that other parties might fail to pay amounts due to the Council ;  
Liquidity risk – the possibility that the Council might not have funds available to meet its commitment to make payments;  
Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;  
Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

**Overall procedures for managing risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirement of the Code of Practice;
- By approving annually in advance, prudential indicators for the following three years limiting
  - the Council's overall borrowing;
  - its maximum and minimum exposure to fixed and variable rates;
  - its maximum and minimum exposure to the maturity structure of its debt;
  - its maximum annual exposure to investments beyond a year.
- By approving an Investment Strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting meeting. These items are reported with the Annual Treasury Management Strategy which outlines the approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by the Director of Finance and Commerce. The Council maintains written principles for risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management Practices. The Treasury Management Practices are a requirement of the Code of Practice and are regularly reviewed.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the procedures referred to above.

The analysis shown on the following page summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the

Council's experience over the last five financial years, adjusted to reflect current market conditions:

	Amount at 31 March 2008	Historical experience of default	Adjustment for market conditions at 31 March 2008	Provision against default
	£'000	%	%	£'000
Deposits with Banks and financial Institutions:	103,115	0	0	0
Customers	50,360	5	32.6%	16,418

No breaches of the Council's counterparty criteria occurred during the year and the Council does not expect any losses from non-performance by any of the counterparties in relation to deposits. The amount stated for customers excludes provision for bad debts.

The Council does not normally allow credit for its customers, however £20.4 of £50.4 million shown in the above table is past its due date and is in excess of one year in arrears. The Council actively pursues all debtors in accordance with its debt management policy and does not write debt off until it has exhausted all options for recovery. The Council regularly reviews its levels of debt, which includes considering the adequacy of its provision for bad debts. Amounts due from customers can be analysed by age as follows:

	2007/08 £'000
<b>Less Than three months</b>	19,494
<b>Less than Six months</b>	6,616
<b>Six months to one year</b>	3,805
<b>More than one year</b>	20,445
	<b>50,360</b>

During the year the Council held no collateral as security.

#### **Liquidity risk**

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need and whilst the PWLB provides access to longer terms funds, it also acts as a lender of last resort to Council's. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures that sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the Treasury and Investment

Strategy reports), as well as through cash flow management procedures required by the Code of Practice.

#### **Re-financing and maturity risk**

The Council maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing exposure to replacing financial instruments as they mature. This risk relates to the maturing of longer term financial liabilities.

The approved prudential indicator limits for the maturity structure of debt, and the limits on investments placed for greater than one year are key parameters used to address this risk. The Council approved Treasury and Investment Strategies address the main risks and the Financial Services Unit address the operational risks within the approved parameters.

The maturity analysis of loans is as follows:

	2007/08 £'000
<b>Less than one year</b>	8,309
<b>Between one and two years</b>	0
<b>Between two and five years</b>	0
<b>More than five years</b>	38,797
	<b>47,106</b>

All other payables are due to be paid in less than one year.

#### **Market risk**

##### *Interest rate risk*

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance a rise in variable and fixed interest rates would have the following effects:

- borrowing at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowing at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise;
- investments at fixed rates – the fair value of assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so normal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or the Statement of Recognised Gains and Losses. However, changes in interest payable and receivable on variable rate borrowings and investments, will be allocated to the Income and Expenditure Account and will effect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Statement of Recognised Gains and Losses.

The Annual Treasury Management Strategy brings together the Council 's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposures. The Financial Services Unit will monitor market and forecast interest rates within the year to adjust exposure appropriately.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<b>2007/08 £'000</b>
Increase in interest payable on variable borrowings	0
Increase in interest perceivable on variable rate investments	1,144
Impact upon I and E account	1,144
Decrease in fair value of fixed rate investments	<b>0</b>
Impact on STRGL	<b>1,144</b>

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

#### *Price risk*

The Council does not invest in equity shares. It therefore has no exposure to risk arising from movement in prices.

#### *Foreign exchange risk*

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates

#### **25. Long-term Debtors**

These represent amounts owing to the Council but which are repayable over a period of time.

	<b>31 March 2008 £'000</b>	<b>31 March 2007 £'000</b>
Mortgages	1,957	2,321
Transferred Debt	683	705
Car Loans	137	155
Other	41	21
	<b>2,818</b>	<b>3,202</b>

#### **26. Deferred Credits**

Under current legislation, the repayments of most loans or advances made by the authority are treated as capital receipts. The capital receipts that will arise from future repayments of the advances are included in this reserve.

The balance in this reserve is not usable for new capital expenditure, but when the mortgages or loans are repaid, the deferred receipts are realised and are transferred from this reserve to the Usable Capital Receipts Reserve.

The Detail of Total Movement in Reserves at note 39 shows an analysis of the movement in the year of this reserve.

## 27. Analysis of Debtors and Payments in Advance

	31 March 2008 £'000	31 March 2007 £'000
<b>Collection Fund Debtors</b>		
Council Taxpayers	12,523	11,526
Business Rate Pool Contribution	0	690
Business Ratepayers	3,258	3,307
<b>Other Debtors</b>		
Government Departments	5,622	6,717
Housing	2666	2,769
Capital Debtors	15	16
Sundry Debtors	24,533	28,527
	<b>48,617</b>	<b>53,552</b>
<b>Less provision for doubtful debts</b>		
Collection Fund	(5,418)	(4,436)
Other	(11,000)	(10,620)
	<b>32,199</b>	<b>38,496</b>
<b>Payments in Advance</b>	1,743	3,086
	<b>33,942</b>	<b>41,582</b>

## 28. Cash

Cash in hand (including schools) at the year end is as follows:-

	31 March 2008 £'000	31 March 2007 £'000
Schools – under the LMS Cheque book Scheme	13,347	13,380
Other	1,535	601
	<b>14,882</b>	<b>13,981</b>

## 29. Analysis of Long-term Loans by Maturity

	31 March 2008 £'000	31 March 2007 £'000
<b>Maturing in:</b>		
2 to 5 years*		7,000
5 to 10 years		
More than 10 years	38,797	38,797
	<b>38,797</b>	<b>45,797</b>

\* A long-term market Lender's Option-Borrower's

Option loan (LOBO) of £7million which might last for 60 years has been included as maturing at its earliest possible repayment date (November 2008).

## 30. Government and Other Grants

### a) Grants Unapplied

	2007/08 £'000	2006/07 £'000
Amounts received in year	20,959	11,565
Amounts applied to meet new capital investment	(17,888)	(14,906)
Brought forward	7,371	10,712
<b>Carried forward</b>	<b>10,442</b>	<b>7,371</b>

### b) Grant Deferred

	2007/08 £'000	2006/07 £'000
Grants applied	18,089	15,244
Grants written down	(18,748)	(12,480)
Brought forward	32,020	29,256
<b>Carried forward</b>	<b>31,361</b>	<b>32,020</b>

Grants towards the cost of acquiring or improving fixed assets are transferred from the Grants Unapplied Account to the Grants Deferred Account when the related expenditure has been incurred.

The grants are credited to the Income and Expenditure Account in line with the depreciation of the assets financed. A matching sum is charged as an appropriation from the Income and Expenditure Account and credited to the Capital Adjustment Account in order to ensure that the Government's minimum revenue provision requirements are met and that the effect of the accounting arrangements is neutral for Council taxpayers.



**31. Analysis of Creditors**

	<b>31 March 2008 £'000</b>	<b>31 March 2007 £'000</b>
<b>Collection Fund Creditors</b>		
Income in Advance: -		
Council Taxpayers	4,059	4,137
Business Rates	643	0
contributions to national pool		
Business Ratepayers	1,633	1,438
	<b>6,335</b>	<b>5,575</b>
<b>Other Creditors</b>		
Central Government	6,601	8,945
HMRC	4,140	4,092
Capital Creditors	8,095	4,913
Other Sundry Creditors	15,072	16,410
Income in Advance	7,356	4,226
	<b>41,264</b>	<b>38,586</b>
	<b>47,599</b>	<b>44,161</b>

**32. Provisions**

	<b>31 March 2008 £'000</b>	<b>31 March 2007 £'000</b>
Collection Fund	795	0
Self insurance Provision	4,209	4,858
	<b>5,004</b>	<b>4,858</b>

**a) Collection Fund**

Provision has been set aside for the Council's contribution towards the collection fund deficit which arose in 2007/08.

**b) Self Insurance Provision**

The Council's insurance cover is arranged with Zurich Municipal with substantial excesses for which a self-insurance provision is maintained. The self-insurance provision has been set up to meet the excesses on the Council's public and employer's liability, property and motor vehicle insurances. The excess levels were as follows:

	<b>1 Jan 2008 £'000</b>	<b>1 Jan 2007 £'000</b>
Public and Employer's Liability	140	140
Motor Vehicles	138	138
Property	50	50

The Council's insurers have advised the level of provision required to meet known claims and a transfer from the Insurance Reserve has been made to meet the cost of these claims.

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Balance at 1 April	4,858	5,788
Contributions	1,693	1,682
	<b>6,551</b>	<b>7,470</b>
Payment of Claims	(1,436)	(1,253)
	<b>5,115</b>	<b>6,217</b>
Transfer (to)/from revenue	(906)	(1,359)
<b>Balance at 31 March</b>	<b>4,209</b>	<b>4,858</b>

The Insurance Provision together with the Insurance Reserve total £7.3 m (£7 m in 2006/07).

**33. Minimum Revenue Provision**

The Local Government Act 2003 continues the previous requirement in the Local Government and Housing Act 1989 for the Council to charge the revenue account a minimum revenue provision (MRP) for the repayment of external loans.

The adjustment to achieve the required provision is included in the Statement of movement in the General Fund Balance (see also note 12).

The details of the minimum revenue provision made are shown below:

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Non-housing – 4% of Adjusted Capital Financing Requirement	940	875
<b>Minimum Revenue Provision</b>	<b>940</b>	<b>875</b>
<b>Charged as:</b>		
General Fund depreciation	12,734	12,505
Impairment	0	0
Intangibles amortised	1,008	1,130
Deferred charges amortised	270	10,235
Transfer to Capital	(13,072)	(22,995)
Adjustment Account	(13,072)	(22,995)

## 34. Details of Movements on Reserves

Reserve	Balance 31 March 2007	Net Movement in Year	Balance 31 March 2008	Purpose of Reserve	Further Detail of movements
Revaluation Reserve	0	109,076	109,076	Store of gains on revaluation of fixed assets since 1 April 2007	Note 35 to the core financial statements
Capital Adjustment Account		965,794	965,794	Store of capital resources set aside to meet past capital expenditure	Note 36 to the core financial statements
Financial Instruments Adjustment Account	0	(1,700)	(1,700)	Balancing account to allow for the differences in statutory requirements and proper accounting practice for borrowing and investments	Note 37 to the core financial statements
Fixed Asset Restatement Account	767,464	(767,464)	0		Note 35 to the core financial statements
Capital Financing Account	245,666	(245,666)	0		Note 36 to the core financial statements
Useable Capital Receipts	23,481	4,392	27,873	Proceeds of Fixed Asset sales available to meet future capital expenditure	Note 38 to the core financial statements
Major Repairs Reserve	2,213	(2,187)	26	Resources available to meet future capital investment in Council houses	HRA statements page 57
Deferred Capital Receipts	3,062	(381)	2,681	Capital income to be received in the form of principal repayments	Note 26 to the core financial statements
Earmarked Reserves	17,019	8,959	25,978	Sums set aside from revenue to meet the future costs of specific projects or activities	Note 39 to the core financial statements
General Reserves	19,193	592	19,785	Resources available to meet non housing services	Note 40 to the core financial statements
Housing Revenue Account	2,081	(250)	1,831	Resources available to meet future running costs for Council houses	HRA statements page 57
Collection Fund	280	(1,514)	(1,234)	Surplus/(Deficit) on fund to be carried forward for distribution in new year	Collection fund statements page 59
Pensions Reserve	(229,940)	11,680	(218,260)	Balancing account to allow inclusion of pension liability in the Balance Sheet	Notes 49,50 & 51 to the core financial statements
<b>Total</b>	<b>850,519</b>	<b>81,331</b>	<b>931,850</b>		

**35. Revaluation Reserve and Fixed Asset Re-statement Account**

	<b>Revaluation Reserve</b>	<b>Fixed Asset Re-statement Account</b>
	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Gain/(losses) on revaluation of fixed assets	119,736	11,994
Impairment losses on revaluation of building work	(10,660)	0
<b>Total increase (decrease) in unrealised capital value (a)</b>	<b>109,076</b>	<b>11,994</b>
Amounts written off for disposals (b)	0	(23,870)
<b>Total movement in year (a+b)</b>	<b>109,076</b>	<b>(11,876)</b>
Balance brought forward	0	779,340
<b>Balance carried forward</b>	<b>109,076</b>	<b>767,464</b>

**36. Capital Adjustment Account and Capital Financing Account**

	<b>Capital Adjustment Account</b>	<b>Capital Financing Account</b>
	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Capital receipts set aside	13,056	27,433
Revenue resources set aside	(59,849)	(8,732)
Movement in major repairs reserve	(543)	(3,314)
<b>Movement in year</b>	<b>(47,336)</b>	<b>15,387</b>
Transfer from Revaluation Reserve	767,464	0
Balance brought forward from Capital Finance Account	245,666	230,279
<b>Balance carried forward</b>	<b>965,794</b>	<b>245,666</b>

In accordance with the SORP 2007 the balance of the Fixed Asset Restatement Account (FARA) of £767.4 million and the Capital Financing Account (with a balance of £245.7 million) have been transferred to the new Capital Adjustment Account with effect from 1<sup>st</sup> April 2007. The closing balance on the new Revaluation Reserve as at 31 March 2008 therefore represents revaluation gains accumulated since 1 April 2007.

**37. Financial Instruments Adjustment Account**

	<b>2007/08 £'000</b>
Balance Brought Forward	0
Sums transferred from General Fund Balance	(1,925)
Write down of FIAA to I&E	225
<b>Balance carried forward</b>	<b>(1,700)</b>

**38. Useable Capital Receipts**

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Amounts received in year	22,009	22,038
Amount set aside in year	(13,065)	(27,433)
Total HRA receipts payable to National Pool	(4,552)	(4,585)
Balance brought forward	23,481	33,461
<b>Balance carried forward</b>	<b>27,873</b>	<b>23,481</b>

**39. Earmarked Revenue Reserves**

The following earmarked reserves were maintained in 2007/08

	<b>31 March 2007 £'000</b>	<b>Revenue transfers £'000</b>	<b>Other movements £'000</b>	<b>31 March 2008 £'000</b>
Revenue Contributions for future Capital Schemes a)	1,142	936	663	2,741
Insurance Reserve b)	2,168	981	(76)	3,073
Strategic Projects Reserve c)	2,615	2,348	(1,840)	3,123
Standards Fund LEA Contribution d)	349		(3)	346
Health and Safety Reserve e)	590	(84)	(3)	503
Crematorium & Cemetery Funds f)	354	0	0	354
Reserve for Grant Repayment g)	402	0	0	402
IT Strategy Reserve h)	283	0	0	283
Realignment Reserve i)	346	104	0	450
LPSA Reserve j)	0		466	466
Housing contract k)	0	500	500	1000
Collection Fund l)	0	205	0	205
Debt Management initiatives m)	713	(15)	(171)	527
Property Management n)	60	0	355	415
Invest to Save o)	132	280	546	958
Single Status compensation p)	0	0	3,100	3,100
Other Reserves q)	7,865	2,864	(3,315)	8,032
	<b>17,019</b>	<b>8,119</b>	<b>841</b>	<b>25,978</b>

**a) Revenue Contributions for Future Capital Expenditure**

This reserve holds revenue contributions for capital schemes where expenditure will be incurred the following financial year.

**b) Insurance Reserve**

In addition to the Insurance Provision (note 32b) the Council has established a reserve against incurred but not reported claims and for potential increases in known claims values.

**c) Strategic Projects Reserve**

This fund can be used in the funding of strategic projects within the Council's capital programme or revenue budget.

**d) Standards Fund LEA Contribution**

This reserve is to meet the Council's contribution for Standards Fund in order to maximise Government Grants to schools, which cover more than one financial year.

**e) Health and Safety Reserve**

This reserve have been set up in order to manage all the resources on health and safety initiatives across financial years.

**f) Crematorium and Cemetery Funds**

These funds have existed for many years to maintain cemeteries and to help finance improvements at the crematorium.

**g) Reserve for grant repayment**

This reserve was established for the possible repayment of grant.

**h) Information Technology (IT) Strategy Reserve**

This reserve has been set up for improvements to the Council's IT facilities as IT is a key area which service delivery often relies on.

**i) Realignment reserve**

This reserve was set up to fund the on-going costs of re-alignment.

**j) LPSA reserve**

A reserve set up to earmark funds received through the LPSA to finance future Council expenditure

**k) Housing contract**

A reserve established to meet Housing contract set up costs.

**l) Collection fund**

A reserve established in order to protect the authority against a potential deficit on the collection fund.

**m) Debt Management Initiatives**

This reserve was set up in order to meet the one-off costs which will achieve improvements in future cashflow.

**n) Property Management**

This reserve was established to meet essential costs which are required to be met from revenue.

**o) Invest to save**

A reserve established to finance capital or one off revenue costs which will generate savings in future years

**p) Single Status Compensation**

A reserve established to meet compensation payments arising from the planned implementation of single status arrangements from 1<sup>st</sup> April 2007.

**q) Other Reserves**

These comprise a number of reserves established for specific purposes.

In addition to the earmarked reserves shown above, under the local management of schools any unspent delegated budgets are to remain available for use by schools in future years and must be earmarked by Local Education Authorities (LEAs) for this purpose.

**40. General Reserves****(a) General Fund Balances excluding schools**

	2007/08 £'000	2006/07 £'000
General Fund	10,028	10,026
General Reserves	699	543
	<b>10,727</b>	<b>10,569</b>

**(b) Schools Balances**

Schools in the North Romford Area also operate as a consortium, using a separate bank account. Balances are treated in the same way as other schools balances.

	2007/8 £'000	2006/7 £'000
Balance at 1 April	8837	8,780
Underspend on budgets	375	57
Adjustment in respect of prior year	(474)	
	<b>8,738</b>	<b>8,837</b>
Less balances due from/ (to) the Council	320	(213)
<b>Balance at 31 March</b>	<b>9,058</b>	<b>8,624</b>

Schools balances can be further analysed as follows: -

	2007/08 £'000	2006/07 £'000
Schools in surplus	7,931	8,633
Schools in deficit	(1,401)	(858)
Consortium and unallocated schools balances to carry forward	2,208	1,062
	<b>8,738</b>	<b>8,837</b>

There are 12 schools in deficit and 80 in surplus as at 31 March 2008.

#### 41. Collection Fund Balance

The Council's share of the Collection Fund balance is £976,000 and the Greater London Authority's share is £258,000.

#### 42. Contributions to/(from) Capital Reserves

An appropriation must be made between the Housing Revenue Account and the Major Repairs Reserve where the housing depreciation charge differs from the Major Repairs Allowance in the year.

A proportion of capital receipts from the sale of HRA assets must be paid to a Central Government pool. The contribution to the pool is recorded separately in the Income and Expenditure Account and a corresponding adjustment made in the General Fund Working Balance.

Where revenue resources are used to finance capital expenditure, this is recorded as an appropriation to the Income and Expenditure Account.

Capital grants written down to the Income and Expenditure Account are appropriated to the Capital Adjustment Account.

An adjustment must also be made with the Capital Adjustment Account in respect of the Minimum Revenue Provision (see note 33).

The transactions in 2007/08 were as follows:

	2007/08 £'000	2006/07 £'000
HRA Contribution to/(from) Major Repairs Reserve	(2,729)	(1,223)
Transfer from Usable Capital Receipts Reserve for Government Pooling	(4,552)	(4,585)
<b>Contributions to/from Capital Financing Reserve</b>		
Revenue Financing of Capital Expenditure		
- from General Fund	1,840	1,783
- from HRA	211	0
Capital Grants Release	18,748	12,480
Minimum Revenue Provision Adjusted	(13,072)	(22,995)
<b>Net Contribution to/from Capital Reserves</b>	<b>446</b>	<b>(14,540)</b>

#### 43. Analysis of Net Assets Employed

	31 March 2008 £'000	31 March 2007 £'000
General Fund	299,267	252,970
HRA	632,583	597,549
	<b>931,850</b>	<b>850,519</b>

#### 44. Contingent Liabilities

##### Employee related liabilities

- There are 3 complaints against the Council in Employment Tribunals, which are at various stages in the process. At this time it is not possible to assess the potential liability because it is either too early in the process or it is in respect of a claim where there is no limit of liability.
- No provision has yet been made in the accounts following various court rulings in relation to claims of former and present employees in respect of previous statutory exclusion from the Local Government Pension Scheme. It is clear that some cases must be conceded by the Council. If correctly conceded there will be no immediate lump sum liability as back dated payments of employer contributions will be taken into account in

the next actuarial valuation of the respective pension funds. There would only be an immediate liability upon the Council if a claim was incorrectly conceded. There are currently no claims against the Council in respect of incorrectly conceded cases and due care is being taken in assessing whether or not claims should be conceded on the basis of the court ruling to guard against the risk of incurring liability for immediate lump sum payments.

- The Council is currently undertaking a review of its pay structure in accordance with the national agreement on single status agreed by public sector unions and employers in 1997. The final cost of the scheme has not been quantified as it is still the subject of negotiation. However, it is planned to meet the cost from within established reserves and the new scheme is expected to be implemented with effect from 1<sup>st</sup> April 2007.
- There is also a potential liability from a dispute relating to Special Educational Needs assistants' terms and conditions.

#### Other Liabilities

- There is a possibility that a liability may arise relating to local land charges procedures and charges. This has come to light as complaints have been made nationally on this issue.
- The Council acts as guarantor to the Havering Theatre Trust Ltd (see note 47). However, the Council has received no notification to date, which could result in it having to meet a liability.
- The Council may be required to meet the cost of legal fees in relation to potential litigation relating to a major trading standards case.
- A claim has been made against the Council in relation to Bretons Equestrian Centre. At this stage the Council is unable to quantify the financial implications if these proceedings were successful.

#### 45. Authorisation of Accounts for Issue

The accounts were authorised for issue by Rita Greenwood, Group Director, Finance and Commerce on 25<sup>th</sup> June 2008. The accounts remain subject to audit at this time.

#### 46. Trust Funds

The Council acts as sole trustee for the following trust funds, which are not included in the Income and Expenditure Account or Balance Sheet.

	<b>Richard Ballard Charity</b> £	<b>Lucas Children's Playsite Charity</b> £
Balance 31 March 2007	<b>6,500</b>	<b>151,126</b>
Receipts	353	8,211
Payments	-353	0
Balance 31 March 2008	<b>6,500</b>	<b>159,337</b>

##### The Richard Ballard Charity

Interest on the capital from the sale of two properties sold for a street widening scheme is used for highway repairs.

##### The Lucas Children's Play Charity

The income from this charity may be applied towards the provision, maintenance and improvements of childrens' playgrounds and equipment in the borough.

#### 47. Havering Theatre Trust Limited

The Havering Theatre Trust Ltd is a non profit making registered charity which was set up many years ago to manage the Queen's Theatre and produce theatrical performances. For the purposes of the Local Authorities (Companies) Order 1995, the Theatre Trust is a controlled company of the Council limited by guarantee. There is no share capital.

The Council provides an annual grant towards the running costs of the Trust and a budget for the maintenance of the Theatre building, grounds and insurance. The Queen's Theatre remains in the Council's ownership and there is no lease or rent paid for the building.

The Trust employs a financial controller reporting to the Council of Management.

The Theatre Trust Council of Management comprises eighteen members, all of whom are appointed by the Council. The Chair of the Council of Management, who is not a Council officer, is also the Company Secretary.

The company accounts for the period 1 April 2006 to 31 March 2007 indicated that the company made a profit (after taxation) of £8,218 for the period ending 31 March 2007 (compared with a loss of £119,015 in 2005/06). Net assets at 31 March 2007 were £289,101 (£289,883 as at 31

March 2006). The company accounts for 2007/08 are awaited.

The company continues to trade because the Council has guaranteed current and future debts. The company's accounts may be inspected at the Queen's Theatre, Billet Lane, Hornchurch. There have been no qualifications to the audit opinion by Clemence, Hoar Cummings of these accounts, which are not consolidated with the Council's accounts. The 2007/08 accounts remain subject to audit at this time.

#### 48. Homes in Havering

Homes in Havering is a private company limited by guarantee under the Companies Act 1985. As such it has no share capital. The company's sole member is the London Borough of Havering.

The Company was formed to provide housing management services to the Council and its operations commenced on 1<sup>st</sup> July 2006. The Council pays the company a fee in accordance with a management agreement and any variations subsequently approved. This management fee amounted to £18.3 million in 2007/08.

The company's accounts have been audited by Baker Tilley UK Audit LLP and may be inspected at Homes in Havering, Chippenham road, Harold Hill, Romford RM3 8YQ. We are not aware of any qualification to the audit opinion.

The company made a profit on ordinary activities (after taxation) of £2,000 for the period 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008 (compared with £80,000 for the period 1st July 2006 to 31 March 2007). Net assets at 31 March 2008 were £822,000 (£20,000 at 31<sup>st</sup> March 2007). These results are consolidated within the Council's group accounts.

#### 49. Pension Costs

As part of the terms and conditions of employment of its employees the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two pension schemes:

The Teachers' Pension Scheme for teachers – this is a national scheme administered by the Department for Children, Schools and Families (DCSF). The employer's pension cost charged to the accounts is fixed by the

contribution rate set by DCSF on the basis of a notional fund.

The Local Government Pension Scheme for other employees which is administered by the Council. This is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

A new benefit structure was introduced in the LGPS from 1 April 2008. This change affects both the value of benefits earned up to 31 March 2008 and the cost going forward from that date.

The changes introduced in the 2008 scheme that affect the active members benefits earned before 1 April 2008 are:

- An increase in the period of the pension guarantee following retirement from 5 to 10 years.
- The introduction of contingent dependants benefits for co-habitees.
- An increase in the lump sum on death in deferment benefits following the member leaving service from three times to five times the deferred pension.

These changes are accounted for as a past service cost included within the net cost of services

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Accounts and Statement of Movement in the General Fund Balance during the year:



	2007/08 £000	2006/07 £000
<b>Net Cost of Services:</b>		
Current service cost	14,910	12,800
Past service costs	4,330	400
<b>Net Operating Expenditure:</b>		
Interest cost	30,010	22,990
Expected return on pension fund assets	(21,930)	(19,490)
<b>Amounts to be met from Government grants and local taxes:</b>		
Movement on Pension Fund Reserve	(8,140)	1,370
	<b>19,180</b>	<b>18,070</b>
<b>Actual amount charged against Council tax for pensions in the year</b>		
Employers contributions payable to the scheme	17,130	16,900
Retirement benefits payable to pensioners	2,050	1,170
	<b>19,180</b>	<b>18,070</b>

Teachers – In 2007/08 the Council paid £10.5m (£9.8m 2006/07) to the Department for Education and Skills in respect of teachers pension contributions. This represented 13.5% of teachers' pensionable pay. (13.5% in 2006/07).

#### 50. Pension Assets and Liabilities in relation to the Pension Fund

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March are as follows:

	2007/08 £000	2006/07 £000
Estimated liabilities in scheme	(532,780)	(566,760)
Estimated assets in scheme	314,520	336,820
<b>Net asset/(liability)</b>	<b>218,260</b>	<b>(229,940)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay in retirement benefits. The total liability of £218 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a reduction of the overall balance from £1,151 million to £932 million, a reduction of 19%. However, the statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

The deficit on the pension scheme will be made good by increased contributions over the working life of employees, as assessed by the actuary.

#### Basis of Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hewitt Bacon and Woodrow, the actuaries to the London Borough of Havering Pension Fund have assessed the liabilities, with estimates being based on the latest full valuation of the schemes as at 31 March 2007.

The main assumptions used in their calculations are as follows:

	31 March 2008	31 March 2007
Discount rate	6.8% pa	5.3% pa
Rate of increase in salaries	5.2% pa	4.7% pa
Rate of increase in pensions in payment	3.7% pa	3.2% pa
Rate of increase in deferred pensions	3.7% pa	3.2% pa
Rate of inflation	3.7% pa	3.2% pa
Long-term expected rates of return on:		
Equities	7.6% pa	7.7% pa
Government Bonds	4.6% pa	4.7% pa
Corporate Bonds	6.8% pa	5.3% pa
Property	6.6% pa	6.7% pa
Other assets	6.0% pa	5.6% pa
Average long term expected rate of return	6.9% pa	6.7% pa

**Actuarial Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2008.

	2007/08		2006/07		2005/06		2004/05		2003/04	
		%	£'000	%	£'000	%	£'000	%	£'000	%
Differences between the expected and actual return on assets	(46,860)	(14.9)	930	0.3	43,690	13.5	4,110	1.54	32,400	0.7
Differences between actuarial assumptions and liabilities and actual experience	(5,710)	(1.1)	(1,500)	(0.36)	(1,140)	(0.20)	(14,470)	3.5	(600)	0
Changes in demographic and financial assumptions used to estimate liabilities	72,390	13.6	(850)	(0.15)	(35,860)	(7.46)	(93,310)	(21.71)	800	0
<b>Total</b>	<b>19,820</b>	<b>3.7</b>	<b>(1,420)</b>	<b>(0.32)</b>	<b>6,690</b>	<b>1.41</b>	<b>(104,670)</b>	<b>(24.05)</b>	<b>32,600</b>	<b>0.4</b>

The Teachers Pension scheme is a defined benefit scheme, administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rates paid by Local Education Authorities (LEAs). However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirements outside the terms of the Teachers' scheme. These benefits are fully accrued in the pension's liability.

### 51. Prior Year Adjustment relating to Pension Fund valuation

The Council's actuaries have identified that on 31 March 2004 an incorrect valuation basis was applied when carrying out the FRS 17 valuation. As a consequence, the liabilities have been understated from 2005 to 2007. The Council has decided that this is a fundamental error and needs to be treated as a prior period adjustment.

	£,000
Opening Liability relating to defined pension schemes	491,810
Prior Year Adjustment	75,190
Re-stated Liability relating to defined pension schemes	567,000

The adjustment has no impact upon the General Fund Balance or upon the future level of pension fund contributions. However, the impact of the adjustment is to reduce the Balance Sheet value as at 31 March 2007 by £75 million. The gross pension liabilities and the Pension fund deficit have been re-stated as follows:

	£,000
Opening Pension Fund Deficit	154,750
Prior Year Adjustment	75,190
Restated Pension Fund Deficit	229,940

**52. Schools PPP Scheme**

On the 16 May 2003 the Council entered into a Public Private Partnership (PPP) with Johnson Control Systems Limited (the Provider) for the provision of an essential energy project at three secondary schools (Bower Park, Brittons and Hall Mead). The Provider is responsible for upgrading, managing and the maintenance of energy services and controls. This contract will last for 15 years.

The initial capital investment was £3.2m from the Council and £1.6m from the Provider. Completion of the capital investment (originally scheduled for 26 July 2004 for all three schools) was on 18 November 2005 for Hall Mead and 26 April 2005 for the other two schools. Payments to the contractor have therefore been made from these dates, with no consequential change to the end date of the contract.

The schools contribute from energy and management savings in their school budgets, and the remaining unitary charge costs are split with the Council reflecting the level of services provided through the contract and repayment of

the private sector investment.

- The schools share of the unitary charge is met from their respective delegated budgets
- The LEA share of the unitary charge is met from a separate revenue budget established for the purpose

The payments to the Provider may also vary by virtue of certain provisions within the contract.

These primarily relate to:

- performance and availability deductions
- changes in law which affect the costs of the service
- variations in the contract which are approved by the Council

The contract has been assessed for the purposes of Section 40 of the Local Authorities (Capital Finance) Regulations 1997. The Council has determined that there is no need to recognise the assets provided by the Provider under this contract in the Balance Sheet of the authority during the term of this contract.

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011 onwards</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bowers Park	64	42	86	65	66	549
Brittons	60	40	81	61	62	519
Hall Mead	70	61	79	71	72	603
LEA Share	75	127	26	78	78	656
<b>Total</b>	<b>269</b>	<b>270</b>	<b>272</b>	<b>275</b>	<b>278</b>	<b>2,327</b>

## Notes relating to the Cashflow statement:

## 53. Reconciliation of Net (Surplus)/Deficit on the Income and Expenditure Account to Net Cash Inflow from Revenue Activities

	2007/08 £'000	2006/07 £'000
Net (surplus) / deficit on Income and Expenditure account	26,344	9,343
Net additional amount required to be debited / (credited) to the General Fund Balance	(26,778)	(8,220)
<b>(Increase) / Reduction in General Fund Balance</b>	<b>(434)</b>	<b>1,123</b>
Housing Revenue Account net (surplus)/deficit	250	261
Collection Fund net (surplus)/deficit	1,514	452
<b>Fund Balances</b>	<b>1,330</b>	<b>1,836</b>
<b>Non cash Transactions:-</b>		
Interest	3,494	2,275
Net contributions to/(from) provisions	(145)	931
Net contributions to/(from) Reserves	(8,274)	(4,824)
FRS17 Adjustment	(8,140)	1,370
Contributions to capital	(2,051)	(2,340)
Interest prepayments written down	(225)	(265)
Depreciation, amortisation & impairment	(10,661)	(20,786)
Minimum provision for credit liabilities	13,072	15,123
Loss on sale of fixed assets	-	(20)
(Increase)/decrease in revenue creditors	(256)	(5,192)
Increase/(decrease) in stocks	67	5
Increase/(decrease) in debtors	(7,637)	(3,400)
<b>Revenue Activities Net Cash Flow</b>	<b>(19,426)</b>	<b>(15,287)</b>

## 54. Movement in Net Debt

	As at 31 March 2008 £'000	As at 31 March 2007 £'000	Movement £'000
Liquid Resources	103,115	81,507	21,608
Borrowing & Finance	(47,106)	(47,172)	66
Net Cash Balances	7,199	8,270	(1,071)
	<b>63,208</b>	<b>42,605</b>	<b>20,603</b>

The net revenue and capital flows of cash and servicing of finance change the authority's net debt. This is represented by the movements in the level of borrowing, investments and cash in hand or overdrawn shown below.

Full details of the Council's borrowing and lending activities are given in the Treasury Management Report on page 72 .

## 55. Movement in Liquid Resources

	As at 31 March 2008 £'000	As at 31 March 2007 £'000	Movement £'000
Internally Managed	103,115	67,993	35,122
Externally Managed	0	13,514	(13,514)
	<b>103,115</b>	<b>81,507</b>	<b>21,608</b>

Havering's internally managed liquid resources consist of sterling deposits not exceeding 364 days with banks, other financial institutions and other local Authorities. Externally managed investments consist mainly of sterling certificates of deposit with major banks or other financial institutions but may also from time to time include UK gilt-edged securities. All or part of the funds under external management can be recalled at short notice.

**56. Movement in Borrowing & Finance Leases**

	As at 31 March 2008 £'000	As at 31 March 2007 £'000	Movement £'000
Long-term Loans	(45,797)	(45,797)	-
Finance Leases	-	-	-
Short-term Loans	(1,310)	(1,375)	65
	<b>(47,107)</b>	<b>(47,172)</b>	<b>65</b>

**57. Movement in Cash**

	As at 31 March 2008 £'000	As at 31 March 2007 £'000	Movement £'000
Cash Deposits	14,882	13,981	901
Cash Overdrawn	(7,683)	(5,711)	(1,972)
	<b>7,199</b>	<b>8,270</b>	<b>(1,071)</b>

**58. Reconciliation of Net Cash Flow to Movement in Net Debt**

	2007/08 £'000	2006/07 £'000
Increase in Cash for period	(1,071)	(1,171)
Cash inflow from increase in debt	(2,085)	(14,383)
Cash outflow from decrease in debt	2,150	8,275
Cash inflow from decrease in short term investments	(587,704)	(538,989)
Cash outflow from increase in short term investments	609,312	547,038
	20,602	770
Net Debt brought forward	42,606	41,836
<b>Net Debt carried forward</b>	<b>63,208</b>	<b>42,606</b>
Short term investments	103,115	81,508
Long term borrowing	(38,797)	(45,797)
Short term borrowing	(8,309)	(1,375)
Cash (overdrawn)/in hand	7,199	8,270
<b>Net Debt Carried forward</b>	<b>63,208</b>	<b>42,606</b>

**59. Analysis of Government & Other Grants for Revenue**

	2007/08 £'000	2006/07 £'000
Rent Allowances	23,149	20,350
HRA Rent Rebates	26,759	27,414
Council Tax Benefits	15,129	16,864
Housing Subsidies	(8,870)	(8,610)
Early Years	3,802	3,469
Adult Education	1,908	1,880
Education Support & Training	26,241	22,545
Asylum Seekers	239	236
Revenues & Benefits	1,718	1,609
Supporting People	3,091	2,634
Older People Nursing & Residential	1,377	1,433
Connexions	1,465	1,327
Local Partnership / Local Area Agreements	4,124	-
Other Miscellaneous Grants	12,501	11,227
<b>Total Revenue Grants</b>	<b>112,633</b>	<b>102,378</b>

**60. Analysis of Government & Other Grants & Contributions for Capital**

	2007/08 £'000	2006/07 £'000
Department of Communities & Local Government	1,444	1,807
Department for Education & Skills	9,025	7,805
Transport for London	4,257	2,644
National Lottery	863	102
Single Regeneration Budget	975	326
Department of Health	-	117
Other Public Authorities & European	1,138	256
Developers' & Other Private Sector Contributions	3,257	1,362
Recoveries from housing tenants	-	(19)
<b>Total Capital Grants</b>	<b>20,959</b>	<b>14,400</b>

## Housing Revenue Account Income and Expenditure Account 2007/08

The Housing Revenue Account (HRA) includes all transactions relating to the provision, management and maintenance of the Council's housing stock. The Account is "ring-fenced" in accordance with the Local Government and Housing Act 1989. Transfers to and from the General Fund are only permitted in certain specified circumstances.

2006/07 £'000		Notes	2007/08 £'000
	<b>Income</b>		
32,546	Dwelling rents		33,861
2,374	Non-dwelling rents		2,462
3,561	Charges for services and facilities		4,807
1,431	Contributions towards expenditure		1,653
8,129	Housing subsidy receivable	7	8,247
<b>48,041</b>	<b>Total Income</b>		<b>51,030</b>
	<b>Expenditure</b>		
7,191	Repairs and maintenance		6,172
15,394	Supervision and management		18,778
614	Rents, rates, taxes and other charges		518
16,765	Negative subsidy payable to the Secretary of State	7	17,116
321	Increased provision for bad/doubtful debts		497
9,384	Depreciation of tangible fixed assets	3 & 5	10,976
299	Intangible fixed assets amortised	6	293
76	Deferred charges amortised	6	(22)
58	Debt management		54
<b>50,102</b>	<b>Total Expenditure</b>		<b>54,382</b>
<b>2,061</b>	<b>Net Cost of Services included in the I and E account</b>		<b>3,352</b>
20	Net loss on HRA assets		0
228	Pensions interest cost and expected return on pension assets		645
117	Amortised premiums and discounts		77
(460)	Interest and investment income		(425)
<b>1,966</b>	<b>Deficit for the Year on HRA Services</b>		<b>3,649</b>

Statement of Movement on the Housing Revenue Account  
Balance 2007/08

2006/07		2007/08
£'000		£'000
1,966	<b>(Surplus) or Deficit for the Year on the HRA Income &amp; Expenditure Account</b>	3,649
<b>(1,705)</b>	Net additional amount required by statute to be debited or (credited) to the HRA balance	<b>(3,399)</b>
<b>261</b>	(Increase) or decrease in the Housing Revenue Account Balance	<b>250</b>
<b>(2,342)</b>	<b>Housing Revenue Account Balance brought forward</b>	<b>(2,081)</b>
<b>(2,081)</b>	<b>Housing Revenue Account Balance carried forward</b>	<b>(1,831)</b>

Note to the Statement of Movement on the Housing Revenue  
Account Balance 2007/08

2006/07	Notes	2007/08
£'000		£'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement in the HRA balance</b>	
(375)	Depreciation and impairment of fixed assets	(271)
(20)	Gain or (loss) on fixed assets	0
(530)	Net charge made for retirement benefits in accordance with FRS17	(610)
<b>(925)</b>		<b>(881)</b>
	<b>Items not included in the HRA Income and Expenditure Account but included from the movement in the HRA balance</b>	
(1,223)	Net contribution from the major repairs reserve	(2,729)
443	Employers contributions payable to the pension fund and retirement benefits payable to pensioners	0
0	Capital Expenditure funded by the HRA	211
<b>(780)</b>		<b>(2,518)</b>
<b>(1,705)</b>	<b>Net additional amount required by statute to be debited or credited to the HRA balance</b>	<b>(3,399)</b>

## Notes to the Housing Revenue Account

## 1. Information on Housing Fixed Assets

## a) Number of Dwellings

	2007/08 Number	2006/07 Number
Flats		
1 bedroom	3,188	3,443
2 bedrooms	2,417	2,582
3 bedrooms	392	488
4 or more bedrooms	20	18
Houses		
1 bedroom	411	410
2 bedrooms	1,213	1,230
3 bedroom	2,512	2,531
4 or more bedrooms	135	126
	<b>10,288</b>	<b>10,828</b>

Included in the above are 4 sheltered schemes providing 135 dwellings which have been vacated for disposal in 2008/09.

In addition to the stock above, 4 hostels providing 75 units of accommodation are owned by the Council and accounted for in the HRA. There are also 5 properties in which the Council has a 50% shared ownership.

## b) Balance sheet value of HRA tangible fixed assets

	2007/08 £'000	2006/07 £'000
<b>Operational</b>		
Dwellings	612,069	544,645
Other Land & Buildings	15,638	15,848
Equipment	100	202
Infrastructure	4,116	4,438
	631,923	565,133
<b>Non-operational</b>		
Investment Properties	22,115	17,243
Surplus Property	0	634
	22,115	17,877
<b>Total Tangible Fixed Assets</b>	<b>654,038</b>	<b>583,010</b>

## 2. Valuation of Council dwellings at year end

	2007/08 £'000	2006/07 £'000
Vacant possession value	1,654,241	1,472,014
Excess of vacant possession value over balance sheet value	1,042,172	927,369

The difference between the vacant possession value of HRA dwellings shown here and the balance sheet value of the dwellings shown in note 1(b) is a measure of the cost to Government of providing council housing at less than market rents.

## 3. Movement on Major Repairs Reserve

	2007/08 £'000	2006/07 £'000
Total depreciation from Capital Financing Reserve	10,976	9,384
Net contribution (to)/from HRA for difference between Major Repairs Allowance and depreciation	(2,729)	(1,223)
Net Income equal to Major Repairs Allowance	8,247	8,161
Capital expenditure on HRA capital assets:		
Dwellings	9,418	4,928
Other Land & Buildings	1,044	466
Equipment	(3)	55
Infrastructure	(26)	336
Mobility Grants	0	13
Other Deferred Charges & Intangibles	0	272
Total Capital Expenditure	10,433	6,070
Balance brought forward at start of year	2,213	122
<b>Balance carried forward at end of year</b>	<b>27</b>	<b>2,213</b>



**4. a) Total Capital Expenditure & Funding**

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Capital expenditure on HRA property & other assets:		
Dwellings	10,367	11,538
Other Land & Buildings	1,381	758
Equipment	160	55
Infrastructure	1,260	336
Mobility Grants	0	14
Other Deferred Charges and Intangibles	63	272
<b>Total Expenditure</b>	<b>13,231</b>	<b>12,973</b>
Financed from:		
Borrowing	1,973	1,797
Major Repairs Reserve	10,433	6,070
Grants & Contributions	94	(19)
Revenue Contributions	211	0
Capital Receipts	520	5,125
Capital Creditors	0	0
<b>Total Funding</b>	<b>13,231</b>	<b>12,973</b>

**b) HRA Capital Receipts**

	<b>2007/08</b>	<b>2006/07</b>
Right to Buy Sales	5,998	5,554
Other Property Sales	2,469	7,469
Other Receipts	643	0
Total Cash Receipts	9,110	13,023
Transferred for Pooling	(4,552)	(4,585)
<b>Total New Usable</b>	<b>4,558</b>	<b>8,438</b>

**5. Depreciation Charge**

The depreciation charged to the HRA breaks down as follows:

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Dwellings	10,264	8,660
Other Buildings	278	290
Equipment	101	101
Infrastructure	319	319
Surplus Property	14	14
<b>Total HRA depreciation</b>	<b>10,976</b>	<b>9,384</b>

**6. Amortisation of Deferred Charges & Intangible Fixed Assets**

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Mobility Grants & Other Deferred Charges	(22)	76
Computer Software	293	299
Intangible Assets		
<b>Total Amortised</b>	<b>271</b>	<b>375</b>

Deferred charges arise where capital expenditure is incurred but no physical asset is created in Havering's ownership. Deferred charges are written off in the year they are incurred. The purchase of software licences and associated costs are treated as intangible fixed assets and written off over an appropriate period, currently a maximum of 5 years.

**7. Housing Revenue Account Subsidy Payable**

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
<b>Allowances:</b>		
Management & maintenance	18,334	17,829
Others	883	790
Guide line rent	(38,093)	(36,135)
Rent Constraint Allowance	1,752	704
Prior years adjustments	8	47
<b>Sub-total subsidy payable</b>	<b>(17,116)</b>	<b>(16,765)</b>
Defective Housing Grant	0	4
Major repairs	8,247	8,125
<b>Sub-total subsidy receivable</b>	<b>8,247</b>	<b>8,129</b>
<b>Total subsidy payable</b>	<b>(8,869)</b>	<b>(8,636)</b>

**8. Rent Income, Arrears & Bad Debts**

	<b>2007/08</b>	<b>2006/07</b>
Average weekly rent (including service charges unpooled 1 April 2004)	£65.16	£62.01
The increase in average weekly rents represents an increase of 5.08%.		
	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Rent arrears at 31 March	2,178	2,031
Bad debts provision at 31 March	1,573	1,300

**9. HRA contribution to the Pension Reserve**

Under FRS 17 the pension amount charged to each Council service is the amount of pension benefit earned in the year, as determined by the actuary. This replaces the cash contributions made by services to the Pension Fund. This principle has been applied to the HRA. In addition the HRA has been charged with its share of the pension interest cost and the return on pension assets, and these together with the change in service costs have been matched by a transfer to the HRA balance from the Pension Reserve such that the net outturn on the HRA is not altered by these accounting adjustments.

## Collection Fund 2007/2008

These Accounts represent the transactions of the Collection Fund and have been consolidated with the Authority's main Accounts. The Accounts have been prepared on an accruals basis except in respect of sums due to or from the General Fund and the Greater London Authority for their shares of surpluses and deficits.

**Income and Expenditure Account**

2006/07 £'000		Note	2007/08 £'000
<b>Income</b>			
106,115	Income from Council Taxpayers	1	110,965
	Transfers from General Fund		
15,322	Council Tax benefit		15,935
33	Prompt payment discounts		33
(4)	Transitional relief		(6)
56,452	Income collectable from Business Rates	2	60,971
1	Income from Community Charge Adjustments		3
<b>177,919</b>	<b>Total Income</b>		<b>187,901</b>
<b>Expenditure</b>			
120,104	Precepts & Demands	3	125,791
309	Distribution of previous year's Council Tax surplus		632
	Business Rates		
56,168	Payment to National Pool		60,688
284	Cost of Collection		283
	Bad and doubtful debts provision		
1,101	Write-offs		887
405	Provisions		1,134
<b>178,371</b>	<b>Total Expenditure</b>		<b>189,415</b>
(452)	Movement in fund balance		(1,514)
732	Net surplus at start of year		280
<b>280</b>	<b>Net surplus (deficit) carried forward</b>		<b>(1,234)</b>

## Notes to the Collection Fund Accounts

**1. Income from Council Tax**

The Local Government Finance Act 1992 abolished the Community Charge and established the Council Tax. This Tax is based partly on the valuation of domestic properties and is partly a Personal Tax with discounts for single occupiers. The Authority set the level of Council Tax in 2007/08 at £1,433 for band D properties. The number of band D equivalent properties in each band making up the Council Tax base were as follows:

<b>Band</b>	<b>Number of Band D Equivalent Properties</b>
A1	2
A	2,880
B	6,210
C	19,070
D	30,720
E	16,697
F	8,350
G	4,756
H	434
Allowance for losses in collection 1.5%	(1,337)
<b>Tax Base</b>	<b>87,782</b>

**2. Income from Business Rates**

Under the arrangements for uniform business rates, the Authority collects Non-Domestic Rates (NNDR) for its area. These are based on local rateable values (£159.3 million at 31 March 2008 and £156.7 million at 31 March 2007) multiplied by uniform rates for large and small businesses. In 2007/08 the rate was 44.4p for large businesses (43.3p in 2006/07) and 44.1p for small (42.6p in 2006/07). The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government. Under these arrangements the amounts included in these Accounts can be analysed as follows:

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Gross NNDR due in year	64,003	59,793
Less: allowances and other adjustments	(3,032)	(3,341)
	<b>60,971</b>	<b>56,452</b>

**3. Precepts & Demands**

The Collection Fund is required to meet in full the precept of the precepting Authority and the demand of the billing Authority. Details are as follows:

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
London Borough of Havering	99,116	94,986
Greater London Authority	26,675	25,118
	<b>125,791</b>	<b>120,104</b>

## Pension Fund

### Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2006; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. During the current financial year civil partners were recognised as having the same benefit rights as member's spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

### Membership

The membership of the Pension Fund is as follows:

	As at 31 March 2008	As at 31 March 2007
Contributors	5,803	5,664
Deferred pensioners	3,094	2,762
Pensioners and Dependants	4,587	4,468

### Employers in the Fund

The other employers in the Pension Fund are as follows:

#### Scheduled bodies

Havering College of Further Education  
Havering Sixth Form College  
Homes in Havering

#### Admitted Bodies

Havering Citizens Advice Bureau  
Morrisons (formerly AWG)  
May Gurney  
Catering for Education  
Sports & Leisure Management Ltd  
KGB Cleaners

### Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and each year publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commerce supports the Pension's Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pension's administration.

Havering restructured the investment management of the fund in February 2005 and moved from a position of having a sole external manager to having five new managers with specific investment mandates. The five fund managers and the market value of assets under their management at the 31<sup>st</sup> March 2008 were as

follows:

Manager	Mandate	Value	
		£,000	%
Standard Life	UK Equities	110,443	32.65
Alliance Bernstein	Global Equities	72,370	21.40
Royal London	Investment Grade Bonds	95,331	28.19
Westerns	Global Bonds	29,293	8.66
UBS	Property	30,009	8.87
	<b>Sub total</b>	<b>337,446</b>	<b>99.77</b>
	Other	773	0.23
	<b>Total Fund</b>	<b>338,219</b>	<b>100.00</b>

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 3.6% gross (3% net) p.a.

In 2007/08, the overall return on the Fund's investments was (5.9%) (2006/07 6.3%) This represented an under performance of (3.6%) against the tactical benchmark (2006/07 0.8%) and an underperformance of (13.0%) against the strategic benchmark (2006/07 4.4%).

There has been unprecedented volatility in 2007/08 in the wake of the credit crunch, sub-prime mortgages and plummeting stock markets.

Main detractors from performance for 2007/08 was attributable to stock selection in UK and Overseas Equities.

During the forthcoming year the Fund is undergoing a review of its current investment strategy with a view to a possible restructure of asset allocation.

The longer term performance is as follows:

	3 years to 31.3.08	5 years to 31.3.08
Fund	7.3%	10.8%
Benchmark (tactical) return	7.8%	11.6%
Difference	(0.5)%	(0.8)%

Pension Fund Account for the year ended 31<sup>st</sup> March 2008

2006/07 £'000		Notes	2007/08 £'000
	<b>Contributions and benefits</b>		
23,666	Contributions receivable	3	24,963
3,574	Transfers in	4	4,178
<b>27,240</b>			<b>29,141</b>
(21,028)	Benefits payable	5	(22,719)
(2,246)	Leavers	6	(1,660)
(534)	Administration	7	(580)
<b>(23,808)</b>			<b>(24,959)</b>
<b>3,432</b>	<b>Net additions (withdrawals) from dealings with members</b>		<b>4,182</b>
	<b>Returns on Investments</b>		
10,479	Investment income	9	11,686
12,596	Change in market value of investments	8	(31,955)
(1,195)	Investment management expenses	10	(1,153)
<b>21,880</b>	<b>Net returns on investments</b>		<b>(21,422)</b>
<b>25,312</b>	<b>Net increase/ (decrease) in the Fund during the year</b>		<b>(17,240)</b>
340,836	Net assets of the scheme at start of year		366,148
<b>366,148</b>	<b>Net assets of the scheme at end of year</b>		<b>348,908</b>

<b>Net Asset Statement</b>			
31 March 2007 £'000		Note	31 March 2008 £'000
	<b>Investments</b>	11	
192,478	Equities		173,347
65,009	Fixed interest securities		64,855
28,000	Index-linked securities		29,865
0	Mortgaged Backed Securities		0
71,037	Pooled Investment Vehicles		65,171
0	Other		0
	<b>Cash instruments</b>		
15	Short-term Securities		5
7,005	Cash & deposits		11,648
<b>363,544</b>			<b>344,891</b>
2,604	<b>Net current assets</b>	12	4,017
<b>366,148</b>	<b>Net assets of the scheme at end of year</b>		<b>348,908</b>

I certify that the Pension Fund Account and Net Assets Statements fairly present the income and expenditure in 2007/08 and the Pension Fund's financial position as at 31st March 2008.

Rita Greenwood, CPFA  
Group Director Finance and Commerce  
Date 25 June 2008

## Notes to the Pension Fund

## 1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follows the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The Financial Statements summarise the transactions of the scheme and the net assets of the Fund. The Financial Statements do not take account of liabilities to pay pensions and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with on page 45 and these Financial Statements should be read in conjunction with them.

## 2. Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Investments are stated at market value with any surplus or deficit on valuation being debited/credited to the Fund account. Shares recorded on the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the last traded price. Other investments are valued at their mid-point market value on the last working day of the financial year.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

A proportion of relevant officers' salary costs, including related oncosts, has been charged to the Fund.

## 3. Contributions Receivable

2007/08	Employees £'000	Employers £'000	Total £'000
Havering	**4,702	16,595	21,297
Special Contribution		*587	587
Scheduled Bodies	590	1,721	2,311
Admitted Bodies	180	588	768
	<b>5,472</b>	<b>19,491</b>	<b>24,963</b>

2006/07	Employees £'000	Employers £'000	Total £'000
Havering	4,677	15,510	20,187
Special Contribution		1,157	1,157
Scheduled Bodies	471	1,271	1,742
Admitted Bodies	136	444	580
	<b>5,284</b>	<b>18,382</b>	<b>23,666</b>

\* The special contribution of £0.587m is in respect of early retirements.

\*\*This includes £119,000 of additional contributions by employees to purchase added years

**Note:** Some employees made additional voluntary contributions (AVC's) of £77,130 excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential, Nationwide and Standard Life. The amounts forwarded during 2007/08 were £72,029 to the Prudential, £2,877 to the Nationwide and £2,224 to Standard Life.

## 4. Transfers In

	2007/08 £'000	2006/07 £'000
Individual transfers from other schemes	4,178	3,574

**5. Benefits Payable**

<b>2007/08</b>	<b>Pensions £000</b>	<b>Lump Sums £'000</b>	<b>Total £'000</b>
Havering	18,272	3,867	22,139
Scheduled Bodies	189	221	410
Admitted Bodies	53	117	170
	<b>18,514</b>	<b>4,205</b>	<b>22,719</b>

**6. Payments To and On Account of Leavers**

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Refunds to members	1	13
Transfers out to other schemes	1,659	2,233
	<b>1,660</b>	<b>2,246</b>

**7. Administration**

<b>2006/07</b>	<b>Pensions £000</b>	<b>Lump Sums £'000</b>	<b>Total £'000</b>
Havering	17,304	3,349	20,653
Scheduled Bodies	159	155	314
Admitted Bodies	38	23	61
	<b>17,501</b>	<b>3,527</b>	<b>21,028</b>

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Staff Costs	461	442
Fees	107	56
Computer and Other	12	36
	<b>580</b>	<b>534</b>

**8. Investments**

	<b>Value at 31 March 2007 £'000</b>	<b>Purchases at cost £'000</b>	<b>Sales Proceeds £'000</b>	<b>Change in Market Value £'000</b>	<b>Cash Movement £'000</b>	<b>Value at 31 March 2008 £'000</b>
Equities	192,478	94,121	(89,841)	(23,411)	0	173,347
Fixed interest Securities	65,009	147,714	(141,303)	(6,565)	0	64,855
Index-linked Securities	28,000	17,396	(18,678)	3,147	0	29,865
Mortgaged Backed Securities	0	0	0	0	0	0
Pooled Investment Vehicles	71,037	0	(705)	(5,161)	0	65,171
Other	0	0	0	0	0	0
Cash instruments	15	26,377	(26,387)	0	0	5
Cash deposits	7,005	0	0	35	4,608	11,648
	<b>363,544</b>	<b>285,608</b>	<b>(276,914)</b>	<b>(31,955)</b>	<b>4,608</b>	<b>344,891</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and due to the transfer of assets during the year.



Some of the 2007/08 opening balances were revised due to a review of asset classification during 2007/08, as follows:

	<b>Balance as at 31.3.07</b>	<b>Prior year Adjustment</b>	<b>Revised Balance as at 31.3.07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	197,966	(5,488)	192,478
Fixed Interest Securities	66,966	(1,957)	65,009
Index-Linked Securities	22,383	5,617	28,000
Mortgage Backed securities	2,745	(2,745)	0
Pooled Investment Vehicles	65,549	5,488	71,037
Other	915	(915)	0
Short-term securities	15	0	15
Cash and Deposits	7,005	0	7,005
	<b>363,544</b>	<b>0</b>	<b>363,544</b>

#### 9. Investment Income

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Income from Fixed Interest Securities	4,345	4,039
Dividends from equities	5,937	4,921
Income from pooled vehicles	1,692	1,235
Cash & Deposits	363	287
Other	0	(113)
<b>Other Income</b>		
Foreign Exchange Profits/(Losses)	(651)	110
<b>Total Income</b>	<b>11,686</b>	<b>10,479</b>

#### 10. Investment Management Expenses

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Management and custody	999	1,033
Advisory fees	37	41
Other	117	121
	<b>1,153</b>	<b>1,195</b>

## 11. Investments

	2007/08 £'000	2006/07 £'000
<b>Equities</b>		
UK Quoted	113,630	128,299
Overseas	59,547	64,031
Futures	170	148
	<b>173,347</b>	<b>192,478</b>
<b>Fixed Interest Securities</b>		
UK	64,855	65,009
	<b>64,855</b>	<b>65,009</b>
<b>Index-Linked Securities</b>		
UK	29,865	28,000
	<b>29,865</b>	<b>28,000</b>
<b>Mortgaged Backed Securities</b>		
UK	0	0
	<b>0</b>	<b>0</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds - Other</b>		
UK Quoted	1,732	3,008
UK Unquoted	90	80
Overseas	35,642	32,424
<b>UK Unit Trust</b>		
UK Property	27,707	35,525
	<b>65,171</b>	<b>71,037</b>
<b>Cash Instruments</b>		
UK	5	15
	<b>5</b>	<b>15</b>
<b>Other</b>		
Asset class not identified	0	0
	<b>0</b>	<b>0</b>
<b>Cash Deposits</b>		
Managers	4,949	3,259
Havering	6,673	3,707
Futures	26	39
	<b>11,648</b>	<b>7,005</b>
<b>Total Investments</b>	<b>344,891</b>	<b>363,544</b>

## 12. Net Current Assets

	2007/08 £'000	2006/07 £'000
<b>Current Assets</b>		
Investment Income	2,674	2,509
Sold Assets	4,416	2,087
Pensions	20	6
Contributions	309	271
VAT/ UK Tax	177	31
	<b>7,596</b>	<b>4,904</b>
<b>Current Liabilities</b>		
Purchased Assets	3,104	1,569
Pensions	181	302
Other Expenses	294	429
	<b>3,579</b>	<b>2,300</b>
<b>Net Current Assets</b>	<b>4,017</b>	<b>2,604</b>

**13. Related Party Transactions**

There were no transactions with related parties other than those disclosed elsewhere within the accounts. In 2007/08, £0.461m was paid to the Council for administration (£0.442m in 2006/07) and £17.182m (£16.667m in 2006/07) was paid by the Council to the Pension Fund in respect of employer's contributions. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

over the next three years of the actuarial valuation. The actuary's recommended employer's contribution rates for the Council were as follows:

	% of Pensionable Pay
April 2008 to March 2009	21.7
April 2009 to March 2010	21.8
April 2010 to March 2011	22.0

**14. Actuarial Valuation**

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.

The rate of employer's contributions paid by the Council in 2007/08 was 21.5% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2004.

The most recent valuation of the Fund was carried out at the 31<sup>st</sup> March 2007. The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:

<b>Assumption</b>	<b>Rate</b>
The rate of increase in pensionable earnings	3.2%
The rate of return on bond type investments	5.2%
The rate of return on equity and property assets	7.2%
The level of increase in earnings growth	4.7%

The result of the 2007 valuation was that the value of the Fund's assets was actuarially assessed as £366.1m which was sufficient to meet 68% of its accrued liabilities of £534.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to increase the employers' contribution rates

## Capital Transactions

Capital expenditure relates to the acquisition and enhancement of assets of long term value to the Authority, for example the purchase of land or major building works. The table below shows the Authority's capital expenditure in 2007/08 and how this was financed.

	2007/2008			2006/2007
	General Fund £'000	Housing Revenue Account £'000	Total £'000	Total £'000
<b>Expenditure on Fixed Assets</b>				
Council Dwellings	0	10,367	10,367	11,538
Other Land & Buildings				
- Schools & Other Education	11,356		11,356	11,550
- Public Offices & Depots	683		683	2,995
- Libraries, Leisure & Sport	1,425		1,425	1,585
- Social Services	55		55	57
- Other	550	1,542	2,092	813
Equipment				
- Schools & Other Education	1,778		1,778	2,151
- Public Offices & Depots	1,256		1,256	618
- Libraries, Leisure & Sport	366		366	419
- Social Services	4		4	210
- Other	976		976	1,453
Infrastructure				
- Roads & Lighting	8,150		8,150	5,261
- Environmental Improvements	774	1,260	2,034	1,568
- Libraries, Leisure & Sport	2,335		2,335	732
- Schools	937		937	959
- Other	275		275	431
<b>Total Expenditure on Fixed Assets</b>	<b>30,920</b>	<b>13,169</b>	<b>44,089</b>	<b>42,340</b>
<b>Intangible Fixed Asset &amp; Deferred Charge Expenditure</b>				
Renovation, Disabled Facility, Mobility & Other Grants	2,301		2,301	10,505
Computer Software & Other	1,962	62	2,024	1,244
<b>Total Intangibles &amp; Deferred Charges</b>	<b>4,263</b>	<b>62</b>	<b>4,325</b>	<b>11,749</b>
<b>Total Capital Expenditure</b>	<b>35,183</b>	<b>13,231</b>	<b>48,414</b>	<b>54,089</b>
<b>Total Capital to be funded</b>	<b>35,183</b>	<b>13,231</b>	<b>48,414</b>	<b>54,089</b>
<b>Financed by:</b>				
Borrowing	2,812	1,973	4,785	3,559
Capital Grants	17,995	94	18,089	15,244
Capital Receipts	12,536	520	13,056	27,432
Contributions from Revenue	1,840	211	2,051	1,783
Major Repairs Reserve		10,433	10,433	6,071
<b>Total Funding</b>	<b>35,183</b>	<b>13,231</b>	<b>48,414</b>	<b>54,089</b>

## Treasury Management & Prudential Code Report – 2007/2008

### Background

The Council has adopted the CIPFA Treasury Management Code of Practice and a Treasury Policy Statement has been approved. The statement requires that the Group Director Finance and Commerce should report to Cabinet on the preceding year's treasury management activities.

### Key Points

- External loan debt down from £47.2m to £47.1m
- Average interest rate paid remains at 4.82%
- External investments up £21.6m to £103.1m. All of which is managed in-house
- Average return on investments up from 4.93% to 6.03%
- Prudential Code – limits adhered to - see **Performance against the Council's Prudential Indicators for 2007/08** below
- Investment performance exceeded benchmark by 0.11%, 6.03% compared to a benchmark of 5.92%
- Based on the average deposit balance, the out performance of benchmark generated an additional £128k

### Overall Position

#### Interest Rates - National Background

During 2007/08 the MPC (Monetary Policy Committee) was very concerned about the build up of inflationary pressures, especially the rise in the oil prices. Food prices have also risen at their fastest rate for fourteen years. Additionally, the sub prime crisis and the major slump in the housing market in the US has prompted fears around the world of the potential impact on world banking systems and on world growth which has lead to a downturn in economic sentiment.

As shown below, in 2007/08 we saw the peak of the cycle in July at 5.75% after two bank rate increases due to strong outlooks for the economy with UK GDP growth hitting 3.3% year on year in the period.

At the end of 2007 the sentiment for bank rate swung around as the credit crunch infected world markets and we saw two rate cuts at the end of 2007/08. Going forward, there are expectations of a further slowdown in the pace of the UK economy which suggests that more rate cuts may be required to try and further stimulate the markets and ameliorate the expected downturn.

#### INTEREST RATE MOVEMENT IN 2007/08

Month	%
Apr-07	5.25
May-07	5.50
Jul-07	5.75
Dec-07	5.50
Feb-08	5.25

The downward trend in Bank Rate is still expected after the initial cut in December 2007 to 5.50% in view of the MPC minutes which showed a unanimous MPC vote for a cut and the consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the world, however, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures.

## Havering's External Debt & Investments

Havering's external debt reduced £0.1m over the year down to £47.1m which is still below our future Capital Financing Requirement. The average maturity period remained constant with no additional long term borrowing being undertaken

External investment increased by £21.6m following the additional borrowing in 2006/07. The funds are re-invested prior to be required to fund capital expenditure. The rate of return on external investments has also risen, 2007/08 saw a rate of return of 6.03% compared to a figure of 4.80% in 2006/07

## Comparison with Other Authorities

The latest figures available for external debt are for the end of February; these show Havering to have an average rate of interest well below both the average rate of interest of London Boroughs and the overall National average rate of interest. There are no direct comparisons with regards to investments as each authority will have different approaches with regards to risk and return and should only be compared to internal benchmarks.

## Borrowing & Finance Lease Transactions in 2007/08

The following table summarises Havering's borrowing and long-term finance position in 2007/08:

	<b>Debt 31 March 2007 £000</b>	<b>Finance Raised £000</b>	<b>Finance Repaid £000</b>	<b>Debt 31 March 2008 £000</b>
Public Works Loan Board	38,797			38,797
Market Loan	7,000			7,000
<b>Total Long-term Debt</b>	<b>45,797</b>			<b>45,797</b>
Short-term Borrowing	1,375	2,084	2,150	1,309
<b>Total Loan Debt</b>	<b>47,172</b>	<b>2,084</b>	<b>2,150</b>	<b>47,106</b>
Finance Leases	-			-
<b>Total Borrowing/Finance</b>	<b>47,172</b>	<b>2,084</b>	<b>2,150</b>	<b>47,106</b>

## Debt Maturity Structure

The following table shows the maturity structure of Havering's long-term debt at the beginning and end of 2007/08 and the average interest rates prevailing at those particular dates:

### Long-term Debt Analysis by Maturity Period

<b>Years to Maturity</b>	<b>Total £000</b>	<b>1 April 2007 Proportion %</b>	<b>Rate %</b>	<b>Total £000</b>	<b>31 March 2008 Proportion %</b>	<b>Rate %</b>
0 - 1				7,000	15.3	3.60
1 - 2	7,000	15.3	3.60			
2 - 5						
5 - 10						
10 - 15	1,133	2.5	4.87	1,133	2.5	4.87
15 - 25	4,000	8.7	5.15	4,000	8.7	5.15
25 - 60	33,663	73.5	5.03	33,663	73.5	5.03
<b>Total</b>	<b>45,796</b>	<b>100.0</b>	<b>4.82</b>	<b>45,796</b>	<b>100.0</b>	<b>4.82</b>

There was no additional long-term borrowing in 2007/08 so PWLB debt remained the same as at the start of the year. The only movement was in the maturity period with the first callable date of the market loan occurring in less than 1 year. Under CIPFA guidance long term callable structures should be shown to mature at the first callable date, despite the possibility of the market loan in question having a possible maturity date in excess of 60 years.

### Debt Restructuring, Premature Redemption & New Borrowing

Havering consults Sector Treasury Services Ltd for advice on potential savings to be gained from restructuring long-term debt. Restructuring normally involves prematurely replacing existing debt (at a premium or discount) with new loans in order to secure net savings in interest payable or a smoother maturity profile. Restructuring can also involve the conversion of fixed interest rate loans to variable rate loans and vice versa.

Due to the rising market rates, and the fact that Havering has an interest rate paid well below both the London and National average there were no significant benefits of restructuring existing debt to be made. In addition, changes to the way the PWLB now operate has reduced the possibility of significant restructuring savings.

### Temporary Lending - Investment Strategy

The Council's surplus cash arises primarily from any unspent capital receipts and grants, from increases in revenue reserves, from reductions in debtors' arrears and from any receipts in advance of payments. These surpluses can be used to avoid new borrowing, to repay existing debt or else are available for investment in approved institutions. The Council's cash receipts never match its payments on a daily basis and these temporary surpluses or deficits must also be lent, borrowed or used for repayment.

The Council approved the strategy, credit limits and criteria governing any investment of surplus funds in the Treasury Policy Statement & Annual Investment Strategy and in the Treasury Management Practices.

2007/08 saw the remaining balance of £13.5m held with the external fund manager brought back in house.

2007/08 saw investment returns higher than those in 2006/07 primarily due to an increase in interest rates and an increase in the average deposit balance: The benchmark 3-month rate averaged 4.92% in 2006/07 and 5.92% in 2007/08.

The following table shows the returns on a book cost basis achieved by the internal and external managers against the 3-month benchmark supplied by Sector.

Manager	Book Cost at 31 March 2007 £000	Book Cost at 31 March 2008 £000	Rates of Return 2006/07 %	Rates of Return 2007/08 %
External Manager	13,513	0	4.13	n/a
In-house Manager	67,993	103,115	4.93	6.03
<b>Total Investments</b>	<b>81,506</b>	<b>103,115</b>	<b>4.80</b>	<b>6.03</b>
<b>Annualised Base Rate</b>			<b>4.82</b>	<b>5.54</b>
<b>Average 3 month LIBID (benchmark)</b>			<b>4.92</b>	<b>5.92</b>
Average Rate on Havering's Borrowing for comparison			4.82	4.82

The internally managed funds consisted mainly of short-term deposits (not exceeding 364 days) with approved institutions but, following the relaxation of government controls in the 2003 Act and Prudential Code, some investments were for more than a year.

### External Interest: Performance against Budget

The table below shows details of the actual and budgeted loan interest payable and investment interest receivable by the Council in 2007/08 and comparative actual figures for 2006/07. The major reason for the substantial additional interest earned in the year over the original budget estimate was due to the slippage in capital spending.

<b>Interest Paid &amp; Premiums Written Off</b>	<b>2007/08 Budget £000</b>	<b>2007/08 Revised £000</b>	<b>2007/08 Outturn £000</b>	<b>2006/07 Outturn £000</b>
PWLB & Market Loans	2,193	2,193	2,286	2,060
Premiums Written Off	296	296	296	337
Discounts Written Off	(71)	(71)	(71)	(72)
Other Interest Payable	342	342	246	200
Finance Lease (Notional Interest)	-	-	-	-
<b>Total Interest Payable</b>	<b>2,760</b>	<b>2,760</b>	<b>2,757</b>	<b>2,525</b>
Less Interest Receivable	(3,927)	(4,281)	(6,800)	(5,076)
<b>Net External Interest Payable (Receivable)</b>	<b>(1,167)</b>	<b>(1,521)</b>	<b>(4,043)</b>	<b>(2,551)</b>

### The Cost of Treasury Management

Treasury management costs arise both internally for staff time and externally for various charges payable for arranging loans, for maintaining computer systems and for consultancy. In accordance with recommended accounting practice, these costs are recharged to the corporate democratic core for General Fund Services and the Housing Revenue Account in proportion to those services' relative use of fixed assets.

The following table shows the outturn of treasury management costs against the original budget and the previous year's actual figures:

<b>Treasury Management Costs</b>	<b>2007/08 Budget £000</b>	<b>2007/08 Outturn £000</b>	<b>2006/07 Outturn £000</b>
Financial Services Costs	62	62	67
Brokerage & Loan Fees	9	4	4
Sector Subscription	17	9	17
Bank Charges on Loans	6	5	3
Computer Charges	3	3	3
<b>Total Treasury Management</b>	<b>97</b>	<b>83</b>	<b>94</b>

Treasury management costs were lower than in the budget because of lower than expected subscriptions and brokerage. The latter being caused by a reduction in short term borrowing.

Performance against the Council's Prudential Indicators for 2007/08

Under Part 1 of the Local Government Act 2003 and in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council established the following prudential indicators in February 2004 as part of Havering's integrated medium-term financial, treasury management & investment strategies. All the Council's prudential indicators that constitute limits have been adhered to without risk of breach. The other indicators are just estimates, but progress against these is also reported here, with explanations for large variances.

### Adoption of Treasury Management Code

The Council had already adopted the CIPFA Code of Practice for Treasury Management in the Public Services in February 2002.

### RATIO OF CAPITAL FINANCING COSTS TO NET REVENUE STREAM

These ratios are intended to indicate the relative affordability of financing the authority's capital commitments against its overall revenue costs chargeable to rent-and taxpayers.

The actual ratios of financing costs to net revenue stream for 2004/05 and the ratios estimated in February 2008 for 2007/08 to 2009/10 were as follows:



	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
HRA	24.02%	22.89%	22.90%
Non-HRA	0.42%	0.45%	0.75%
Total	3.38%	2.66%	4.43%

Against this indicator, the outturns for 2004/05 to 2006/07 were:

	2004/05 Actual	2005/06 Actual	2006/07 Actual
HRA	26.65%	24.20%	19.60%
Non-HRA	-0.24%	-0.47%	-1.06%
Total	2.65%	2.24%	2.24%

#### ESTIMATE OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX AND AVERAGE WEEKLY HOUSING RENTS

A fundamental indicator of affordability is the impact of capital investment decisions on Council Tax and HRA housing rents. The indicator includes all the incremental revenue costs of capital schemes not just financing costs but also allows for self-financing or grant support. If any incremental changes affect years beyond 2009/10, these must also be shown.

Having calculated, on the basis of the best information available and on reasonable assumptions, the total HRA and non-HRA budgetary requirements for Havering for the next three years with and without the changes proposed to the capital programme in the Medium-term Financial Strategy, the Group Director of Finance & Commerce estimated the following incremental changes to Council Tax and housing rents arising from the capital investment decisions:

	2007/08	2008/09	2009/10
Increase in Band D Council tax arising from New Capital Investment decisions	£6.46	£9.00	£10.76
Increase in Average Weekly Housing Rent arising from New Capital Investment decisions	£0.00	£0.00	£0.00

There is currently no reason to alter these broad projections.

#### CAPITAL EXPENDITURE ESTIMATES & ACTUALS

The estimates for 2007/08 to 2009/10 recommended for approval were:

	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate
HRA	11,346	9,635	16,000
Non-HRA	37,910	16,178	1,934
Total	49,256	25,813	17,934

Against this indicator, the following table shows the actual performance to date:

	2004/05 £000 Actual	2005/06 £000 Actual	2006/07 £000 Actual	2007/08 £000 Actual
HRA	10,885	11,752	12,973	13,231
Non-HRA	34,069	34,548	41,116	35,183
Total	44,954	46,300	54,089	48,414

2006/07 saw capital expenditure increase by £7.789m to over £54m. This was as a result of the unwinding of slippage in 2004/5 and 2005/6. Capital Expenditure for 2007/08 has now fallen back down to just under £50m.

#### CAPITAL FINANCING REQUIREMENT

The capital financing requirement (CFR) measures the authority's underlying need to borrow for capital purposes but does not reflect any need to fund day to day movements in revenue cash flows. It is calculated as the aggregate of:

Fixed Assets + Intangible Assets/Deferred Charges – Revaluation Reserve - Capital Adjustment Account - Grants Deferred.

The Government prescribes the definition of the HRA capital financing requirement in regulations issued under the 2003 Act. These are a continuation of the ring-fenced item 8 determinations under the 1989 Act.

The estimated requirements at the end of each year from 2007/08 to 2010/11 projected in February 2008 when the Prudential Indicators were approved by Cabinet were as follows:

	31/03/08 £000 Estimate	31/03/09 £000 Estimate	31/03/10 £000 Estimate	31/03/11 £000 Estimate
HRA	1,104	35,931	34,923	33,731
Non-HRA	36,945	3,218	5,332	7,446
Total	38,049	39,149	40,255	41,177

Against this indicator, the following table shows the actual outturns to date:

	31/03/05 £000 Actual	31/03/06 £000 Actual	31/03/07 £000 Actual	31/03/08 £000 Actual
HRA	(5,871)	(3,757)	(1,960)	13
Non-HRA	36,165	35,266	36,142	38,002
Total	30,294	31,509	34,182	38,015

#### NET EXTERNAL BORROWING AND THE CAPITAL FINANCING REQUIREMENT

In accordance with best professional practice, Havering does not associate borrowing with particular items or types of expenditure. External borrowing arises as a consequence of all the authority's financial transactions whether capital or revenue. The Prudential Code sets as a key indicator that net borrowing over the medium term should only be for capital. The Code provides that net external borrowing (borrowing net of investments) should not exceed the total capital financing requirement (CFR) in the preceding year plus any estimates of additional capital financing requirement for the current and next two years.

The Group Director reports that the authority has had no difficulty in meeting this requirement to date (Havering is currently a net lender) and that existing commitments and plans in the Budget can be accommodated within this limit.

The figures adopted for Havering's indicator in February 2008 were as follows:

	31/03/08 £000 Estimate	31/03/09 £000 Estimate	31/03/10 £000 Estimate
Net external borrowing	-16,528	5,015	11,479
Capital Financing Requirement	38,049	39,149	40,255

The actual figures to 31st March 2008 are as follows:

	31/03/05	31/03/06	31/3/07	31/3/08
	£000	£000	£000	£000
	Actual	Actual	Actual	Actual
Net external borrowing/(lending)	-52,602	-41,837	-20,821	-56,009
Capital Financing Requirement	30,294	31,509	34,182	38,015

## Authorised Limits & Operational Boundary For External Borrowing & Other Long-Term Liabilities

### AUTHORISED LIMITS

The Council approved the following authorised limits for its total external debt & finance leases for the three years from 2007/08 to 2009/10, confirmed the existing limit for borrowing in 2007/08 and approved the limit for other long-term liabilities for 2007/08.

The Council approved these limits and delegated authority to the Group Director, within the total limit for any individual year, to make transfers between the separately agreed limits for Borrowing and for Other Long-term Liabilities in accordance with option appraisal and best value for the authority, any such changes being reported to the Council at its next meeting. No such changes have been necessary.

These limits are consistent with Havering's current capital commitments, plans and budget proposals and with the Treasury Policy Statement and Treasury Management Practices. The Group Director Finance & Commerce confirmed that these limits were based on the estimate of the likely, prudent but not worst case scenario with sufficient additional headroom to allow for operational management of unusual cash flows.

Authorised Limits	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000
Borrowing	65,000	70,000	70,000	70,000
Other Long-term Liabilities	2,000	2,000	2,000	2,000
Total	67,000	72,000	72,000	72,000

### OPERATIONAL BOUNDARY

The Council was also asked to approve the following operational boundary for external debt for 2007/08 to 2009/10. The proposed boundary was based on the same estimate as for the authorised limit but reflects directly the Group Director's estimate without the additional headroom for unusual cash movements. It equates to the maximum external debt projected in the estimate.

The operational boundary represents the key management tool for the monitoring of external debt by the Group Director of Finance & Commerce.

The Council approved these limits and delegated authority to the Group Director, within the total limit for any individual year, to make transfers between the separately agreed limits for Borrowing and for Other Long-term Liabilities in accordance with option appraisal and best value for the authority, any such changes being reported to the Council at its next meeting. No such changes have been necessary.

Operational Boundary	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000
Borrowing	57,500	57,500	57,500	57,500
Other Long-term Liabilities	2,000	2,000	2,000	2,000
Total	59,500	59,500	59,500	59,500

The Council's levels of borrowing have been managed within these limits. The following table shows the performance to date:

	2006/07	2007/08 Qtr 1	2007/08 Qtr 2	2007/08 Qtr 3	2007/08 Qtr 4
	£000	£000	£000	£000	£000
Maximum Actual Borrowing	47,171	47,178	47,106	47,106	49,106
Maximum Actual Other Long-term Liabilities	0	0	0	0	0
Total	47,171	47,178	47,106	47,106	49,106

#### ACTUAL EXTERNAL DEBT

Actual external debt at the end of 2004/05, 2005/06, 2006/07 and 2007/08 was as follows:

	31/03/05 £000	31/03/06 £000	31/03/07 £000	31/03/08 £000
Borrowing	35,146	47,064	47,171	47,106
Other Long-term Liabilities	-	-	-	-
Total	35,146	47,064	47,171	47,106

The prudential indicator for actual external debt is not directly comparable to the authorised limit and operational boundary since the actual external debt is the position at a particular date whereas the limits relate to a whole financial year. The increase in overall borrowing in 2006/07 arose from a decision to take advantage of much lower long-term interest rates in the final quarter in anticipation of future need for the capital programme.

#### INTEREST RATE EXPOSURES

The Council set the following upper limits for its net borrowing (borrowing less investments) at fixed and variable rates for the years 2007/08 to 2009/10.

These limits were set to permit the maximum operational flexibility in managing Havering's debt and investment portfolios. For as long as investments exceed borrowing it will be prudent for risk management purposes to permit up to 100% of gross external borrowing to be at variable rates to match the rates on variable-rate or short-term investments. Investments will continue to be either at fixed or variable rates in accordance with current practice and the need to maintain flexibility to achieve best value in the short term.

	Upper Limit 2006/07 £000	Upper Limit 2007/08 £000	Upper Limit 2008/09 £000	Upper Limit 2009/10 £000
Net Borrowing	£000	£000	£000	£000
- at fixed rates	65,000	70,000	70,000	70,000
- at variable rates	65,000	70,000	70,000	70,000

The actual maximum levels for fixed and variable rate borrowing (or, for Havering, minimum levels for net lending) were as follows:

	Maximum 2006/07 £000	Maximum 2007/08 Qtr 1 £000	Maximum 2007/08 Qtr 2 £000	Maximum 2007/08 Qtr 3 £000	Maximum 2007/08 Qtr 4 £000
Net Borrowing	£000	£000	£000	£000	£000
- at fixed rates	(43,081)	(11,343)	(43,683)	(61,453)	(49,013)
- at variable rates	(21,106)	(9,471)	(2,770)	(2,376)	4,486

## MATURITY STRUCTURE OF BORROWING

Havering set for 2007/08 upper & lower limits with respect to the maturity structure of its projected fixed rate borrowing. These limits are calculated as the amounts of projected fixed rate borrowing maturing in each period as percentages of the total projected fixed rate borrowing.

These limits are set with the purpose of ensuring that no excessive burden of debt repayment will mature in any one period. This is a control on the level of exposure to future changes in interest rates.

The upper limit for fixed rate debt maturing within 12 months has to reflect the impact of day-to-day cash flow movements as well as any conscious decision to fund part of the capital financing requirement from temporary debt. It is not possible to predict or desirable to predetermine what proportion of temporary borrowing will be variable or fixed. The upper limit is set at 40% to permit a reasonable overall level of temporary borrowing at any one time in the coming financial year as well as normal long-term debt maturity.

	Upper Limit	Lower Limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

Against these limits, the actual maximum proportions reached to date are shown below:

	Maximum Actual 2007-08	Minimum Actual 2007-08
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	85%	85%

## MATURITY STRUCTURE OF LONG-TERM INVESTMENTS

The following table shows the upper limits adopted for the maturing of any investments beyond 364 days together with the current actual totals at 31st March 2008:

Principal Sum Invested for more than 364 days maturing:	Upper Limit	Current Actual
	£000	£000
2009/10	30,000	11,500
2010/11	30,000	5,000
2011/12	30,000	0
2012/13	30,000	0
2013/14	30,000	0

## Glossary

**Accounting Policies** Those principles, bases, conventions, rules and practices applied by an entity that specify how the effect of transactions and other events are to be reflected in its financial statements through:

- (i) recognising
- (ii) selecting measurement bases for, and
- (iii) presenting assets, liabilities, gains, losses and charges to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transaction and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

**Accruals** The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

**Actuary** An independent consultant who advises on the financial position of the Pension Fund.

**Actuarial Valuation** Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

**Amortisation** The writing off of a deferred charge, intangible asset or loan balance over a period of time.

**Appropriation** The transfer of ownership of an asset, from one service to another at an agreed (usually market) value.

**Budget** A forecast of future expenditure plans for the Authority. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised towards the year-end to take account of inflation, changes in patterns of services, and other factors.

**Capital Expenditure** Expenditure on the acquisition of fixed assets or expenditure which adds to the value of an existing fixed asset.

**Capital Financing Requirement** The measure of an authority's capital borrowing need under the

Prudential Code and the Local Government Act 2003: it is made up of the total value of the authority's fixed assets and deferred charges less the sums accumulated in the restatement, deferred grant and capital financing accounts.

**Capital Receipt** Income received from the sale of a capital asset such as land or buildings.

**Collection Fund** A Statutory Account within the General Fund which receives Council Tax, Community Charges, Non-Domestic Rates and Government Grants to cover the costs of services provided by Havering and its precepting authorities.

**Community Assets** Assets that the Local Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of Community Assets are parks and historic buildings.

**Balance Sheet** A statement of all the assets, liabilities and other balances of the Authority at the end of an accounting period.

**Contingent Liability** A possible liability to future expenditure at the balance sheet date dependant upon the outcome of uncertain events.

**Credit Approvals** Authorisation from the Government under the 1989 Act to use credit to finance capital expenditure either by borrowing or by entering into finance lease agreements - replaced in 2004/05 by **Supported Borrowing** under the 2003 Act - see below

**Deferred Charges** Expenditure which would otherwise be classified as revenue, but which is classified as capital expenditure for control purposes. Examples of deferred charges are expenditure on items such as improvement grants and loan redemption expenses.

**Defined Benefit Scheme** A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

**Depreciation** The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

**Finance Lease** A lease that transfers substantially all of the risks and rewards of

ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

**Fixed Assets** Assets that yield benefit to the Local Authority and the services it provides for a period of more than one year. Fixed Assets are sub-divided into **Tangible** and **Intangible**: the former are physical assets such as land, buildings and equipment; the latter are assets such as computer software or marketable research and development.

**General Fund (GF)** Havering's main Revenue Account from which is met the cost of providing most of the Authority's services.

**General Fund Working Balance** Revenue Funds which are uncommitted and available to support general funding pressures not otherwise specifically covered by planned budget or earmarked reserves.

**Historic Cost** The actual cost of an asset in terms of past consideration as opposed to its current value.

**Housing Revenue Account (HRA)** A Statutory Account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of Council Housing.

**Impairment** The reduction in value of a tangible or intangible fixed asset reflecting either (i) the consumption of economic benefits such as obsolescence or physical damage or (ii) a general fall in prices. In the former case, the impairment is a charge to the revenue account; in the latter, the impairment is a charge to the restatement account.

**Income and Expenditure Account** A statement showing the income and expenditure for the year of all the functions for which the Authority is responsible and complies with Generally Accepted Accounting Practice (GAAP).

**Infrastructure Assets** Assets which have an indeterminate life and although valuable do not have a realisable value e.g. roads.

**Minimum Revenue Provision (MRP)** The amount that has to be charged to the General Fund to provide for the redemption of debt. Under the 2003 Act this is 4% of the adjusted **Capital Financing Requirement**.

**National Non-Domestic Rates Pool (NNDR Pool)** Non-Domestic Rates are paid into a central pool controlled by Central Government. This

money is then redistributed to Local Authorities on the basis of adult population.

**Net Book Value** The amount at which fixed assets are included in the balance sheet after depreciation has been provided for.

**Net Current Replacement Cost** The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

**Net Realisable Value** The open market value of the asset less the expenses to be incurred in realising the asset.

**Non-Operational Assets** Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples include investment and surplus properties.

**Operating Lease** A lease other than a finance lease, i.e. a lease which permits the use of the asset without substantially transferring the risks and rewards of ownership.

**Non Distributed Costs** Costs which are not chargeable to services and comprise of:

- Retirement benefit costs (past service costs, settlements and curtailments)
- Unused share of IT facilities
- The costs of shares of long term unused but unrealisable assets.

**Operational Assets** Fixed assets held, occupied, used or consumed by the Authority in the direct delivery of its services.

**Outturn** The actual level of expenditure and income for the year.

**Post Balance Sheet Events** Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are approved for issue by the Group Director, Finance and Commerce.

**Precept** The charge made by one Authority (e.g. Greater London Authority) on another Authority (e.g. Havering) to finance its net expenditure.

**Private Finance Initiative** A Government initiative that enables authorities to carry out capital projects, through partnership with the private sector.

**Projected Unit Method** Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate which will meet the cost of benefits accruing in the year after the valuation

date. This method is considered appropriate for a Pension Fund open to new members.

**Provisions** Amounts set aside to fund known liabilities chargeable to the current year's Accounts where the exact amount or timing of the payment are not yet certain.

**Prudential Code.** Since April 2004 local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities' freedom to determine how much capital investment they can afford to fund through borrowing. The objectives of the code are to ensure that authorities capital spending plans are affordable prudent and sustainable with Council's being required to set specific prudential indicators.

**Public Works Loans Board (PWLB)** Central Government Agency which funds much of Local Government borrowing.

**Reserves** Amounts set aside to fund known items of anticipated expenditure for which the liability is not chargeable to the current year's Accounts.

**Revenue Expenditure** The day to day expenditure of the Council, e.g. pay, goods and services and depreciation.

**Revenue Support Grant** The main grant paid by the Government to Local Authorities.

#### **Statement of Movement in the General Fund Balance**

This statement records the out-turn on the Income and Expenditure Account and the transfers to and from reserves which are required for statutory purposes to be taken into account when setting council tax.

**Supported Borrowing** Borrowing supported by central government grant towards the financing costs, mainly through HRA subsidy or Revenue Support Grant.



## Group Income and Expenditure Account 2007/2008

2006-2007		2007-2008		
Net Expenditure		Expenditure	Income	Net Expenditure
£'000		£'000	£'000	£'000
4,409	Central Services to the Public	24,043	19,769	4,274
25,490	Cultural, Environmental and Planning	42,445	11,606	30,839
8,115	Children's and Educational Services	229,217	193,347	35,870
16,963	Highways, Roads and Transport Services	22,771	4,772	17,999
7,187	Housing General Fund Services	65,093	62,585	2,508
2,072	Housing Revenue Account	72,661	69,323	3,338
64,791	Adult Services	71,917	21,830	50,087
159	Coroner's Court	156	0	156
7,443	Corporate and Democratic Core	7,744	451	7,293
1,757	Non Distributed Costs	5,054	0	5,054
<b>138,386</b>	<b>Net Cost of Services</b>	<b>541,101</b>	<b>383,683</b>	<b>157,418</b>
20	(Gains) or losses on the disposal of fixed assets			0
8,718	Levies Counting as Havering Expenditure			9,242
0	(Surplus)/deficit on Trading Undertakings			0
2,378	Interest payable and similar charges			2,174
85	Loss on Investments			0
7	Taxation on Group Entities			12
4,585	Contribution of housing capital receipts to Government Pool			4,552
(5,493)	Interest and other investment income			(7,149)
3,500	Pensions interest cost and expected return on pensions assets			8,080
<b>152,186</b>	<b>Net Expenditure</b>			<b>174,329</b>
(94,986)	Demand on Collection Fund			(99,116)
(250)	Collection Fund Transfer for estimated surplus			(500)
0	Collection Fund Provision for estimated deficit			795
(7,724)	Government Grants (not attributable to specific services)			(7,365)
(39,963)	Distribution from Non-Domestic Rate Pool			(41,801)
<b>9,263</b>	<b>(Surplus) or Deficit in the year</b>			<b>26,342</b>

Reconciliation of Single Entity Surplus or Deficit for the  
Year to Group Surplus or Deficit

2006-2007 £'000		2007-2008 £'000
9,343	<b>(Surplus) or deficit on the authority's single entity Income and Expenditure Account for the Year</b>	26,344
(80)	Add: (Surplus) or deficit arising from Subsidiaries	(2)
<b>9,263</b>	<b>Group Account (Surplus) or Deficit in the year</b>	<b>26,342</b>

## Group Statement of Total Recognised Gains and Losses

2006/07 £'000		2007/08	
		£'000	£'000
(9,263)	Net Surplus or (deficit) for the year		(26,342)
11,604	Surplus or (deficit) arising on the revaluation of fixed assets		90,291
(940)	Actuarial gains and (losses) on pension fund assets and liabilities		20,620
(452)	Increase or (decrease) in collection fund surplus		(1,514)
(2,646)	RTB Discount given on Council house sales		(988)
(86)	Any other gains and (losses) required to be included in the Group STRGL		66
<b>(1,783)</b>	<b>Total recognised gains and (losses) for the year</b>		<b>82,133</b>

## Group Balance Sheet as at 31st March 2008

31 <sup>st</sup> March 2007 £'000	Fixed Assets	31 <sup>st</sup> March 2008 £'000      £'000	
2,324	Intangible Fixed Assets		1,045
	Tangible Fixed Assets:		
	Operational Assets		
544,645	- Council Dwellings		612,070
451,012	- Other Land and Buildings		444,488
10,280	- Vehicles, Plant and Equipment		7,847
41,369	- Infrastructure Assets		44,737
1,091	- Community Assets		1,089
28,631	Non-operational Assets		33,056
<b>1,079,352</b>	<b>Total fixed assets</b>		<b>1,144,332</b>
3,202	Long-term Debtors		2,799
2,224	Deferred premiums on the early repayment of Debt		0
<b>1,084,778</b>	<b>Total long-term assets</b>		<b>1,147,131</b>
	Current Assets		
223	- Stocks and Work in Progress		290
39,028	- Debtors (net of provision for bad debts)		31,647
81,507	- Investments (net of provision for losses)		103,115
16,745	- Cash in Hand		15,488
<b>1,222,281</b>	<b>Total Assets</b>		<b>1,297,671</b>
	Current Liabilities		
(1,375)	- Borrowing repayable within a year		(8,309)
(44,831)	- Creditors		(46,325)
(5,711)	- Cash Overdrawn		(7,683)
<b>1,170,364</b>	<b>Total Assets Less Current Liabilities</b>		<b>1,235,354</b>
(45,797)	Borrowing maturing in more than a year		(38,797)
(32,020)	Government grants-deferred		(31,361)
(7,371)	Unapplied Capital Grants & Contributions		(10,442)
(299)	Deferred discounts on early repayment of debt		0
346,770	Asset relating to defined pension schemes	315,312	
(576,640)	Liability relating to defined pension schemes	(532,780)	(217,468)
(4,858)	Provisions		(5,004)
<b>850,149</b>	<b>Total Group Assets Less Liabilities</b>		<b>932,282</b>
767,074	FARA / Revaluation Reserve		108,686
245,666	Capital Financing Account / Capital Adjustment Account		965,794
0	Opening balance in FIAA		(1,700)
3,062	Deferred Credits		2,681
20	Profit & Loss and other reserves of group entities		822
23,481	Usable Capital Receipts		27,874
2,213	Major Repairs Reserve		26
17,019	Earmarked Reserves		25,978
19,193	General Reserves		19,784
2,081	Housing Revenue Account Balance		1,831
280	Collection Fund Balance		(1,234)
(229,940)	Pension Reserve		(218,260)
<b>850,149</b>	<b>Group Balances and Reserves</b>		<b>932,282</b>

Rita Greenwood  
Group Director Finance and Commerce  
25 June 2008

Group Cash Flow Statement as at 31<sup>st</sup> March 2008

2006/07 £'000		2007/08	
		£'000	£'000
<b>(18,042)</b>	<b>Revenue Activities Net Cash Flow</b>		<b>(17,310)</b>
	<b>Returns on Investment and Servicing of Finance</b>		
1,740	Interest paid & prepaid -premiums (outflow)	2,493	
(4021)	Interest & discounts received (inflow)	(6,050)	
<b>(2,281)</b>	<b>Net Cash Outflow (Inflow) from Servicing of Finance</b>		<b>(3,557)</b>
0	<b>Taxation</b>		7
	<b>Capital Activities</b>		
42,741	Purchase of fixed assets (outflow)	41,717	
10,506	Other capital cash payments (outflow)	3,667	
(22,057)	Sale of fixed assets (inflow)	(22,009)	
(14,400)	Capital grants received (inflow)	(20,959)	
<b>16,790</b>			<b>2,423</b>
<b>(3,533)</b>	<b>Net Cash (Inflow)/Outflow Before Financing</b>		<b>(18,444)</b>
	<b>Management of Liquid Resources</b>		
547,037	Short-term deposits made (outflow)	609,312	
(538,989)	Short-term deposits repaid (inflow)	(587,704)	
<b>8,048</b>	<b>Net Increase/(decrease) in investments</b>		<b>21,608</b>
	<b>Financing</b>		
8,275	Repayments of loans & finance leases (outflow)	2,150	
(14,383)	New loans raised (inflow)	(2,085)	
<b>(6,108)</b>	<b>Net (Inflow)/outflow from financing</b>		<b>65</b>
<b>(1,593)</b>	<b>Net Decrease/(Increase) in Cash</b>		<b>3,229</b>

## Notes to the Group Financial Statements

### Basis of Consolidation

The Group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the London Borough of Havering and Homes in Havering. Homes in Havering have been incorporated as a subsidiary using the acquisition method of accounting – the Council's investment in the company is incorporated into the Group Accounts by combining the results of the Council and Homes in Havering and netting out any inter party transactions. Homes in Havering began its operations on 1<sup>st</sup> July 2006 and its results are consolidated within the group from that date.

energy conservation work, health and safety improvements, aids and adaptations for the disabled and intangible assets & deferred charges.

These de minimis rules may be waived where grant or borrowing consent is made available for items of capital expenditure below £5,000.

Homes in Havering operate a de minimis level of £500 for the capitalisation of fixed assets. Their assets are consolidated into the group accounts on that basis. The value of HIH assets stood at £74,000 as at 31 March 2008.

### Accounting Policies

Homes in Havering is a private company limited by guarantee under the Companies Act 1985. As such it has no share capital. The company's sole member is the London Borough of Havering. The Council is required to prepare Group Accounts where it has interests in subsidiaries, associates and joint ventures. It has determined that the interest held in Homes in Havering is such that it requires Group Accounts to be prepared.

The financial statements in the group accounts are prepared in accordance with the policies set out in the statement of accounting policies on pages 16 to 22 with the exception of the following:

#### 1. Tangible Fixed Assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts. Expenditure on tangible fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the service it provides, for a period of more than one year. Expenditure on routine repairs and maintenance of fixed assets is charged direct to service revenue accounts.

The London Borough of Havering has the following de minimis rules for the capitalisation of expenditure, so that schemes which cost less than this are classified as revenue rather than capital: -

works to buildings	£5,000
infrastructure	£5,000
office and information technology	£5,000
other furniture and equipment	£5,000

There are no de minimis limits for the following categories: land acquisition, vehicles & plant,

**Note to Group Cashflow Statement****1. Reconciliation of Net (Surplus)/Deficit on Group Income and Expenditure Account to Revenue Activities Net Cashflow.**

	<b>2007/08 £'000</b>	<b>2006/07 £'000</b>
Net deficit on Income and Expenditure account	26,342	9,353
Net additional amount required to be credited from the General Fund Balance	(26,778)	(8,220)
<b>(Increase) / Reduction in General Fund Balance</b>	<b>(436)</b>	<b>1,133</b>
Housing Revenue Account net (surplus)/deficit	250	261
Collection Fund net deficit	1,514	452
<b>Fund Balances</b>	<b>1,328</b>	<b>1,846</b>
<b>Non cash Transactions:-</b>		
Interest	3,494	2,275
Net contributions to/(from) provisions	(145)	931
Net contributions to/(from) Reserves	(8,274)	(4,824)
FRS17 Adjustment	(8,165)	1,440
Contributions to capital	(2,051)	(2,340)
Interest prepayments written down	(225)	(265)
Depreciation, amortisation & impairment	(10,702)	(20,794)
Minimum provision for credit liabilities	13,072	15,123
Loss on sale of fixed assets	0	(20)
(Increase)/decrease in revenue creditors	399	(3,861)
Increase/(decrease) in stocks	67	5
Increase/(decrease) in debtors	(6,108)	(7,558)
<b>Revenue Activities Net Cash Flow</b>	<b>(17,310)</b>	<b>(18,042)</b>