



Haverling

L O N D O N B O R O U G H

AUDIT COMMITTEE AGENDA

7.00 pm	Tuesday 28 January 2020	Town Hall, Main Road, Romford
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Members 6: Quorum 3

COUNCILLORS:

**Conservative Group
(3)**

**Residents' Group
(1)**

**Upminster &
Cranham
Residents' Group
(1)**

**North Haverling
Residents Group (1)**

Viddy Persaud (Vice-
Chair)
Roger Ramsey
Judith Holt

Gerry O'Sullivan

Gillian Ford

Martin Goode
(Chairman)

**For information about the meeting please contact:
Luke Phimister 01708 434619
luke.phimister@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



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

(if any) – received.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 2)

To approve as correct the minutes of the meeting held on 23 January 2020 and authorise the Chairman to sign them.

5 CLOSURE OF ACCOUNTS TIMETABLE - 19/20 (Pages 3 - 8)

Report attached.

6 PENSION FUND AUDIT LETTER (Pages 9 - 38)

Rreport and appendix attached.

Andrew Beesley
Committee Administration
Manager

**MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Committee Room 3A - Town Hall
23 October 2019 (7.00 - 7.45 pm)**

Present:

COUNCILLORS:

Conservative Group Viddy Persaud (Vice-Chair) and Roger Ramsey

Residents' Group Gerry O'Sullivan

**North Havering
Residents group** Martin Goode (in the Chair)

Apologies were received for the absence of Councillors Gillian Ford and Judith Holt.

Unless otherwise indicated all decisions were agreed with no vote against.

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

34 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 5 September 2019 were agreed as a correct record and signed by the Chairman.

35 ASSURANCE PROGRESS REPORT Q1 AND Q2

The report presented to the committee outlined the work undertaken by the Assurance Service for internal audit and counter fraud.

Section 3 of Appendix A listed 5 key findings from the Assurance Service and members noted that although Payroll is a shared service, the 5 findings were more focused on Havering's issues. Members also noted that all recommendation had been accepted and an action place was in place. Officers explained that the timeline for Fusion to be implemented is the end of March to the beginning of April, however, a member expressed that this should be implemented as soon as possible. Another member queried what does the Assurance Service check in relation to the IT systems and officers explained that the IT checks was outsourced to a specialist IT firm who compiled risk assessments after checking the security, the virus protection and if the storing of data is complicate with GDPR. A member had the view that a contingency plan should be in place should the Fusion plan fail or crash.

All high risk recommendations listed in Section 4 are up to date and have been implemented.

Officers were asked to add an extra column to Appendix C to give information if there was any delay and what the original date for completion was for presentation

at the next meeting. Officers were also asked to give an update at the next meeting regarding any draft reports that had not been signed off.

36 **GOVERNANCE AND RISK UPDATE**

The Governance & Assurance Board gave updates on risk management and stated that it was progressing and the level of engagement was satisfactory. The committee noted that there were significant governance issues and these were to be linked to the plan.

The committee noted the report.

Chairman

AUDIT COMMITTEE

Subject Heading:	Closure of Accounts Timetable 2019/20
SLT Lead:	Jane West
Report Author and contact details:	Contact: Kevin Miles Designation: Financial Reporting Accountant Telephone: 01708 434551 E-mail address: kevin.miles@oneSource.co.uk
Policy context:	This report advises the Audit Committee on the progress to date in preparing for the Closure of Accounts 2019/20
Financial summary:	There are no direct financial implications to the report, <i>however an efficient closedown allows the Council to plan its future financial strategy with more certainty</i>

The subject matter of this report deals with the following Council Objectives

Communities making Havering	<input type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input checked="" type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

This report advises the Audit Committee of the progress to date in preparing for the closure of the 2019/20 Accounts

RECOMMENDATIONS

The Committee is asked to note the content of the report in particular the risk areas and the key dates in connection with the closure of the 2019/20 accounts.

REPORT DETAIL

1. Background

The Council successfully closed its accounts and prepared its Financial Statements for 2018/19 by the statutory deadline of 31st May 2019. However the external audit of the accounts was not completed until November 2019 – it was due to be completed by 31st July 2019

The priority for the closure programme is to ensure that all key activities have been captured in the timetable, and that roles and responsibilities have been identified and understood.

2. Preparing for Closedown

2.1 The statutory deadline for having the 2019/20 draft accounts available for audit is 31st May 2020 and the statutory deadline to have the accounts audited is 31st July 2020.

2.2 To be able to meet the statutory deadlines, it's imperative that the key dates within the closedown timetable are met. Any delay from one activity has a cascading impact which could jeopardise Havering closing its accounts within the required timeframe. This will mean Committee papers will be out earlier as well in line with this timescales. If requested, there will be a training session for members of the Audit Committee between the end of the May and the July committee to familiarise members with the Statement of Accounts. It is also key for SLT members to be aware of the key deadlines and support to ensure that the outturn report is produced on time but also the deadline for the accounts.

3. Closedown Timetable

Following consultation with key officers, the 2019/20 closedown timetable was issued which incorporates the feedback from the consultation, and in line with project management methodology clearly sets out the critical path and named owners for each activity. This is being monitored regularly by Financial Control and no major slippages have been flagged to date.

4. Period 9 Closedown

As part of the quicker closedown preparation process, Havering introduced a period 9 close last year. This provided an opportunity for a trial run on an accelerated timetable. For 2019/20, the Financial Control team are focusing on some of the risk areas identified last year but also to improve streamlining the preparation of accounts where possible. Also during this period, Financial Control team is working with the external auditors in order to provide the

required information for the interim audit due to commence in January 2020. This includes providing details of transactions up to period 9 (December) and interim notes, such as those for exit packages and related party disclosures. The final audit is due to commence in May, however not all statements in the Accounts will be ready by then. Officers will be working closely with the auditors to ensure the audit opinion for 2019/20 is provided quickly – progress of the audit will be closely monitored to ensure it is progressing and potential delays are addressed .

5. Risk areas

- 5.1 The closedown planning process began in earnest in November 2019 which we have identified a number of risk areas that could cause delays or problems with the audit. These have been reviewed and a plan to mitigate the risks included.

One of the more complex areas is the formation of group accounts. As Havering has a 100% subsidiary, a line by line consolidation is needed to incorporate the entity into Havering’s accounts. In order for this to be completed, the draft set of Mercury Land Holdings accounts would need to be provided in late April. In addition an audited version would need to be prepared and signed off in May in order to avoid any amendments to Havering’s accounts. In the event of any changes to the accounts in June or July, there is a risk that these changes could prompt an ISA260 comment as part of the Annual Audit Report.

- 5.2 A risk to the closedown is if the reconciliation of debtors and creditors on the balance sheet is not kept up to date during the year During 2019/20, finance and service staff has been asked to provide reconciliation on a quarterly basis to check this are taking place sufficiently. Currently the Financial Control team is working with specific services to ensure that reconciliation are sufficient and are provided in a timely manner.

- 5.3 The key deadlines include the following:

Deadline	Task
Wednesday 25 th March 2020	Final date for goods and services to be receipted so payments will be included in 2019/20 accounts
Friday 27 th March 2020	Final date for debtor invoices to be raised
Tuesday 31 st March 2020	Final deadline for service capital journals
Friday 3 rd April 2020	Final deadline for Services journals to be provided to business partnering for review
Friday 17 th April 2020	Open CP (Collaborative Planning) online forecasting for Outturn (Subject to change)
Friday 17 th April 2020	Final Corporate adjustments

Friday 17 th April 2020	All Balance Sheet reconciliations provided to Financial Control
Friday 24 th April 2020 (tbc)	Receipt of Group Accounts from Mercury Land Holdings
Tuesday 5 th May 2020	SLT Business Meeting - Capital Outturn Report, Final confirmatory Outturn Report
Wednesday 27 th May 2020	Draft Statement of Accounts signed by Section 151 Officer

IMPLICATIONS AND RISKS

Financial implications and risks: There are no direct financial implications arising from the publication or approval of accounting policies. There are no material changes to policy impacting upon the Council's financial position.

Legal implications and risks:

There are no apparent legal implications in noting the content of the report.

Human Resources implications and risks:

There are no apparent human resources implications in noting the content of the report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to: Audit Committee, 28 January 2020

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

There are no Equality implications regarding this matter

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AUDIT COMMITTEE

Subject Heading:	Havering Council and Pension Fund Annual Audit Letter 2018/19
SLT Lead:	Jane West
Report Author and contact details:	Contact: Kevin Miles Designation: Financial Reporting Accountant Telephone: 01708 434 551 Email address: kevin.miles@havering.gov.uk
Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	The audit letter highlights the area of review covered within the audit and the auditor's findings.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

Havering Council's external auditors, Ernst & Young, have issued their annual audit letter to the Committee summarising the results of their 2018/19 audit of the Council and Pension Fund.

RECOMMENDATIONS

The Committee is asked to note the contents of the letter and consider any issues raised by the external auditor.

REPORT DETAIL

1. The purpose of the letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from the auditors' work which they consider needing to be brought to the attention of the Council. The letter is included at appendix A.
2. The letter includes the following issues:
3. Ernst & Young issued unqualified opinions on both the Council's main accounts including the group position and the Pension Fund Financial Statements. The Audit Results report was issued on 7th November 2019. Their certificate will be issued upon completion of the audit of the Whole of Government Accounts return - EY have stated will be completed in December 2019.
 - 3.1. EY did not identify any material weaknesses in controls or management overrides, any instances of inappropriate judgements being applied or any transactions outside the Council's normal business.
 - 3.2. In relation to the Authority's accounts, Ernst and Young identified misstatements due to error of additions to property, plant and equipment. They identified two instances where the costs associated with capital schemes had been incorrectly revalued to zero resulting in Assets under construction being understated by £15.5 million. (Page 9).
 - 3.3. In other key findings, their testing of the valuation of property, plant and equipment identified a number of instances where assets had been valued incorrectly. The errors mostly related to costs associated with redevelopment and regeneration and arose because the valuer had not been provided with full details of the circumstances relevant to the asset. (Page 11).
 - 3.4. As part of other matters on page 18, the auditors reported two control observations in our audit report for the authority. As mentioned above, they identified a number of audit differences in the testing of property, plant and equipment. The second observation identified a control issue related to the records maintained to support exit packages disclosures in the accounts and the number of errors presented in the draft accounts.
 - 3.5. The above changes did not change the Council's usable resources. As part of preparations for the 2019/20 closure, officers are reviewing the issues in 3.1 to 3.3 to ensure the misstatements are not repeated. Officers will ensure complete information is provided to the valuers.
 - 3.6. IFRS 16 Leases - page 22 of EY's report refers to the new leasing standard that will bring most leased assets onto the balance sheet from 1 April 2021. Officers are reviewing leasing records and will agree appropriate accounting policies and a deminimis level with the auditors. A review will also be conducted to see if the IASB conceptual framework will have an impact on the 2019/20 accounts.

IMPLICATIONS AND RISKS

Financial implications and risks: There are no financial implications or risks arising directly from this report. There are no changes to the Council's usable financial resources arising from the outcome of the audit of accounts.

Legal implications and risks: There are no apparent legal implications in noting the content of the audit letter. The matters highlighted by the letter clearly identify some areas of legal and financial risk but the letter does not indicate any issues which are not already being addressed appropriately by management

Human Resources implications and risks: None arising directly

Equalities implications and risks: None arising directly

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London Borough of Havering and Pension Fund

Annual Audit Letter for the year
ended 31 March 2019

3 December 2019

Page 13

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

Contents

01

Executive Summary



03

Financial Statement Audit



05

Other Reporting Issues



07

Focused on your future



02

Purpose and Responsibilities



04

Value for Money



06

Data Analytics



08

Audit Fees



Page 14

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). It is available from the Chief Executive of each audited body and via the PSAA website OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website.

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to London Borough of Havering (the Authority) following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority and Pension Fund's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Authority and Group and Pension Fund as at 31 March 2019 and of their expenditure and income for the year then ended. We issued our audit report on the Authority and Group and Pension Fund on 7 November 2019.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report for the Authority we identified no significant risks. We have no matters to report about the Authority's arrangements to secure economy efficiency and effectiveness in its use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is above the specified audit threshold of £500 million. Therefore, we are required to perform audit procedures on the consolidation pack. We have not yet completed these procedures.



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Reports were presented to the Audit Committee on 5 September 2019 with an update provided on 6 November in relation to the audit of the Authority's accounts.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We have not yet issued our certificate as we have not completed our work on the Authority's WGA return. We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of London Borough of Havering Pension Fund. We also issued this consistency opinion on 7 November 2019.

We will also issue a report to those charged with governance of the Authority summarising the certification work we have undertaken once this work has been completed in early 2020.

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities



Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority and Pension Fund.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Reports to the Audit Committee meeting on 5 September 2019, representing those charged with governance. We do not repeat those detailed findings in this Letter. The matters reported here are the most significant for the Authority.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plans dated 30 January 2019 for the Authority and 12 April 2019 for the Pension Fund and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. We originally planned to complete our audit by the end of July, but due to a number of issues, including the availability of suitably qualified auditors to complete the audit work and the amendments required relate to the accounts as noted in this report, we were not able to achieve this target.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2018/19 financial statements, including the pension fund; and
- ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Authority;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Authority, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is above the specified audit threshold of £500 million. Therefore, we are required to perform audit procedures on the return.

Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Authority and Pension Fund's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 7 November 2019.

Our detailed findings were reported to the Audit Committee meeting on 5 September 2019 with an update on 6 November 2019 in relation to the audit of the Authority accounts.

The key issues identified as part of our audit were as follows:

Significant Risk (Authority and Pension Fund)

Conclusion

Misstatements due to fraud or error, including incorrect capitalisation of revenue spend for the Authority accounts

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

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

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

We also identified the posting of journals related to the valuation of investment assets as a specific area where misstatements due to fraud and error may arise for the Pension Fund.

In relation to both the Authority and Pension Fund's accounts:

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

In relation to the Authority' accounts:

- Our testing of additions to property, plant and equipment identified two instances where the costs associated with capital schemes had been incorrectly revalued to zero and number of other errors. The impact of these errors was to understate Assets Under Construction by £15.5 million. Management has corrected these errors.
- We also identified capital expenditure of £2.7 million which was not attached to specific assets and was therefore revalued to zero. As this expenditure was not attached to specific assets it was not possible to easily determine whether it met the accounting requirements for capitalisation. The Authority did not amend the accounts for this uncertainty as the sum was not material.

Significant Risk (Pension Fund only)	Conclusion
<p>Valuation of complex investments</p> <p>The Fund's investments include The Fund's investments include pooled property fund investments, which are more complex to value.</p> <p>The Fund will make judgements when valuing those investments where prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.</p>	<p>Our testing, which included the following areas, did not identify any material errors in investment valuations:</p> <ul style="list-style-type: none"> • analytical procedures to check the valuation output for reasonableness against our own expectations. • Review of the basis of valuation of the investments to assess the appropriateness of the valuation methods used. • Testing valuation by obtaining the latest available audited accounts and agreeing the net asset value per the confirmation received to the audited accounts provided.

Financial Statement Audit (cont'd)

Other Key Findings (Authority only)

Conclusion

Valuation of Property, Plant & Equipment and Investment Properties - Higher inherent risk (Authority only)

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's Group accounts, totalling £1.1 billion and £77 million respectively at 31 March 2019.

These balances are subject to valuation changes, impairment reviews, and depreciation charges. In calculating amounts recorded in the Council's balances sheet, management are required to make material judgements and apply estimation techniques. We consider that where assets are valued at either depreciated replacement cost or existing use value, or on the basis of their market value, the judgments and estimates made by management are more likely to have a significant impact on the valuation of the asset; we will therefore focus our work on assets valued on this basis.

Our testing of the valuation of property, plant and equipment identified a number of instances where assets had been valued incorrectly. The errors mostly related to the accounting treatment of cost associated with the redevelopment and regeneration of the 12 Estates and arose because the valuer had not been provided with full details of the circumstances relevant to those assets.

The overall impact of the differences we identified (including the differences reported in the previous section of this report) increased the value of property, plant and equipment by just over £23 million, and reduced the value of assets held for sale by 3.8 million. There were corresponding entries to unusable reserves. Management has corrected these errors.

We are satisfied that the cycle of valuations adopted by the Authority is sufficient to ensure that assets are valued within a 5 year rolling programme, and annually for Investment Property.

We have also reviewed assets that are not subject to valuation in 2018/19, and have confirmed that this would not result in a material misstatement to the asset base.

Our work on the valuation of property, plant and equipment, which considered the following areas did not identify any material errors:

- Sample testing key asset information used by the valuer in performing their valuation;
- Consideration of the changes to the useful economic lives as a result of the most recent valuation; and
- Testing of the accounting entries arising from the change in valuation.

Pension liability valuation (Authority only)

The Code of Practice on Local Authority Accounting and The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by London Borough of Havering.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary.

We have assessed and are satisfied with the competency and objectivity of the Authority actuary. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and have deemed the assumptions used to be reasonable.

In testing the Council's pension liability, we noted that the draft financial statements were prepared on the basis of IAS19 data and assumptions taken at December 2018, with a forecast of the 31 March 2019 position. The Authority therefore obtained an updated valuation of the pension liability to incorporate the difference between estimates used at the time of producing the draft accounts, and actual results, and incorporation of recent developments particularly relating to the McCloud judgement and issues relating to Guaranteed Minimum Provision.

Management have corrected this difference within the draft financial statements. The effect of this is to increase the pension liability by £8.2 million, with a corresponding increase in the Pension reserve. This change also increases the deficit recognised within the Comprehensive Income and Expenditure statement.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p>Group Financial Statements (Authority only)</p> <p>The Authority has entered into three Joint Venture arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 housing estates within the Borough.</p> <p>The Authority will need to consider whether any transactions or balances relating to these joint venture arrangements should be consolidated within its group financial statements, having regard to both the specific nature or circumstances of the joint venture (qualitative criteria) and the relative size of the joint venture to the group (quantitative criteria).</p>	<p>We have concluded our work in this area and are satisfied that the Authority's conclusion that group accounts are not required in 2018/19 on the basis of immateriality is reasonable. We would note however that this assessment needs to be kept under review and that group accounts are likely to be required in 2019/20</p>
<p>IFRS 9 financial instruments (Authority and Pension Fund)</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none">▶ How financial assets are classified and measured;▶ How the impairment of financial assets are calculated; and▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.</p>	<p>We are satisfied that the Authority and Pension Fund have appropriately assessed the impact of IFRS 9 and that the impact on the accounts for 2018/19 is not material.</p>
<p>IFRS 15 Revenue from contracts with customers (Authority only)</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>We reviewed the Authority's analysis of the impact of IFRS 15 on their financial statements, and agreed with their conclusion that this standard does not have a material impact on the disclosures in the accounts.</p>

Financial Statement Audit (cont'd)

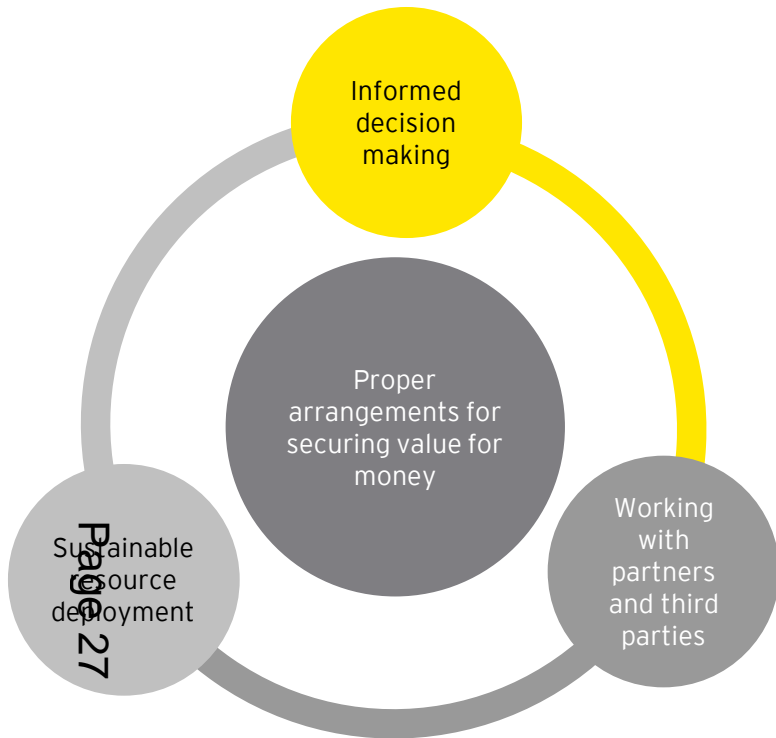
Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>For the London Borough of Havering Council and Group:</p> <ul style="list-style-type: none">• We determined planning materiality to be £10.2 million (2018: £8.8 million), which is 1.8% of Gross Expenditure reported in the accounts.• We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority. <p>For the Pension Fund</p> <ul style="list-style-type: none">• we determined planning materiality to be £7.3 million (2018: £7 million) based on 1% of Net Assets.• We consider Net Assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.51 million (2018: £0.44 million) for both the London Borough of Havering single entity and Group accounts and £0.37 million for the Pension Fund (2018: £0.35 million).



04 Value for Money



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

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

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

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

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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

Our Audit Plan reported that our value for money risk assessment had not resulted in any significant risks identified at planning stage. We did however note that we would keep our risk assessment under review throughout the audit and will report any additional risks identified to the Audit Committee.

During the course of our audit we have continued to monitor developments at the Authority, including recent updates to its budget and medium term financial plan. As a result of this work, we did not identify any significant risks and have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We do not issue a value for money conclusion for the pension fund



05

Other Reporting Issues



Other Reporting Issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

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

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

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We plan to perform the procedures required in December. This will be after the deadline of 13 September due to the delay in the completion of the Authority's audit. We issued our audit report on the Authority and Group and Pension Fund on 7 November 2019.

As our audit of the Whole of Government Accounts has not been completed, we were not able to issue the audit certificate at the same time as the audit opinion. We are planning to complete this work in December 2019.

Other powers and duties

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

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



Other Reporting Issues (cont'd)

Other matters

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

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

We reported two control observations in our Audit Results Report for the Authority:

- Our testing of property, plant and equipment has identified a number of audit differences as set out in our Audit Results Report. Individually and cumulatively these were significant, and resulted in a material error in the draft financial statements. We consider that these differences arose as a result of the Authority:
 - Failing to appropriately consider the implications of assets subject to re-development as part of the significant regeneration project being undertaken throughout the borough on the classification and valuation; or
 - Not informing the valuer of the full facts and circumstances relating relevant to the value of those assets.
- Completion of our audit procedures identified a control issue related to the records maintained to support the exit packages disclosures in the accounts. There were a number of errors in the note included in the draft accounts presented for audit. Although these were corrected in the final set of accounts, the Authority struggled to find some of the supporting evidence related to these payments. These are sensitive payments and the Authority should ensure that robust and accurate records are produced and retained when these payments are made.



06

Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the audit of the Authority and Pension Fund included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Planning Reports.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p><i>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</i></p> <p><i>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</i></p>	<p>Until the 2020/21 Accounting Code of Practice for Local Authorities or a forthcoming provisions paper is issued by Cipfa there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> • new definitions of assets, liabilities, income and expenses • updates for the inclusion of the recognition process and criteria and new provisions on derecognition • enhanced guidance on accounting measurement bases • enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



Page 35

08 Audit Fees

Audit Fees

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

We confirm that we have not undertaken non-audit work outside the NAO Code requirement, although we will be undertaking certification work in relation to the Authority's housing benefit claim, housing pooling return and Teachers Pension return. We are satisfied that this work does not represent an independence risk.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Proposed Final Fee 2017/18
	£	£	£	£
Total Audit Fee - Code work Authority accounts	Note 2	116,920	116,920	Note 1 180,903
Non-audit work - claim certification for the Authority	22,500	22,500	N/A	15,080
Total Audit Fee - Code work on the Pension Fund	16,170	16,170	16,170	21,000

Page 36

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

Note 2 - We have undertaken additional work in relation our significant risks, and identified a number of significant audit differences in relation to the valuation and classification of property, plant and equipment. We our currently finalising the additional fee proposed for this work and will discuss these with management in advance of submission for approved by PSAA.

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EY-000070901-01 (UK) 07/18. CSG London.

Page 37



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