
Government and Public Sector
***London Borough of
Havering***
Annual Audit Letter
2010/11 Audit

November 2011

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

November 2011

Ladies and Gentleman

We are pleased to present our Annual Audit Letter summarising the results of our 2010/11 audit. We look forward to presenting it to Members at the Audit Committee meeting on 21 December 2011.

Yours faithfully

PricewaterhouseCoopers LLP

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

In March 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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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2010/11 audit work we have undertaken at the London Borough of Havering that is accessible for the Authority and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2010/11 Statement of Accounts, incorporating the value for money conclusion; and
- Report to those charged with Governance (“the ISA 260 report”).

We shall present our report on the certification of claims and returns to the Audit Committee meeting on 29 February 2012.

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2010/11 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2011.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 26 September 2011. The most significant matters that we discussed with management during the course of our work were in relation to the conversion to International Financial Reporting Standards ("IFRS"), component depreciation and the valuation of the Authority's properties.

IFRS compliance

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom required that the Authority's accounts be produced in accordance with IFRS. 2010/11 was the first year in which the Authority was required to produce IFRS compliant accounts with compliant comparatives. This was a significant challenge for the Authority and we were pleased to report that the Authority provided good working papers to support the adjustments required by the conversion to IFRS.

Component depreciation of property, plant and equipment

IAS 16 – *Property plant and equipment* requires the separate depreciation of components of an item of property, plant and equipment whose cost is significant in relation to the total cost of the item and which have a shorter useful life than the item as a whole.

The Authority did not undertake component accounting of HRA land and buildings. Other items of PPE that were revalued or subject to capital expenditure in the year similarly were not depreciated on a component basis. Our findings in this area were set out in our ISA 260 Report and discussed with the Audit Committee on 21 September 2011.

Management should continue to assess the component accounting policy in accordance with the Code and IAS 16 each year, to ensure appropriate accounting within the Statement of Accounts.

Disclosure of IFRS requirements in the accounts

As part of our year end work, we reviewed the narrative disclosures in the accounts for compliance with the IFRS Code. We communicated several matters to the Authority regarding the presentation of disclosure notes in the accounts and the majority of these items were addressed. We noted that the format of the the Property, Plant and Equipment ("PPE") note does not match the recommended disclosure in the CIPFA Code Guidance Notes and recommended that, for the 2011/12 accounts, the Authority includes the format of the PPE Note as recommended by the CIPFA Code Guidance Notes.

Valuation of property plant and equipment

In response to the requirements of International Standards on Auditing, which were clarified this year to the extent that our work on valuations had to increase compared to previous years, we reviewed the methodology used by management and engaged our internal valuation team to review the valuation methods and assumptions used by the Council's valuers. Our testing did not identify any significant issues to bring to your attention.

We discussed these and other matters arising from our audit with the Audit Committee on 22 September 2011. Further more detailed matters arising have been discussed with the Group Director of Finance and Commerce and included in our Report to Management, referred to below. There are no other matters which we wish to draw to the attention of Members in this Letter.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion was based on 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 issued an unqualified value for money conclusion.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts. We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Pension Fund accounts and annual report

We completed our audit of the Pension Fund accounts and issued an unqualified audit opinion on 26 September 2011. We also provide a separate audit opinion on the accounts and the related information which is included in the pension fund annual report. We issued an unqualified audit opinion on the annual report on 22 November 2011.

Objection to 2009/10 accounts

We explained in our report to those charged with governance, presented to the Audit Committee on 21 September 2011, that our work was still continuing to address the objection to the 2009/10 accounts. As such, we had not issued our completion certificate on either the 2009/10 or 2010/11 audits.

The objection relates to certain leaseholder service charges and is similar in nature to the objection we received to the 2008/09 accounts, for which we issued a report to management in August 2010. Since that time, the Head of Housing has provided reports to the Audit Committee summarising the work the Council has done to address the recommendations in our report. We met with the Head of Housing on 23 November 2011 to discuss the Authority's progress in addressing those recommendations and we understand that the Authority has further meetings planned with the relevant contractor.

At the time of drafting this Letter we are in the process of finalising our work and will update the Audit Committee on 21 December 2011.

Summary of Recommendations

In accordance with the Audit Commission's Standing Guidance for Auditors, we have provided a Summary of Audit Recommendations to the Group Director of Finance and Commerce in our "Report to Management – Summary of Audit Recommendations" report. Our summary includes eight recommendations relating to detailed internal financial control issues and opportunities for improving processes in the preparation of the annual accounts.

Acknowledgement

We would like to record our thanks to the Committee and to management for the co-operation and assistance we received during the course of our audit.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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