



London Borough of Havering
Audit results report

Year ended 31 March 2020

24 February 2021



EY

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24 February 2021



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

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of the London Borough of Havering for 2019/20.

As set out on pages 5 and 6, a number of issues have arisen as a result of Covid-19 which impacted on our audit. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Although we are proposing no qualifications or modifications to our audit report, we do need to consider whether we need to include in our audit report an emphasis of matter which draws attention to the disclosures included in the Council's financial statements as a result of Covid-19. These include assertions on going concern and material uncertainty expressed by the Council's professional valuer on the valuation of the Council's other land and buildings and investment property in response to the uncertain market conditions as at the balance sheet date. We need to consult internally on this issue.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 24 February 2021.

Yours faithfully

Debbie Hanson

Associate Partner
For and on behalf of Ernst & Young LLP

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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).

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 Audit Results Report is prepared in the context of the Statement of responsibilities. 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 Hywel Ball, 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

Scope update

In our Audit Planning Report, presented at the 28 July 2020 meeting of the Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan, with the following exceptions:

Changes to reporting timescales - As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited financial statements from 31 July to 30 November 2020 for all relevant authorities.

Changes to the scope of our audit as a result of Covid-19 – In addition to the impacts from Covid-19 detailed in our Audit Planning Report, we set out the following changes to our risk assessment:

Changes to significant and higher inherent risks

- Valuation of land and buildings (part of the property, plant and equipment balance in the accounts) and investment property – The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impacts, in particular, on investment properties and any other land and buildings valued at fair value due to the uncertainty over the future of rental income and predicted yields. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings and investment property. We had already identified the valuation of investment property as a significant risk and the valuation of land and buildings as a higher inherent risk in our Audit Planning Report.

One other area to bring to your attention as a result of Covid-19:

- Adoption of IFRS 16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. This is therefore not an area of audit focus for 2019/20.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of 1.8% of gross expenditure, we recalculated our overall group materiality assessment and this remains at £10.3 million (Audit Planning Report – £10.3 million). Our performance materiality, at 75% of overall materiality therefore remains £7.7 million and our threshold for reporting misstatements also remains £0.518 million.

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.



Executive Summary

Scope update

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19:

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. In addition, following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, EY (in common with other firms) introduced a rigorous consultation process for all auditor reports to ensure that we are providing the appropriate assurance to the readers of financial statements.

We have noted the impact of the above issues on our audit fee at Section 9.

Executive Summary

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report as set out in Section 2. We have set out in Appendix B the areas that remain to be completed and the reasons. Based on the work completed to date, we have not identified any issues that would lead to a qualified audit opinion. However, until all of our work and Associate Partner review has been completed, and we have completed our consultation processes in relation to the impact of Covid-19 on financial statement disclosures, we are not able to confirm the final form of our audit report.

We are currently consulting internally on whether our audit opinion will need to include emphasis of matter in relation to the following areas. An emphasis of matter is not a modification or qualification of our audit report and merely directs a reader's attention to a disclosure in the Council's financial statements:

Going concern disclosure:

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over local government funding as a result of Covid-19 increases the need for the Council to undertake a detailed assessment to support its assertion and evaluate its financial resilience, and to include commentary in the financial statements about the risks and uncertainties regarding its financial position. Management included disclosure in relation to the preparation of the accounts on a going concern basis within the draft financial statements. We reviewed this disclosure and asked the Council to expand the disclosure. We are currently completing our review of these updated disclosure and our associated going concern procedures. This includes review of supporting working papers and challenge of the assumptions underpinning management's assessment, as well as consulting internally on the adequacy of these disclosures.

Land and buildings and Investment property valuations:

The Council's valuers have followed the RICS guidance and included material uncertainty statements in their valuation reports for the year ended 31 March 2020. Following our review of the draft financial statements, the Council has amended the disclosure relating to estimation uncertainty to make reference to this material uncertainty. We are currently reviewing this amended disclosure and supporting information. We will also need to consult internally on the adequacy of this disclosure and whether we need to include an emphasis of matter in our audit report in relation to the material uncertainty included in the valuers report and the reference to this in the Council's financial statements.

We have carried out procedures to satisfy ourselves that the land and building and investment property valuations within the Council's financial statements are supportable and not materially misstated.



Executive Summary

Audit differences

To date, we have identified two reclassification adjustments, one of which has been adjusted by management and one which management have chosen not to adjust due to materiality. The net impact of the reclassifications identified in the accounts were both nil. Further details are provided in Section 4.

Further differences may arise in relation to the outstanding areas noted in Appendix B. An update will be provided to the Audit Committee on any new differences identified subsequent to the release of this report.

We have also identified a small number of disclosure differences which management has agreed to amend.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Risk	Findings & Conclusions
Misstatements due to fraud or error (management override)	At the time of writing, the work on journals and estimates are still ongoing. We will provide a verbal update during the Audit Committee concerning this matter.
Incorrect capitalisation of revenue spend	We have completed our audit work on capital additions and have not identified any misstatements.
Valuation of investment properties	<p>We have identified, verified and tested the significant assumptions used by the Council's valuer with the assistance of our specialist, EY Real Estates team, and identified no issues.</p> <p>Following our review of the draft financial statements, the Council amended the disclosure relating to estimation uncertainty to make reference to the material valuation uncertainty included in the valuers report. We are currently reviewing this amended disclosure and supporting information. Once completed we will need to consult internally on the associated disclosures included in the accounts and the potential emphasis of matter in our audit report in relation to this disclosure.</p>
Valuation of land and buildings	<p>We have completed our review of land and building valuations, including a review of assets not revalued in year. We have not identified any material misstatements based on the work completed. This is subject to review by Manager and Associate Partner.</p> <p>In the same way as for investment properties, we are reviewing the amended disclosure and supporting information relating to the material valuation uncertainty included in the valuers report and will need to consult on the associated potential emphasis of matter in our audit report.</p>
Pensions liability valuation	<p>We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. We confirmed that the changes to the arrangements did not have a material impact for the London Borough of Havering for the year ended 31 March 2020.</p> <p>We have not yet received the formal assurance report from the Havering Pension Fund Auditor. However on the basis of the information we have been provided with to date, we have considered the impact of the difference in the valuation of investments asset values reported by the Pension Fund Auditor which are due to the values in the pension fund accounts being based on the actuary's estimate. We are satisfied that the impact of these differences is not material to the Council and the pension liability is therefore materially accurate.</p>

Executive Summary

Areas of audit focus

Our Provisional Audit Planning Report and Update identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Risk	Findings & Conclusions
Accounting for the Council's regeneration assets	We have completed our work in this area and have not identified any issues.
Group financial statements	Our work on confirming the material accuracy of the group consolidation is largely completed, and are currently concluding on the consolidation reclassification in the Council's Group accounts. We are also waiting for some assurances and responses from the auditors of Bridge Close.
Going concern disclosure	<p>Management included a going concern disclosure within the draft financial statements in Note 1, Accounting Policies. We have reviewed the initial disclosure and requested that management made a number of enhancements to this.</p> <p>We are currently completing our review of the updated disclosure and our associated going concern procedures. This includes review of supporting working papers and challenge of the assumptions underpinning management's assessment. Once complete we will need to consult internally on the adequacy of these disclosures and whether we need to include an emphasis of matter to draw attention to the disclosure. This is not a modification or qualification to our audit opinion.</p>

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the committee.

Executive Summary

Control observations

We have identified one control issue which we wish to bring to your attention related to the proper maintenance of contract registers. Our testing identified a number of contracts that had been extended but we were unable to agree the total amount of these contracts in the contract registers. There was also a contract which had no completion date included in the contract registers. We recommend that the Council reviews its processes for maintaining and updating its contracts register to ensure information is accurate and complete.

Value for money

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, we noted that we had identified significant risks in relation to:

- Financial planning and the achievement of savings in the medium term; and
- The governance of the regeneration schemes being delivered through the joint ventures;

We have completed our work on these areas and have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. We have however noted some areas for improvement as included in Section 5.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

Alongside our work on the financial statements, we will also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. The Council is above the £500 million threshold for review in line with the NAO's group instructions. We will complete our work on the WGA return once we have concluded our audit of the financial statements. We are not able to issue our certificate of conclusion of the audit until we have completed this work.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (management override)

What is the risk?

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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- Identified fraud risks during the planning stages;
- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Determined an appropriate strategy to address those identified risks of fraud; and
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates, such as the provisions for the impairment of bad debts and business rates appeals, for evidence of management bias, and evaluating the business rationale for any significant unusual transactions.

What are our conclusions?

Our testing of journals and estimates is ongoing at the time of writing. We will provide a verbal update during the Audit Committee concerning this matter.

We have also tested other material estimates such as the pensions liability and land and building and investment property valuations and have not identified any issues with these estimates



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

In considering how the risk of management override may present itself, we concluded that 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 Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

Confirming additions to property, plant and equipment and investment property has been correctly classified and meet the relevant criteria.

What did we do?

We:

- Sample tested additions to property, plant and equipment and investment property to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- Reviewed and tested Revenue Expenditure Funded from Capital Under Statute (Refcus), to verify that revenue costs have not been inappropriately funded from capital.
- Tested year end journals which move expenditure from revenue to capital.

What are our conclusions?

We have completed our work on additions and Refcus and have not identified any expenditure that were incorrectly capitalised.



Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

The Council's investment properties represent a significant balance in the Council's accounts and are subject to valuation changes and impairment review.

Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports. This impacts, in particular, on investment properties valued at fair value due to the uncertainty over the future of rental income and predicted yields.

As this balance is material, we have identified the risk of material misstatement of the value of these assets as a significant risk in the Council's 2019/20 financial statements.

What did we do?

- Considered the work performed by the Council's valuer over the Council's assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Assessed the classification of the assets and whether the appropriate valuation basis has been applied;
- Sample tested key asset information used by the valuer in performing their valuation, and agreed this to what had been recorded in the fixed asset register and general ledger.
- Tested accounting entries had been correctly processed in the financial statements;
- Ensured that appropriate disclosure had been made in the financial statements concerning the material uncertainty relating to year end valuations; and
- Engaged our internal valuation experts to assist in our review of whether the key assumptions in relation to the valuation of investment property are within an acceptable range based on comparative market data.

What are our conclusions?

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.

The Council's external valuer, Wilks Head & Eve (WHE) have reported on the basis of 'material valuation uncertainty' as per VPS 3 and VGPA 10 of the RICS Red book Global. Consequently, less certainty- and a higher degree of caution attached on their review and valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, WHE recommended to keep the portfolio's valuation under frequent review.

We have identified, verified and tested the significant assumptions used by the Council's valuer with the assistance of our specialist, EY Estates Real Estates. All significant assumptions and values are found to be supportable and the resulting valuations within range.

We also considered the adequacy of the disclosure in the draft accounts as a result of the material uncertainty clause referred to above. We requested amendments to this disclosure to make reference to this and are currently reviewing the updated disclosure. We will need to consult internally in relation to this disclosure and the potential emphasis of matter in our audit report in relation to this. For clarity, this is not a modification or qualification to our audit opinion.

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

Valuation of land and buildings

The value of land and buildings, which is the main element of property, plant and equipment, represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's valuer.

We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings.

What did we do?

We:

- Checked the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted;
- Assessed the expertise and independence of management's valuation specialist by confirming their qualifications, experience in the sector and the terms of their engagement with the Council.
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Checked the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom for property, plant and equipment.
- Identified assets not subject to valuation in 2019/20 and applied indices to confirm that the value of these assets had not changed materially since the last valuation date in order to confirm that the remaining asset base is not materially misstated.
- Reviewed the fixed asset register and confirmed there had been no significant changes to useful economic lives as a result of the most recent valuation.
- Tested that accounting entries have been correctly processed in the financial statements.
- Carried out procedures to satisfy ourselves that the property valuations are reasonable in light of the material uncertainty statements in their valuation reports for the year ended 31 March 2020, including engaging our own internal valuation experts to review a sample of valuations.
- Requested enhanced disclosure around this material uncertainty to be included within the estimation uncertainty note in the Council's financial statements.

We have completed the work above and our findings are set out on the following slide.

This work is still subject to Manager and Associate Partner review.

Areas of Audit Focus

Other areas of audit focus (continued)

Conclusion

Valuation of land and buildings

- We are satisfied that assets have been correctly classified and valued on an appropriate basis.
- We are satisfied that the scope of the work performed by the Council's valuer is appropriate and within their professional capabilities.
- Our sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) has not identified any issues.
- We are satisfied that the annual cycle of valuations ensures that assets have been valued within a 5 year rolling programme as required by the Code for Property, plant and equipment.
- Our work in respect of reviewing assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated has not identified any material differences.
- We did not identify any changes to useful economic lives as a result of the most recent valuation.
- We confirmed that accounting entries have been correctly processed in the financial statements.

Based on the procedures completed, we have not identified any material errors in the valuation of the Council's land and buildings included in the property plant and equipment balance in the financial statements. The work is currently in review with Manager and Associated Partner.

We note that the Council's valuations were undertaken as at November 2019 and we have therefore undertaken additional procedures to gain assurance that there are no material changes to asset values as at 31 March 2020. This is particularly relevant in light of the potential impact of Covid-19 on land and building values and the RICS guidance on material uncertainty disclosures to be included in valuation reports relating to 31 March 2020 valuations. Based on the procedures we have undertaken, we are satisfied that the property valuations are reasonable in light of the material uncertainty statement in the valuation reports for the year ended 31 March 2020.

We have asked the Council to enhance its disclosure around the valuers material uncertainty within the estimation uncertainty note in the Council's financial statements. The Council has provided an updated disclosure which we are currently in the process of reviewing to confirm its accuracy.

We are also consulting internally in relation to the adequacy of these disclosures and the associated potential emphasis of matter in our audit report. For clarity, this is not a modification or qualification to our audit opinion.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020, this totalled £423 million (31 March 2019 - £539 million).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Havering Pension Fund. For example private equity investments, where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.

What did we do?

We:

- Liaised with the auditor of the Havering Pension Fund to obtain assurances over the information supplied to the actuary in relation to the London Borough of Havering.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC, being the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY Pensions actuarial team.
- Considered the movement in fund asset values between the actuary's estimate and year end.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We have considered the information provided by the EY Pensions actuarial team and are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable.

We considered the Council's response to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. This consultation introduced a requirement for members to have been members of the scheme on or before 31 March 2012 and on or after 1 April 2015 to be eligible for remedy.

Our EY Pensions team has reviewed the approach taken by the Pension Fund actuary, Hymans Robertson, and confirmed that they would expect the McCloud impact to be close to nil due to the salary increase assumption being equal to the CPI. We are therefore satisfied that the IAS 19 report used in the preparation of the draft financial statement is based on appropriate assumptions. We have also considered the impact of another recent legal ruling (referred to as Goodwin) and are satisfied based on the current guidance we have that the impact of this is not material to the Council's financial statements. Therefore no adjustments are required.

We will also consider the assurance report from the Havering Pension Fund Auditor once finalised. Based on the information we have received to date, we have considered the impact of the difference in the valuation of investments asset values reported by the Pension Fund Auditor which are due to the values in the pension fund accounts being based on the actuary's estimate. We are satisfied that the impact of these differences is not material to the Council and the pension liability is therefore materially accurate.



Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Accounting for the Council's regeneration assets

Our 2018/19 Audit Results Report noted that our testing of property, plant and equipment identified a number of significant audit differences which resulted in material errors in the draft financial statements. These differences arose as a result of the Council 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 of assets and failing to inform the Council's valuer of the full facts and circumstances relating relevant to the valuation of those assets.

The Council's regeneration programme has continued during 2019/20 and therefore there is a risk that changes in the status of assets and resulting valuation will again be material.

Group financial statements

The Council 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.

The Council 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). If they are consolidated as this will be the first year of consolidation for the joint ventures there is a risk that they may not be prepared accurately.

What did we do?

We:

- Identified those assets relating to the Council's regeneration programmes;
- Considered the classification of these assets to confirm this is in line with their current usage and CIFPA Code requirements;
- Ensured the valuation basis adopted is appropriate; and
- Reviewed the associated accounting treatment.

Our work did not identify any issues.

We:

- Considered the Council's assessment of whether these arrangements should be reflected within its group financial statements and agreed with the Council's assessment to consolidate the three joint venture arrangements
- We reviewed the associated disclosures in the financial statements and concluded they were appropriate.

Our work on confirming the material accuracy of the group consolidation is largely completed, and are currently concluding on the consolidation reclassification in the Council's Group accounts. We are also waiting for some assurances and responses from the auditors of Bridge Close.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Going concern disclosures

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What did we do?

We have:

- Reviewing management's going concern assessment in the draft financial statements. We asked management to make a number of amendments and enhancements to the disclosure, in particular to include reference to the estimated future levels of reserves and cash and liquidity. Management have provided an updated assessment which includes this information.
- Read the Narrative Report and financial statement disclosures in relation to the financial statements being prepared on a going concern basis to ensure that they were consistent with our knowledge of the Council's financial position

We are currently in the process of completing our:

- Review, testing and challenge of supporting evidence provided by management to assess the reasonableness of projections of the financial impact of Covid-19 on the Council in 2020/21 and 2021/22.
- Testing and assessing the reasonableness of the Council's cash flow forecasts to March 2022.
- Checking the levels of current and proposed borrowing against the Prudential Borrowing Limit to confirm that the Council plans to remain within that limit;
- Stress testing and undertaking sensitivity analysis on the Council's assumptions, taking into account the levels of additional expenditure and lost income in 2020/21.

At the time of writing, we are currently completing our going concern procedures as noted above. Once complete we will need to consulting internally on the adequacy of going concern disclosures and whether our audit report needs to include an associated emphasis of matter in relation the this matter. We will update the Committee if any further matters arise as a result of the consultation.



03 Audit Report

Draft audit report

Our DRAFT opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING - DRAFT

Opinion

We have audited the financial statements of London Borough of Havering for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 45,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 5
- the Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Havering and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of

London Borough of Havering and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter, Material Uncertainty on valuation of Property, Plant and Equipment and Investment Properties (if required)

We draw attention to Note 3 to the financial statements which describes the consequences London Borough of Havering is facing as a result of COVID-19 impacting disclosures of an uncertainty in the valuation basis for Property, Plant and Equipment and Investment Properties. Our opinion is not modified in respect of this matter.

Emphasis of matter – Going Concern (if required)

We draw attention to Accounting Policies, Note 1 - Going Concern section of the financial statements which describes the financial and operational consequences London Borough of Havering is facing as a result of COVID-19 and the additional cost pressures that this presents. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or



Audit Report

Our opinion on the financial statements

- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, London Borough of Havering put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our opinion on the financial statements

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the Chief Operating Officer's Responsibilities set out on page 17, the Chief Operating Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Operating Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the London Borough of Havering had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



Audit Report

Our opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Havering had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of London Borough of Havering as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Havering and members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted in Appendix B of this report. An update will be provided to the Committee new differences identified, if any subsequent to the release of this report.

Summary of adjusted differences

We identified the following audit adjustments that have been adjusted through the course of our audit based on the work completed to date.

The reclassification of changes in the value of investment property amounting to a £1.352 million reduction in value: currently classified under ‘Other Service Expenditure’ which should be classified under ‘Interest and Investment’. The net impact of the reclassification in the overall surplus is nil.

We also identified some disclosure adjustments and management has agreed to amend for all disclosure adjustments.

Summary of unadjusted differences

We have identified the following audit differences in the financial statements and/or disclosures which were not corrected by management based on our work completed to date.

A reclassification of payment of £0.6 million relating to Health Authority Debtors that was credited to Other Sundry Debtors. The net impact of the reclassification to Debtors accounts is nil.



05

Value for Money



Value for Money

Background

We are required to consider whether the Council 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.

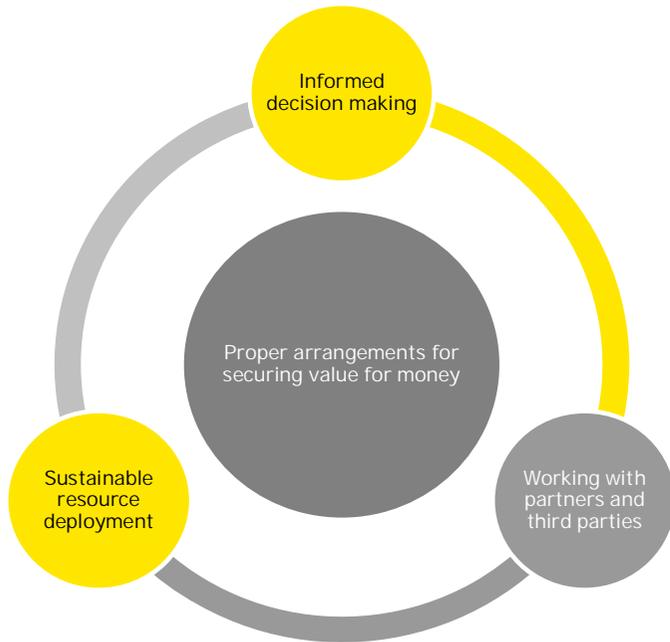
For 2019/20 this is based on the overall evaluation criterion:

"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.



Impact of Covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 value for money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 value for money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 value for money arrangements conclusion.

Overall conclusion

We identified the following areas as potential significant value for money risk in our Audit Plan:

- Financial planning and the achievement of savings in the medium term.
- The governance of the regeneration schemes being delivered through the joint ventures.

Following completion of our planning procedures we concluded that financial planning and the achievement of savings in the medium term was not a risk.

We considered the updated guidance from the NAO and did not identify any additional risks as a result of Covid-19

We have completed our work to address the risk of the governance of the regeneration schemes identified above as outlined on the following slides and have no issues to report in relation to the Council's arrangements for value for money.



What is the significant value for money risk?

Governance of the regeneration schemes being delivered through the joint ventures

In 2018, the Council entered into 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.

Funding these schemes committed the Council to significant levels of borrowing. Given the significance of these decisions to the Council's strategic, operational and financial priorities, the effectiveness of the related governance and risk management arrangements is clearly important.

The JVs had limited activity in the financial years prior to 2019/20 2018/19. Now that the levels of activity are increasing and will become highly material there is a risk that governance arrangements may not be adequate to protect and support the Council's strategic, operational and financial priorities. The effectiveness of the governance and risk management arrangements related to the operation and management of these JVs are critical.

What arrangements did the risk affect?

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

What did we do?

We reviewed the arrangements relating to the three JVs to assess whether:

- the Council has proper governance arrangements, which give it access to appropriate and reliable financial and performance information relating to the housing regeneration schemes, which it uses to take informed decisions;
- the Council is working effectively with the JVs to deliver its intended strategic priorities from the housing regeneration schemes (i.e. affordable housing and income); and
- the Council's financial plans appropriately reflect significant changes to the funding / benefits expected from the housing regeneration schemes.

In undertaking our work we focused on Bridge Close, 12 Sites, Rainham and Beam



What is our conclusion?

The Council has put in place effective governance and risk management arrangements related to the establishment and management of the JVs

We did however note some areas for improvement in relation to the level of formal communication with Cabinet in relation to the issue with Bridge Close. The Council should consider ensuring that more regular formal communications and updates are provided to members on the progress of the JV and any future issues that may arise.

We also noted that due to the annual financial planning processes of the Council it was not clear how changes to the schemes which may have a future financial impact on the Council are taken into account in formal decision making throughout the year. The Council may therefore want to consider how the impact of such issues are reflected in the Council's medium term financial plans where significant issues emerge between the annual MTFS updates.

What are our findings?

Governance arrangements:

The Council has appropriate governance arrangements, with a robust governance structure in place to deal with its regeneration programmes. The Client Board and Regeneration Board have been specifically created to monitor performance and to ensure the right level of scrutiny of JV matters. These arrangements gave the Council access to detailed information which included both financial and non-financial data. The flow of the information between the different levels of the governance structure provides the Council with the ability to take informed decisions.

The governance structure in place to monitor the activity of the JV allowed for consistent communication and access to information through periodic meetings and discussions in relation to the issues with the Bridge Close scheme. Formal reporting to Cabinet on in relation to the Bridge Close issue during 2019/20 was however very limited, although there is evidence that regular briefings were provided for Members in the intervening periods to ensure Members were fully aware of the issues regarding the scheme. The governance structure in place to monitor the activity of the JV also allowed for consistent communication and access to information through periodic meetings and discussions, where the Council considered several remedies once the viability issue had been identified in relation to Bridge Close.



What are our findings?

Effectiveness of partnership working:

Our review showed the Council worked effectively with the JVs to deliver its objectives for the 12 Sites, Rainham and Beam projects. This was evidenced by a good record of communication and delivering the milestones as set by the regeneration objectives.

During 2019/20 however, difference emerged between the Council and the JV in relation to the visions and priorities for Bridge Close. These differences were clarified in September 2019 when a change to the housing mix was formally proposed by the JV to enable achievement of a more commercial margin. The Council considered several remedies once the viability issue had been identified. However, no solution was reached that would satisfy both the commercial expectations of the private sector partner and the Council's commitment to regeneration priorities. Cabinet approved the proposal to acquire one of the JV partner's interests in the JV through a nominee company and the Council has continued the Bridge Close Scheme in collaboration with this wholly owned nominee company.

The viability issues and the need to reconsider the delivery arrangements of the Bridge Close regeneration scheme, is an indication of ineffective collaboration with private sector partner in relation to this particular scheme. The evidence in relation to the other JV schemes however provides evidence of positive partnership working.

Financial management:

The Council updates its MTFS on an annual basis. The impact of the JVs on the MTFS is based on the regeneration scheme's Business Plan which is approved by the Cabinet an annual basis. The MTFS and Capital Strategy are therefore being updated annually in line with updated business plans

As a result of the annual basis of the updates to the MTFS, although Members and Officers were aware of the changes in the projected profitability of Bridge Close referred to above, these were not reflected in the MTFS. It is therefore not transparent how these changes were taken into account in formal decision making throughout the year. We are however aware that since the viability issue with Bridge Close was identified there was a large amount of communication on the issue. This indicates that the Council was fully aware of the issue and was considering the financial impact of different scenarios for the year 2020/21.



06 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 for the year 2019/20 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 Council's Statement of Accounts 2019/20 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 (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. The Council is above the £500 million threshold for review as per the NAO's group instructions. We will complete our work on the WGA return after we have concluded our audit of the financial statements.

We are not able to issue our certificate of conclusion of the audit until we have completed this work.

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 Council 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 Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identified any relevant issues.

Other reporting issues

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 Authority'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; and
- Consideration of laws and regulations.

We have no significant matters to report in relation to the above.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified one control issue which we wish to bring to your attention related to the proper maintenance of contract registers. Our testing identified, a number of contracts that had been extended but we were unable to agree the total amount of these contracts in the contract registers. There was also a contract which had no completion date included in the contract registers. We recommend that the Council reviews it's processes for maintaining and updating its contracts register to ensure information is accurate and complete.



08 Data Analytics



Use of Data Analytics in the Audit

Data analytics

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 2019/20, our use of these analysers in the Council's audit 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 report.

Payroll analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Independence

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report in July 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 February 2021.

We confirm that we have undertaken non-audit work in relation to the certification of the housing subsidy grant claim. Non audit work is work not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

As part of our reporting on our independence, we set out here a summary of the fees due to us for the year ended 31 March 2020.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee - Code work	116,920 (note 2)	116,920
Scale fee variation	TBC (note 3)	27,853 (note 1)
Total including fee variation	TBC	144,773
Other non-audit services not covered above	12,000 (note 4)	18,500
Total fees	TBC	163,273

Confirmation and analysis of audit fees - continued

Note 1 - The final fee for 2018/19 includes a variation of £27,853 for to the additional work in relation our significant risks and the significant audit differences identified in relation to the valuation and classification of property, plant and equipment.

Note 2 – As set out in our Audit Plan Update, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. This results in an increase in the scale fee of £91,147. Our fees set out here do not include the scale fee review which is currently underway with PSAA to agree.

Note 3 – As also noted in our audit plan, for 2019/20, the scale fee will be impacted by a range of factors which are reflected in the risks noted in our Audit Plan and this Report. these include but are not limited to:

- Additional work to address the opinion risks which require additional audit procedures and the need to engage specialists in some cases. These include, but are not limited to the valuation of property and the net pension liability and accounting for the Council's regeneration assets.
- Work to address the value for money risks identified.
- Audit of the consolidation of the JVs into the group accounts.
- Additional work to consider and challenge the Council's going concern assessment.

Covid-19 has also impacted on the work we have had to undertake, in particular, we have had to undertake consultation associated with disclosures on the material uncertainties disclosed in relation to property valuations and going concern.

We will update the Audit Committee on the impact of these issues on the final fee once we have completed the audit.

Note 4 – The current year fee for non audit services relates to the certification of the housing subsidy grant claim of £12,000, In 2018/19 we also undertook the certification of the Teacher's pensions return amounting to £6,500.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, senior management and its affiliates, including all services provided by us and our network to your Council, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach from the prior year.

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Going concern	Currently completing our going concern procedures which may result in further queries for Management. We also need to undertake internal consultation on the adequacy of going concern disclosures	EY and Management
Investment property valuation	Internal consultation relating material valuation uncertainty raised by Council's valuer to investment property to be completed. Work in-review by Associate Partner.	EY
Property, plant and equipment valuation	Work completed and in-review by Manager and Associate Partner. Internal consultation also on-going as above.	EY
Pension liability	Work completed awaiting for clearance of review notes raised by Manager. On-going review process by Manager and Associate Partner.	EY
Journals testing & estimates	Journals testing is on-going. Work on estimates is complete and awaiting clearance of review notes raised by Manager. On-going review process by Manager and Associate Partner.	EY
Group financial statements	Work on group consolidation largely completed - currently concluding on the consolidation reclassification and awaiting assurances from Bridge Close auditor. On-going review by Manager and Associate Partner.	EY and Management
Substantive procedures and completing of work on various accounts	<p>Investments - awaiting for confirmation from Lloyds Bank of the Investment balance</p> <p>Cash and cash equivalents - awaiting confirmation from Lloyds Bank of the bank balance</p> <p>Short term creditors - one query outstanding to complete the testing</p> <p>Unrecorded liabilities testing - required to be performed up to audit opinion date</p> <p>Payroll - queries on substantive analytical review of the balance outstanding</p> <p>Non-domestic rates provision - work currently in progress</p> <p>All other disclosures (Annual Governance Statement, Cashflow statements, all other immaterial notes, financial instruments, Expenditure and Funding Analysis) - work on these areas is largely completed</p> <p>Officers remuneration and exit packages - in-review by Associate Partner</p>	EY and Management

Appendix B

Outstanding matters - continued

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Value for money	Conclude subject to final Associate Partner review	EY
Completion of procedures required for whole of government accounts	Work ongoing and submission of assurance statement to be undertaken	EY and Management
Conclusion procedures	Work currently in progress	EY
Clearance of queries arising from review by Associate Partner and Manager	In progress	EY
Receipt and checking the final version of the Financial Statements	Review of the final version of the financial statements	EY and Management
Management representation letter	To be sent by EY and signed by Management once audit complete	EY and Management
Completion of subsequent events review	Procedures to be performed up to the date of signing	EY and Management

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – July 2020
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report – February 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>Audit Planning Report – July 2020</p> <p>Audit Results Report – February 2021</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>Audit Results Report – February 2021</p>
Subsequent events	<ul style="list-style-type: none"> • Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit Results Report – February 2021</p>
Fraud	<ul style="list-style-type: none"> • Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit Results Report – February 2021</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council 	Audit Results Report – February 2021
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report – July 2020 Audit Results Report – February 2021

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We are still awaiting confirmations from Lloyds Bank for the Council's Bank account and Investment balances
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – February 2021

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we request from management and/or those charged with governance 	Audit Results Report – February 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – February 2021
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit Results Report – February 2021
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report – July 2020 Audit Results Report – February 2021
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Audit Results Report – February 2021

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact 
IFRS 16	<ul style="list-style-type: none"> The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. 	<p>IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.</p> <p>The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.</p> <p>In particular, full compliance with the revised standard for 2022/23 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2022 in order to identify:</p> <ul style="list-style-type: none"> all leases which need to be accounted for the costs and lease term which apply to the lease the value of the asset and liability to be recognised as at 1 April 2022 where a lease has previously been accounted for as an operating lease. <p>We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2021/22 audit.</p>

Appendix D

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Rochford District Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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