



AUDIT COMMITTEE

Subject Heading:	Annual Audit Letter
SLT Lead:	Debbie Middleton
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Policy context:	Audit Committee responsible for approving accounts.
Financial summary:	The audit letter highlights the area of work which was covered within the audit as well as their 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

Our external auditors, Ernst & Young, have issued their annual audit letter to the Committee summarising the results of their 2016/17 audit.

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:
 - 2.1 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 27 September 2017 and their certificate was issued on 30 October 2017 upon completion of their Whole of Government Accounts work.
 - 2.2 The auditors are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and considered this in issuing an unqualified opinion.
 - 2.3 The auditor recognises the increasingly challenging financial environment in which the Council is operating and Page 17 of their report identifies one significant risk in relation to "*the deployment of resources in a sustainable manner and working with partners and other third parties*". In their assessment, they reiterated the need for the Council to deliver on its agreed savings plans in order to keep the Medium Term Financial Plan on track. As part of the audit report, Page 27 highlights the auditors observation of the authority's Medium Term Financial Strategy. These are summarised below.
 - The Council has set a balanced budget for 2017/18, but identifies a cumulative budget gap of £9.2 million in the period 2018/19 – 2019/20 (before allowing for the effect of any increases in Council Tax).
 - The Council's general fund expenditure was delivered in line with overall approved budget for 2016/17 as the overspend services was covered by the Council's corporate risk budget.

- The Council's 2017/18 budget includes the planned use of £1.8m of the corporate risk budget to support directorates in delivering their transitional plans to mitigate against demand led expenditure pressures.

2.4 Control themes and observations from the auditors are identified from page 20 of their letter:

Ref	Control Deficiency	Management response
CO1	There were a number of areas where the Council found it difficult to provide us with transaction listings for certain classes of debtor and creditor balances and income and expenditure transaction streams. This caused delays in the completion of our testing.	The auditors method of sampling balances during the audit differed from previous audits as a result it took time for the council to gather the required information. Once received, the information was sufficient and the auditors carried out the testing with no additional queries or errors found. Revised processes are being undertaken from both the auditors and the council. The auditors are revising the Client Assist schedule that details the information requirements for the audit and the council is placing new procedures in order to capture the required information throughout the year.
CO2	While the Council had issued a letter to its valuer setting out the relevant guidance to be followed in valuing assets, it had not formally recorded details of those assets subject to valuation, or how those assets were categorised: For example, by setting out how the asset was used, and whether or not it was to be treated as an investment property, held for sale, or surplus. This information was instead provided to the valuer through a series of meetings between the Council's property team and its valuer. Where formal instructions aren't issues to the valuer on an annual basis, there is a lack of a clear audit trail supporting valuation work and the risk of misunderstandings between the valuer and authority is increased.	The council engages Wilks, Head and Eve LLP to value its property assets. The auditors identified that insufficient documented instructions were given to the valuers. For 2017/18 a full list of assets to be valued has been sent to Wilks, Head and Eve to mitigate the risk of incorrect classification and our valuation bases.

Ref	Control Deficiency	Management response
CO3	<p>The Council engaged a third party to calculate its provision for future losses of non-domestic rates income arising as a result of successful appeals against non-domestic rate values. We found that the Council had not sufficiently challenged its expert on assumptions made in calculating this estimate, although our subsequent testing of this provision did not identify any further matters to bring to the attention of the Committee.</p>	<p>The Council commissioned Analyse Local (AL) to provide specialist advice in order to enable the Council to derive an accurate estimate of potential losses arising from business rates appeals. As this value has a direct impact on the amount of available resources, the Council felt that this data was more accurate than the base data provided by the Valuation Office Agency. We reviewed the information received from Analyse Local, and were satisfied with the submission. AL provide this service to approximately 150 local authorities across the country, and have advised us that no issues have been identified by any of these auditors. This was also the case for Havering, where no issue was identified in the calculation or data set. We therefore disagree that this is a control deficiency. However, the Council will undertake to document its review findings in future, to evidence that such due diligence takes place.</p>

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. There are no financial consequences 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 areas of legal and financial risk but the management responses set out how these can be managed.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Report to those charged with governance 2016/17 - International Standard of Auditing – Report to Audit Committee, September 28th 2017

Appendix A

London Borough of Havering

Annual Audit Letter 2016/17