

London Borough of Havering

*External audit plan 2014/15 for the statement of
accounts and pension fund accounts audits*

DRAFT

Government and
Public Sector

February 2015

Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 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.

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Executive summary

Background

We have prepared this audit plan to provide the Audit Committee of the London Borough of Havering (the 'Authority') with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ended 31 March 2015.

This document also includes our planned audit approach to the audit of the pension fund accounting statements.

Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We will continue to update our risk assessment during the course of the audit, especially after our interim visit. We will present to management and the Audit Committee any changes we make.

We look forward to discussing our report with you on 11 March 2015. Attending the meeting from PwC will be Ciaran McLaughlin.

Our Responsibilities

Our responsibilities are as follows:

Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).

Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

Audit approach

The PwC Audit

Our unique methodology involves our people, a tailored audit approach and our use of technology. The core elements of our audit are outlined below:

1. Client acceptance & independence
2. Deep business understanding
3. Relevant risks
4. Intelligent scoping
5. Robust testing
6. Meaningful conclusions

PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.



Smart People + Smart Approach + Smart Technology = The PwC Audit

Client acceptance & independence

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance system' which highlights an overall engagement risk score and highlights areas of heightened risk.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out in Appendix A the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

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

Deep understanding of the Authority

The Authority is operating in an increasingly challenging environment where many Local Government organisations are facing a continued reduction in funding from central government and increasing demand for their services, in particular in relation to social care, and demographic pressures in Children's services. The Authority has a £6m budget gap in the years 2017/18 and 2018/19 and is considering how it closes this gap.

Our risks identified later in this plan have been considered in the above context.

Relevant risks

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

● **Significant** Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.

● **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2015.

Main Council Audit

Risk

Management override of controls

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.



Categorisation

Significant ●

Audit approach

As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.

We will perform procedures to:

- Test the appropriateness of journal entries and other adjustments to the general ledger.
- Test accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions.
- Consider if there have been significant transactions outside the normal course of business, and if there have, whether their rationale suggests fraudulent financial reporting or asset misappropriation.
- Test that expenditure has been recorded in the correct financial year.
- Consider whether any segregation of duties weaknesses give rise to a significant risk of material misstatement.
- Test that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement are in accordance with statute.
- Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and
- Perform unpredictable procedures targeted on fraud risks.

We will also understand and evaluate controls relevant to management override risks identified above.

We may perform other audit procedures if necessary.

Risk	Categorisation	Audit approach
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p>	<p>Significant ●</p>	<p>We will perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p> <p>For income, we consider that sales, fees and charges are areas of significant risk. We do not consider grant income, Council Tax and Business Rate income or interest income to be significant risks.</p> <p>For expenditure, we consider that non payroll service expenditure is an area of significant risk. We do not consider that housing and council benefits, payroll expenditure, depreciation and impairment, pension costs recognised due to the requirements of IAS 19, or interest expenditure to be significant risks.</p> <p>We will:</p> <ul style="list-style-type: none"> ● Evaluate the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. ● Conduct tests of detail to obtain a high level of assurance over the significant risks described above. ● Conduct tests of detail over accounting estimates for income and expenditure (for example, provisions). ● Obtain an understanding and evaluate the controls relevant to the significant risks described above. <p>We will conduct tests of detail to obtain a high level of assurance over the significant risks described above.</p> <p>We are also considering recent guidance from the Financial Reporting Council on the audit of complex supplier arrangements, and whether there is any action we need to take in respect of our audit of the authority. We will provide a verbal update to the audit committee on this matter.</p>

Risk	Categorisation	Audit approach
<p>Oracle system</p> <p>The Council has moved to a new single instance of Oracle during 2014/15</p>	<p>Elevated ●</p>	<p>We will undertake the following work to address this risk:</p> <ul style="list-style-type: none"> • Understand & evaluate the controls in place around the migration, (was there a project plan in place, were the appropriate migration validation tests carried out?) • Understand the changes to and update our understanding of business process controls via walkthroughs. • Understand the changes to the IT environment. • Test the migration of data to ensure completeness and accuracy of transferred data. We will enquire of management and document the controls in place to ensure the complete and accurate transfer of data. • Test the opening Trial Balance (TB) on the upgraded system to ensure that it agrees to the closing TB on the old system. • Review Internal Audit’s work in relation to the controls in the new system and consider the impact on our audit approach of any issues arising.
<p>Accounting for schools</p> <p>CIPFA’s Local Authority Accounting Panel has issued a bulletin (“LAAP 101”) that provides guidance on the accounting treatment of non-current assets used by schools.</p> <p>LAAP 101 notes that ‘it is generally the case that for religious schools, non-current assets (such as the school buildings) are not owned by the school but by another legal body’.</p> <p>The Council therefore needs to carry out an exercise to ensure that it applies the guidance in LAAP 101 to its schools.</p>	<p>Elevated ●</p>	<p>We will audit the authority’s approach to addressing the guidance in the LAAP bulletin.</p> <p>We will check that the authority has obtained sufficient evidence to enable it to form a conclusion as to whether the non-current assets of individual schools should be included within its balance sheet.</p>

Risk	Categorisation	Audit approach
Valuations of Property, Plant and Equipment (PPE) and Investment Properties	Elevated ●	<p>As at 31 March 2014, the value of the PPE portfolio was £713.1m, and the Council held £34.6m of Investment Properties.</p> <p>We will:</p> <ul style="list-style-type: none"> • Challenge how management has satisfied itself that the key assumptions driving the revaluation of PPE and Investment Property at 31 March 2015 are appropriate for the circumstances of the Council; • Utilise our own valuation experts to review the work of the valuation experts engaged by the Council; • Test the source data used by the valuation experts engaged by the Council; and • Challenge how management has satisfied itself that the element of the PPE portfolio not subject to a formal revaluation as at 31 March 2015 is materially correct.

Value for Money Conclusion

Risk

Savings Plans – financial resilience criterion

The Council in common with many local authorities is experiencing increased pressures on many of its budgets. Current and forecast reductions in funding and changing demand for services require the Authority to deliver significant savings in the current and future years. Budget holders may feel under pressure to try and push costs in to future periods, or to miscode expenditure to make use of resources intended for different purposes.

There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.

Categorisation

Significant ●

Audit approach

We will review your medium term financial plan and consider:

- how you manage the plan, and will investigate the reasons behind any significant variations from the plan;
- how arrangements in onesource contribute to financial governance, financial control and financial planning;
- your record in delivering savings;
- the governance structure in place to deliver the targets (including extent of Member involvement and capacity of the management team in the context of recent changes to the team);
- the level and extent of accountability;
- project management arrangements;
- monitoring and reporting; and
- progress on delivering the plan.

We will also consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.

Pension Fund Audit

Risk	Categorisation	Audit approach
<p>Management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	Significant ●	<p>We will perform procedures to:</p> <ul style="list-style-type: none">• Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;• test the appropriateness of journal entries;• review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud;• evaluate the business rationale underlying significant transactions; and• perform ‘unpredictable’ procedures. <p>We will also understand and evaluate controls relevant to management override risks identified above.</p> <p>We may perform other audit procedures if necessary.</p>

Risk	Categorisation	Audit approach
<p>Risk of Fraud in Revenue Recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p>	<p>Significant ●</p>	<p>For Pension Fund income, we consider that contributions and investment income are an area of significant risk.</p> <p>We do not consider transfers in to be a significant risk as the amount concerned (£3.9m in 2013/14) is not material to the Pension Fund, but will re-consider this when the 2014/15 accounts are produced.</p> <p>We will:</p> <ul style="list-style-type: none"> • Evaluate the accounting policies for income recognition to ensure that this is consistent with the CIPFA/LASAAC Code of Practice on Local Authority Accounting. • Conduct tests of detail to obtain a high level of assurance over contributions and investment income. • Obtain an understanding and evaluate the controls relevant to contributions and investment income. <p>We will conduct tests of detail to obtain a high level of assurance over the significant risks described above.</p>

Risk	Categorisation	Audit approach
<p data-bbox="604 220 1093 300">Valuation of pooled investment vehicles may be materially misstated</p> <p data-bbox="604 331 1093 603">The pooled investments are held in a pooled fund of funds. These investments are not all publicly listed and as such there is a degree of estimation involved in the valuation. Given that these funds form a material balance within the Pension Fund Accounts, we have identified the valuation of these funds as an elevated risk.</p>	<p data-bbox="1093 220 1377 252">Elevated ●</p>	<p data-bbox="1377 220 2119 252">We will perform procedures to:</p> <ul data-bbox="1377 276 2119 834" style="list-style-type: none"> <li data-bbox="1377 276 2119 331">• Obtain independent confirmation from the fund managers of valuations. <li data-bbox="1377 363 2119 475">• Re-perform the calculation of year-end valuation by multiplying the confirmed number of units by the confirmed unit price and convert by PwC sourced foreign currency exchange rate where necessary. <li data-bbox="1377 499 2119 611">• Obtain evidence that confirmed prices reflect realisable value, by obtaining details of transactions in the fund close to the year-end (where available) and compare the transacted price to the year-end price. <li data-bbox="1377 643 2119 722">• Obtain a copy of fund manager’s report on internal controls and identify whether there are any weaknesses in the controls over the pooled vehicle valuation process. <li data-bbox="1377 754 2119 834">• Obtain the audited accounts for the fund, where available, and compare the audited unit price to the unaudited price provided by the fund manager or custodian.

**Main accounts
overall
materiality:
£12.2m**

**Pension fund
overall
materiality:
£10.1m**

**Triviality for
main accounts
and pension
fund: £500,000**

*Intelligent scoping
Materiality*

	£
Overall materiality – Main accounts	12,200,000
Overall materiality – Pension Fund	10,100,000
Clearly trivial reporting de minimis – Main accounts	500,000
Clearly trivial reporting de minimis – Pension Fund	500,000

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality has been set at 2% of actual gross expenditure for the main accounts and 2% of net assets for the pension fund for the year ended 31 March 2014.

We will update this assessment as necessary in light of the Authority's actual results for the 2014/15 financial year.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. For the 2013/14 we applied a threshold of £500,000.

We would like to seek the Audit Committee's views on this de minimis threshold.

Robust Testing

Where we do our work

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
- Validate key controls relevant to the audit approach; and
- Perform substantive testing on transactions and balances as required.

When we do our work

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

Meaningful conclusions

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the Authority audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights. We will share insights and observations with you in our audit reports throughout the year.

We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

Value for Money Work

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good

Governance in Local Government”. The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

Whole of Government Accounts

We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility	Management's responsibility	Responsibility of the Audit Committee
<p>Our objectives are:</p> <ul style="list-style-type: none">• To identify and assess the risks of material misstatement of the financial statements due to fraud;• To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and• To respond appropriately to fraud or suspected fraud identified during the audit.	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none">• To design and implement programmes and controls to prevent, deter and detect fraud;• To ensure that the entity's culture and environment promote ethical behaviour; and• To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none">• To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and• To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Conditions under which fraud may occur



Your views on fraud

We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Your PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are:

Audit Team	Responsibilities
<p><i>Engagement Leader</i> Ciaran McLaughlin 020 7213 5253 ciaran.t.mclaughlin@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</p>
<p><i>Engagement Director – Pension Fund audit</i> Josephine Maguire 0113 289 4085 josephine.p.maguire@uk.pwc.com</p>	<p>Engagement Director responsible for directing the Pension Fund audit, specifically in respect of audit quality.</p>
<p>Audit Team</p> <p><i>Engagement Senior Manager</i> Chris Hughes 020 7804 3392 chris.hughes@uk.pwc.com</p>	<p>Responsibilities</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, ISA 260 report and Annual Audit Letter.</p>
<p><i>Engagement Team Leader – Main audit</i> Olesya Chikina 0751 152 1825 olesya.chikina@uk.pwc.com</p>	<p>Team leader on the main audit responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.</p>
<p><i>Engagement Team Leader – Pension Fund</i> Ed Nobbs 077 1317 1132 edward.w.nobbs@uk.pwc.com</p>	<p>Team leader on the Pension Fund audit responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs.</p>

Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015.

No changes to the work programme have been proposed therefore scale audit fees for have been set at the same level as the fees applicable for 2013/14.

Our indicative audit fee compared to the actual fee for 2013/14 is as follows:

Audit fee	Actual fee 2013/14 £	Indicative fee 2014/15 £
Audit work performed under the Code of Audit Practice	220,859 (i)	202,459 (ii)
- Statement of Accounts		
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
Pension Fund	24,645 (iii)	24,000 (iv)
Certification of Claims and Returns	22,565	21,570
Total Audit Code work	268,069	246,729
Planned non-audit work (outside of the scope of the Code of Audit Practice)	0	37,750
Total fees (audit and non-audit work)	268,069	284,479

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 use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the statement of accounts;
- We are able to obtain assurance from your management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.

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

Other explanations for the fees in the table are as follows:

- The 2013/14 fee includes £16,029 which is yet to be agreed by the Audit Commission.
- The 2014/15 fee is the scale fee set by the Audit Commission and does not include any additional fees to be agreed with management in respect of the work we need to undertake to obtain comfort over the new single instance of Oracle. We will update the Audit Committee once this matter has been discussed further with management.
- The 2013/14 fee includes £3,645 which is yet to be agreed by the Audit Commission.
- Our 2014/15 fee includes £3,000 which is yet to be agreed by the Audit Commission. This relates to Additional audit work in relation to the additional risk in relation to pooled investment vehicles.
- Planned non audit work is summarised on pages 19 to 20 below.

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We have set out below the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

Other services

Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns within scope of the Audit Commission Code of Audit Practice (Housing Benefit Subsidy)	22,565	<p>Self-Review Threat: The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.</p> <p>There is no self-review threat as we are certifying management completed grant returns and claims.</p> <p>Self-interest threat: fees are not material in relation to the audit fees and PwC's total income.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p>
Work outside the scope of the Audit Commission Code of Audit Practice – procedures on the 2013/14 Teachers' Pensions Return	9,750	<p>Self-interest threat: fees are not material in relation to the audit fees and PwC's total income.</p> <p>Self-review threat: this does not arise as the work we undertook provided reasonable assurance over the accuracy of the teachers' pension return for 2013/14 and will not be relied upon by the PwC audit team as part of the audit of the main accounts for 2014/15.</p>

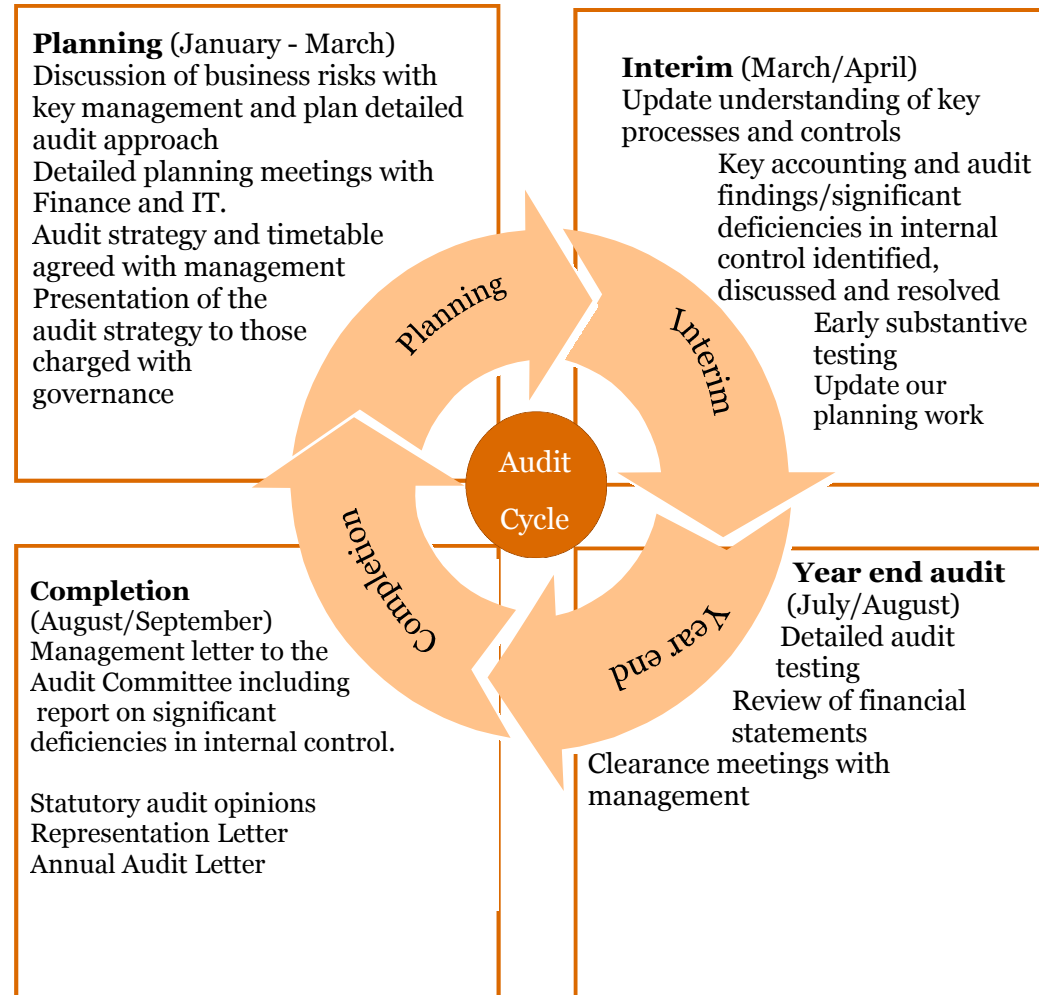
Work outside the scope of the Audit Commission Code of Audit Practice – agreed upon procedures on the 2013/14 Decent Homes funding	8,000	<p>Management threat: this does not arise as PwC are not taking decisions which are the responsibility of management.</p> <p>Advocacy threat: this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client.</p> <p>Familiarity threat: this does not arise as a separate team from the audit team is being used to carry out this work.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p>
Work outside the scope of the Audit Commission Code of Audit Practice – ORACLE gate review	20,000	<p>Self-interest threat: fees are small in relation to the audit fees and PwC’s total income.</p> <p>Self-review threat: this does not arise as the work we undertook was agreed upon procedures in respect of the Decent Homes funding and will not be relied upon by the PwC audit team as part of the audit of the main accounts.</p> <p>Management threat: this does not arise as PwC are not taking decisions which are the responsibility of management.</p> <p>Advocacy threat: this does not arise as the work will be limited to the testing of information provided by the Client and does not result in advocacy. PwC are carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client.</p> <p>Familiarity threat: this does not arise as a separate team from the audit team is being used to carry out this work.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat.</p>

Relationships and Investments

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

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

Appendix B: Communications Plan



Continuous Communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises'
- Continuous evaluation and improvement of the audit
- Bringing you experience of sector and best practice

Appendix C: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

Procedure	Description
Technical updates	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance.</p> <p>These include:</p> <ul style="list-style-type: none"> • A weekly publication covering the week’s accounting and business developments; • A periodic publication providing in-depth analysis of significant accounting developments; and • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2014 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2013/14 audits are expected in 2015 and will be publicly available on the Audit Commission’s website should you wish to take a look.</p>

People

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement leader, engagement directors and engagement senior manager have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2014/15 we anticipate the work will include testing manual journals using data analytics, ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

The use of our delivery centres frees up your audit team to focus on other areas of the audit.

We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.



Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.

Appendix D: 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 which 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

Ciaran McLaughlin, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Ciaran McLaughlin 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.

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Ciaran McLaughlin.

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 Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, 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.



Appendix E: Use of service centres

Private & Confidential

London Borough of Havering
Town Hall
Main Road
RM1 3BB

February 2015

Dear Andrew,

Working more efficiently

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;

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- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Ciaran McLaughlin

Engagement Leader



In the event that, pursuant to a request which the 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. The London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Havering shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the 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.

This document has been prepared only for the London Borough of Havering and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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