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London Borough of Havering

Report to those charged with governance – 2011/12 audit

September 2012

PricewaterhouseCoopers LLP
7 More London Riverside
London, SE1 2RT

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

25 September 2012

Dear Sirs

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2012. The primary purpose of this report is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee on 29 February 2012. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed on page six.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements before 30 September 2012.

At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised are; third party confirmations for investments and loans, final review of the statement of accounts, completion of the audit of the Whole of Government Accounts return, finalisation of our work in respect of Value for Money (VfM) conclusion, finalisation of the pension fund work and completion procedures including our subsequent events review. We will provide an oral update on these matters at the meeting on 25 September 2012. Attending the meeting from PwC will be Ciaran McLaughlin and Chris Hughes.

Yours faithfully

PricewaterhouseCoopers LLP

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Executive summary

The purpose of this report

Under the Auditing Practices Board's International Standard on Auditing (UK and Ireland) 260 (ISA (UK&I) 260) - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of London Borough of Havering ('the Authority'). As agreed with you, we consider that "those charged with governance", at the Authority, are the Audit Committee.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in respect of the Authority in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to the Audit Committee on 29 February 2012. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports, together with those yet to be issued, is included in Appendix 3.

Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management in the course of our work and within this report:

- accounting treatment for government and non government grants; and
- resolution of a prior year issue in respect of component accounting of property plant and equipment.

We have also identified a number of control points which we have detailed in Appendix 2 of this report.

We have also provided details on:

- significant areas identified through our risk assessment performed as part of our audit plan and the work we have performed in response to these risks; and,
- significant judgements and accounting estimates used in the preparation of the accounts.

We will discuss the matters contained within this letter with the Audit Committee on 25 September 2012.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work.

Audit approach

Responses to significant risks identified in our risk assessment

We raised a number of significant risks in our audit plan where we detailed work we would be carrying out as part of our audit procedures. We performed procedures at our interim and year end audits to address each of these and other risks to gain reasonable assurance that the accounts as a whole are free from material misstatement.

We provide a summary of the work performed in relation to the significant risks identified in our audit plan below.

Risk	Reason for risk identification	Audit response
Recognition of income and expenditure	We consider the risk of material misstatement in relation to revenue recognition as a significant risk on all audits, unless explicitly rebutted, as there is an inherent risk in any organisation that recognition of revenue may be manipulated to achieve financial results, for example by recognising income in the wrong period or overstating income through accruals. Because of the nature of local authorities we consider the risk of material misstatement in relation to expenditure recognition as well. There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported income and expenditure position. Due to their nature, we do not consider the receipt of council tax, national non domestic rates, housing rent, financing income or revenue support grant to be a significant risk and these income streams are therefore excluded from this category. The Authority is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.	We performed the following audit procedures to address this risk: • understood and evaluated controls relating to significant risks of income and expenditure recognition; • considered the accounting policies adopted by the Authority and subjected income and expenditure to the appropriate level of testing to identify any material misstatement; • carried out cut off testing on expenditure and income at year end to ensure that the sampled income and expenditure had been recorded in the correct financial year; • tested expenditure invoices to ensure they had been correctly classified in the accounts as either revenue or capital expenditure; • tested grant income receipts to verify that they occurred and have been recorded in the correct period; • performed testing for unrecorded liabilities post year end for expenditure that should have been accrued in 11/12; and • performed risk based testing of manual journal entries made throughout the year to ensure these were appropriate transactions. Control weaknesses are noted in Appendix 2. There are no other matters identified from our work which we wish to draw to your attention.

Risk	Reason for risk identification	Audit response
Management Override of Controls	ISA (UK&I) 240 (revised) 'The auditor's responsibilities relating to fraud in an audit of financial statements requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements or to misappropriate assets. In any organisation, management may be in a position to override the controls that have been put in place. A control breach of this nature may result in a material misstatement to the financial statements. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the organisation's policies, aims and objectives and to manage the risks facing it; this includes the risk of fraud. Our audit is designed to provide reasonable assurance that the 2011/12 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates, such as accruals as significant fraud risks.	We have understood and evaluated the Authority's internal control processes. We performed risk based testing of the appropriateness of manual journals and significant transactions processed during the year, to ensure that manual adjustments were appropriate and agreed to accounting records. We also evaluated significant management judgments and estimations and considered if they are reasonable, objective and not subject to bias. We also took comfort from the work carried out in response to the risks of material misstatement in expenditure and revenue recognition. Our audit procedures also included an element of unpredictability in our audit testing which will vary year to year. Control weaknesses identified are noted in Appendix 2. There are no other matters identified from our work which we wish to draw to your attention.

Risk	Reason for risk identification	Audit response
New financial system – Oracle E-suite	The Authority implemented a new financial system, Oracle 12, in April 2011. As well as the risk that that data is mapped inaccurately or incompletely from the old system to the new system, there is a risk that internal control processes may not operate effectively in the period immediately after the transition.	We understood and evaluated the controls in place around the completeness and accuracy of data migration, including review of validation tests carried out by the Authority and the Authority's Internal Audit team. We updated our understanding of business process controls via walkthroughs and the changes to the IT environment. As part of testing linked to the Risk of Management override, we tested the opening Trial Balance (TB) on the upgraded system to ensure that it agreed to the closing TB on the old system and audited 2010/11 financial statements. Control weaknesses identified are noted in Appendix 2. There are no other matters identified from our work which we wish to draw to your attention. The cost of the additional work carried out in respect of the new system was £10,000.

Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed the audit of the Authority's accounts in line with current Auditing Standards except for the following outstanding matters:

- signing of letters of representation; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the accounts and their approval by those charged with governance, we would expect to be able to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Accounting issues

Government and non-government grants

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance as* interpreted and adapted in the Local Authority Accounting Code (the 'Code') states that Grants should not be recognised until there is reasonable assurance that the Authority will comply with the conditions attached to them, and the grants or contributions will be received. Our testing of government grants included in the Authority's financial statements identified a number of exceptions where conditions and restrictions had not been correctly identified and thus the treatment in the financial statements did not comply with the Code.

We have discussed the accounting treatment with Officers and agreed the following corrections to the financial statements:

- Reclassified grant monies of £11.1m disclosed as receipts in advance to recognise this amount as income in the Comprehensive Income and Expenditure statement. There is no impact on the resources available to the Council as a result of this change. This is a technical accounting adjustment that reflects the fact that the grant monies have no conditions attached and should therefore be recognised immediately within the Comprehensive Income and Expenditure statement.
- Reverse the impact on the General Fund reserve of the above, by putting through an adjustment for £11.1m through the Movement in Reserves Statement.
- Recognise the revenue element of this adjustment (£0.3m) within the Earmarked reserve and recognise the capital element of this adjustment (£10.8m) within the Capital grant unapplied account.

We recommend the Authority reviews the accounting treatment of new government and non-government grants in 2012/13. We would be happy to have early discussions in this area if that would be helpful.

Component accounting

IAS 16 – Property plant and equipment requires the separate depreciation of components for items of property, plant and equipment where the cost is significant in relation to the total cost of the asset and which have a different useful life than the asset as a whole.

In the 2010/11 ISA260 report to Those Charged With Governance, we reported the Authority incorrectly treated depreciation in the accounts and highlighted that there is a risk depreciation may not be treated correctly in the

2011/12 financial statements. We also noted that the Authority had not componentised its Housing Revenue Account ("HRA") Dwellings to calculate the depreciation charge as required by the Code.

As part of audit we reviewed the component methodology applied in 2011/12 including the component percentages of HRA and General Fund assets. We have reviewed the basis of componentisation and, based on the information presented for audit there are no matters we wish to draw to your attention.

The Authority set a de-minimus level of £6m, whereby general fund assets with a net book value of below £6m have not been depreciated under the componentised method. We have reviewed the impact of this de-minimus level and there are no matters we wish to draw to your attention.

Accounting observations – Pension Fund

Separation of bank accounts – Pension Fund

From 1 April 2011 the pension fund was required to have its own bank account, in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
Havering pension fund opened a bank account with RBS by April 2011 in order to comply with this regulation, however the bank account was not used at all during the year to 31 March 2012 and we understand that this account remains unused. The regulations state the following:

"On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation —

(a) all monies held by the authority on that date; and

(b) all monies received by it on or after that date for the purpose of its pension fund."

The pension fund has failed to comply with the above requirements and we recommend that appropriate action is taken to ensure that the bank account becomes fully operational in accordance with the above regulation.

Monitoring receipt of contributions – Pension Fund

We communicated to you in the prior year that it is a statutory requirement that contributions are paid monthly. Regulation 42(2) of the Local Government Pension Scheme (Administration) Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate.

The vast majority (more than 75%) of the fund's contributions are processed through the Council's payroll, which results in prompt payment to the pension fund and therefore compliance with the 19 day rule stated above.

The remaining contributions are received from the respective bodies and the fund does not enforce any monitoring of these contributions receipts, in order to ensure that all employee contributions are received in accordance with the 19 day rule.

Whilst we acknowledge that there are controls in place to ensure that all external contributions are paid over during the year, we continue to encourage the fund to review the current process and recommend that the contributions receipts are monitored on a monthly basis to ensure timely receipt.

Financial Instruments Disclosures – Pension Fund

IFRS 7 sets out the information that an entity should disclose to enable users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed to at the end of the reporting period. This includes providing disclosures around the risks arising, for example credit risk, liquidity risk and market risk, and how they have been managed by the entity.

The fund has made disclosures within the notes to the financial statements which set out the risks that are relevant to the fund's specific circumstances and reflects how the fund monitors and controls its risk. Consideration could be given to expanding this in future years to also address the specific risks inherent within the financial instruments in which the fund invests.

Misstatements and significant audit adjustments

We are required to report to you all uncorrected misstatements which we have identified during the course of our audit, other than those of a trivial nature, which we agreed with those charged with governance was £500,000. These misstatements are described in Appendix 1 to this report.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Audit Board to represent to us, by approval of the Letter of Representation, that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the financial statements:

Valuation of property, plant and equipment and investment properties – The Authority revalues HRA land and buildings every year based on beacon values and all other operational land and buildings and investment properties on a five year cycle. This year's valuation as at 1 April 2011 resulted in a revaluation decrease of £1.4m on council dwellings. The revaluation was carried out by Wilks Head and Eves, and a number of key judgements and estimates were used as part of the valuation methodology. Management believe there is no material difference between the valuation as at 1 April 2011 and 31 March 2012. Our valuations team reviewed the valuation performed by Wilks Head and Eve and there are no matters we wish to draw to your attention.

Calculation and completeness of accrual estimates - The financial statements are prepared on an accruals basis. Accruals are estimates for goods and services received by the Authority, but where the Authority has not yet received an invoice for those goods and services. The Authority's policy is to raise accruals for amounts above and equal to £10,000 only. As part of our testing of the Accounts payable balance, management were unable to provide to us a list of the creditors making up the balance of £41.4m in the accounts split by trade payables and accruals, this issue and our response is further explained in Appendix 2.

Treatment of Government and Non- Government Grants - The Code provides extended guidance on the treatment of government and non –government grants, following adaptations and interpretations of IAS 20 and IPSAS 23. The accounting treatment requires that grants shall not be recognised until there is reasonable assurance that the Authority will comply with the conditions attached to them, and the grants or contributions will be received. We identified an exception in the accounting treatment as reported above, which the Authority agreed to make corrections for in the final statements of accounts.

Pension liability – Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. Hymans and Robertson were engaged to provide the Authority with the expert advice about the assumptions to be applied. Following the conclusion of our work, there are no matters we wish to draw to your attention.

Future levels of funding – There is a high degree of uncertainty about the future levels of funding for local government. The Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result or that there is a need to make a specific provision for this uncertainty. We have assessed the Authority's impairment assessment and assessed whether the Authority has proper arrangements in place to secure its financial resilience and there are no matters we wish to draw to your attention.

Accounting issues - new requirements in the 2011/12 Code of Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in spring 2011 setting out a number changes in accounting requirements for local authorities. We set out below the audit work we have done in respect of these changes:

- Heritage assets – the Code requires authorities to present information about the heritage assets that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. We have discussed with management the approach taken to identifying potential heritage assets, and there are no matters we wish to draw to your attention.

- Carbon Reduction Commitment (CRC) – 2011/12 is the first year that the Authority is required under the CRC Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. The Authority has recorded a provision of £400,000 in its accounts in respect of the CRC. During our audit we did not become aware of any information which contradicted the recognition of this provision.

- Exit packages - There is a new requirement for a disclosure note setting out the number of exit packages agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. We reviewed the presentation and disclosure of the note and found salary plusage was omitted from draft one of the accounts. The final version of the financial statements has been corrected for this omission.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 4.

Related parties

No significant matters in connection with the Authority's related parties were identified during the audit.

Financial standing

No significant matters in connection with the Authority's financial standing were identified during the audit.

Audit independence

We are required to follow the International Standard on Auditing (UK and Ireland) 260 (Revised) "*Communication with those charged with governance*", UK Ethical Standard 1 (Revised) *"Integrity, objectivity and independence*" and UK Ethical Standard 5 (Revised) *"Non-audit services provided to audited entities"* issued by the UK Auditing Practices Board. Together these require that we communicate at least annually with you regarding all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority, its directors and senior management and its affiliates ("the Group") that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers' teams whose work we intend to use when forming our opinion on the truth and fairness of the consolidated financial statements.

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Services provided to the Authority

The audit of the consolidated financial statements is undertaken in accordance with the UK Firm's internal policies. The audit is subject to other internal PwC quality control procedures such as peer reviews by other offices.

PricewaterhouseCoopers LLP (PwC) was engaged by the Authority in March 2012 to perform an assessment of the implemented Oracle E-Business Suite Release ("Oracle R12"). The assessment and report issued was also subject to other internal PwC quality control procedures. The engagement was not part of our responsibilities under the Code of Audit Practice. The threat of self review was mitigated by the fact that management were responsible for making any decisions to implement and/or enable controls.

Accounting systems and systems of internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

Matters that we wish to bring to your attention are detailed in Appendix 2. These have been discussed and agreed with management, an action plan will be developed by management and we will follow these matters up as part of our audit procedures in 2012/13.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. There are no matters that we wish to draw to your attention.

Economy, efficiency and effectiveness

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

In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion is based on two criteria:

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

We are not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have assessed the risk that the Authority did not have adequate arrangements in place, informed by the criteria and our statutory responsibilities. Our work has consisted of meeting with the Directors responsible for each of the Authority's Directorates to understand and evaluate the significant risk and projects that they are managing. We also discussed with them the nature of the savings that they have had to implement and their views on issues relating to future savings requirements. We then reviewed appropriate documentation to support the information obtained from them. We will update you on the status of our value for money conclusion at the Audit Committee on 25 September 2012. At the time of drafting this report we had not identified any matters which we wished to bring to your attention, but were still in the process of completing our work

Risk of fraud

We discussed with the Audit Committee their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Audit Committee, we seek members' confirmation that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Fees update for 2011/12

We reported our fee proposals as part of the Audit Plan for 2011/12. Our current anticipated outturn is shown below:

	2011/12 Outturn	**2011/12 Fee proposal**
Financial Statements	£378,099	378,099
Oracle access, security, controls and Usage report	£45,000	£45,000
TOTAL	**£423,099**	**£423,099**

Our fee for certification of grants and claims is yet to be finalised for 2011/12 and will be reported to those charged with governance in January 2013 within the *Grants Report to Management* in relation to 2011/12 grants.

Recent developments

Future of public audit

On 13th August 2010 the Department for Communities and Local Government announced that the Audit Commission will be disbanded and on 28 July 2011 the Department confirmed that the work previously carried out by the Commission's in-house Audit Practice would be outsourced to the private sector.

The Commission confirmed the appointment of external auditors for a period of 5 years starting in 2012/13 in July 2012.

The Government also consulted on its proposals for a new local public audit framework and published its response in January 2012. The draft Local Audit Bill has been published by the Department for Communities and Local Government for consultation and pre-legislative scrutiny. The consultation closed on 31 August 2012.

The draft Bill sets out the proposed new audit framework for local public bodies, the process for the appointment of auditors, and the regulatory framework for local public audit.

We have recently received confirmation from the Commission that we have been appointed as your auditors for the five years starting with the 2012/13 financial year.

Appendices

Appendix 1 - Summary of uncorrected misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the uncorrected misstatements listed and determine whether they would wish the accounts to be amended. If the misstatements are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	**Cr**	**Dr**	**Cr**
1	Dr Short term creditors Cr Cash From our testing of creditors, we identified two items which had been recorded as amounts being owed by the Authority as at the 31 March 2012. We noted that both items were in fact paid before the year end and therefore incorrectly recognised as creditors. Based upon our extrapolation of the error, the financial statements are projected to overstate creditors and understate the cash balance.	P			£555,295	 £555,295
2	Dr Income Cr Income in advance From our testing of income, we identified two items in our sample that had been recorded as income related to the 2011/12 financial year. We noted that both items relate to income received in advance for the 2012/13 financial year and should be recognised instead as income in advance in the balance sheet. Based upon our extrapolation of the error, the financial statements are projected to overstate income and understate the income in advance balance by £521,216.	P	£521,216			 £521,216
Total uncorrected misstatements			**£521,216**		**£555,295**	**£1,076,511**

There are no other corrected or uncorrected misstatements other than those reported above and on page nine within this report.

Appendix 2 - Summary of significant internal controls deficiencies

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit.

Deficiency	Recommendation	Management's response
Listing of creditor and accruals from Oracle system As part of our testing of the Accounts payable balance, we requested a list of the creditors making up the balance of £41.9m in the accounts split by trade payables and accruals. Management were unable to provide us with the information to support this request, therefore we had to adopt alternative audit procedures which involved identifying listings for specific TB codes and manually netting off debits and credits in order to identify the actual year end position and the in year movement. This listing was then used as the basis for sample testing.	We recommend that management investigate the reporting capabilities of the Oracle system. It is expected for both management information and audit purposes a report that enables a simple listing of creditors and accruals should be produced.	
Monthly payroll reconciliations did not operate as intended throughout the financial year During the 2011/12 financial year the Authority was unable to perform monthly payroll reconciliations between the payroll system and the main accounting Oracle R12 system. From discussion with management we understand the control deficiency is due to an Oracle report issue which is being investigated and corrected. A year end payroll reconciliation was produced for the purpose of the audit. The payroll reconciliation included non payroll costs that resulted in a £850,000 difference between the payroll system and the general ledger. Additional audit procedures were undertaken to reconcile the balance.	We recommend that management investigate the reporting capabilities of the Oracle system. It is expected that payroll reconciliations are performed monthly and authorised by both the preparer and reviewer.	

Appendix 3 – Reports issued

We have issued the following reports in relation to the 2011/12 audit:

- London Borough of Havering 2011/12 Audit Plan – presented to the Audit Committee on 29 February 2012;
- Oracle Access, Oracle Security, Controls and Usage review report; and
- London Borough of Havering 2011/12 ISA260 Report to those charged with governance.

The following reports are to be issued in relation to the 2011/12 audit:

- Insights report to management on journals;
- Audit Opinion for the 2011/12 Statement of Accounts (including the Pension Fund accounts) and the value for Money (VfM) conclusion; and
- Pension Fund – Report to those charged with governance – presented to the Pension Fund Audit Committee on 24 September 2011 (incorporated into this report).
- Grants Report to Management in relation to 2011/12 grants - to be provided in January 2013.

Objection to 2009/10 accounts

We explained in our 2010/11 Annual Audit Letter that our work was still continuing to address the objection to the 2009/10 accounts. As such, we had not issued our completion certificate on either the 2009/10 or 2010/11 audits.

The objection relates to certain leaseholder service charges and is similar in nature to the objection we received to the 2008/09 accounts, for which we issued a report to management in August 2010. Since that time, the Head of Housing has provided reports to the Audit Committee summarising the work the Council has done to address the recommendations in our report.

We have issued our statement of reasons to the objector and the objector has now appealed against our decision.

Due to the pending appeal, at the time of drafting this report, we remain unable to issue our completion certificate for the 2009/10 and 2010/11 audits, and hence will be unable to issue our completion certificate for the 2011/12 audit.

Appendix 4 - Letter of representation

To PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of London Borough of Havering (the "Authority") including the consolidated financial statements of the Authority and its subsidiaries (together the "group") for the year ended 31st March 2012 for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2011/12. Subsequent references in this letter to "the Statement of Accounts" refer to both the financial statements of the Authority and the consolidated financial statements of the group.

My responsibilities as Group Director – Finance and Commerce for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and Members of London Borough of Havering and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries so far as materially relevant in each case, the following representations:

Financial Statements

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the Authority and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.
- The effects of extrapolated uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the extrapolated uncorrected misstatements is listed below.

Uncorrected misstatements

No	Description of misstatement (factual (F), judgemental (J), projected (P))		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Dr Short term creditors Cr Cash	P			£555,295	 £555,295
2	Dr Income Cr Income in advance	P	£521,216			 £521,216

The selection and application of accounting policies are appropriate

- I acknowledge the accounting policies adopted by the Authority including their policy for accruing for liabilities equal to and above £10,000 give a true and fair view in the financial statements. Further I am not aware of any material liabilities omitted from the financial statements.

Information Provided

- I have taken all the steps that I believe I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Authority's Auditors) are aware of that information.

I have provided you with:

- Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of the Authority and relevant management meetings;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the Group from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority group and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority and group's financial statements communicated by employees, former employees, analysts, regulators or others.

- I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority and the group conducts its business and which are central to the Authority's and the group's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving Members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

The Pension Fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that there were instances of late contributions during the year. However, due to the amounts not being significant, these have not been reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that we have disclosed to you the identity of the Authority and group's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that the Authority has made you aware of all employee benefit schemes in which employees of the Authority and the group participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority and the group have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims, including those relating to the implementation of the Single Status Agreement, whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the group's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Authority or the group or any associated company for whose taxation liabilities the Authority may be responsible.

Pension fund assets and liabilities

All material known assets and liabilities including contingent liabilities, as at the 31 March 2012, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2012 have been properly valued and that valuation incorporated into the financial statements.

The Pension Fund has satisfactory title to all assets and there are no liens or encumbrances on the Pension Fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Pension Fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

Pension fund registered status

I confirm that the London Borough of Havering Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the Pension Fund.

Revaluation of Property, Plant and Equipment

I confirm that the Authority is satisfied that the findings of Wilks Head and Eve, experts in valuing property result in the assets being held at their fair value. I am also satisfied that we have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

Deficiencies in internal control

I have communicated to you all deficiencies in internal control of which I am aware.

As minuted by the Audit Committee at its meeting on 25 September 2012.

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Group Director – Finance and Commerce
For and on behalf of London Borough of Havering

Date ....