

London Borough of Havering and Havering Pension Fund

Annual Audit Letter for the year
ended 31 March 2020

June 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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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.



Section 1

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to London Borough of Havering and Havering Pension Fund (the Council and Pension Fund) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales (Council and Pension Fund)	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 accounts from 31 July to 30 November 2020 for all relevant authorities.
Impact on our risk assessment	
▶ Valuation of investment property, and any property, plant and equipment assets valued at fair value (Council only)	We had previously identified the valuation of all land and buildings as a higher inherent risk. 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. We therefore increased the risk around the valuation of these types of assets to a significant risk.
▶ Disclosures on going concern (Council and Pension Fund)	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council may not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date (Pension Fund only)	We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic may need to be disclosed, with the main areas specifically for the Pension Fund being changes to the value of investments after year end. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Pension Fund.
▶ Valuation of complex investments (Pension Fund only)	The valuation of complex (level 3) investments was impacted by the uncertainty arising from Covid-19 where asset valuations are based on unobservable inputs (i.e. there is no readily available market data). We therefore had to plan additional procedures to address this risk.

Executive Summary

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Area of impact	Commentary
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE) (Council and Pension Fund)	<p>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:</p> <ul style="list-style-type: none">• 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.
▶ Consultation requirements (Council and Pension Fund)	<p>The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. Because of the ongoing uncertainty Covid-19 presents, we introduced a rigorous consultation process for all auditor reports to ensure that we are providing the appropriate assurance to the readers of accounts.</p>

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council and Pension Fund's:	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2020 and of their expenditure and income for the year then ended. We issued our audit report on the Council and Pension Fund accounts on 28 May 2021.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council has put in place proper arrangements to secure value for money in your use of resources. We do not issue a value for money conclusion on the Pension Fund.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The information in the Annual Governance Statement is consistent with our knowledge of the Council and Pension Fund.
▶ Public interest report	We did not identify any issues which required us to issue a report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council and Pension Fund communicating significant findings resulting from our audit.	Our Audit Results Reports were presented to the Audit Committee on 24 February 2021.
Issued a certificate that we have completed the audit of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 21 June 2021. We do not issue a certificate on the Pension Fund.

We would like to take this opportunity to thank the Council and Pension Fund staff for their assistance during the course of our work.

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council and Pension Fund.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the 24 February 2021 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and Pension Fund.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Planning Reports presented to the Audit Committee on 28 July 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2019/20 financial statements, including the Pension Fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council and Pension Fund;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council and Pension Fund

The Council and Pension Fund are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council and Pension Fund report publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council and Pension Fund Statement of Accounts are an important tool for the Council and Pension Fund to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 May 2021.

Our detailed findings were reported to the 24 February 2021 Audit Committee in our Audit Results Reports.

The key risks identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error (Council and Pension Fund)</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p> <p>(Pension Fund only)</p> <p>We have concluded that the main area where management override may occur is the incorrect posting of investment journals posted into the general ledger. We have outlined our response to this risk on the next slide.</p>	<p>In response to this risk we:</p> <ul style="list-style-type: none">• Made enquiries 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 <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council or Pension Fund's normal course of business</p>

Financial Statement Audit

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Misstatements due to fraud and error: Incorrect posting of investment valuation journals (Pension Fund only)</p> <p>The Pension Fund posts year end manual journals in relation to the valuation of its investments as well as investment income. There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect. This could result in a misstatement of year-end investment values and in year investment income.</p>	<p>In respect of year end investment valuations and investment income journal entries we have:</p> <ul style="list-style-type: none">▶ Verified agreement of the Custodian's valuation report to that of individual Fund Manager valuation reports for the pension fund's investment assets valuations as of 31 March 2020 and investment income recognised during 2019/20▶ Agreed the reconciliation of holdings included in the Net Assets Statement to the source reports from the Pension Fund's Custodian and Investment Fund Managers. <p>We did not identify any differences between the valuation of investment or investment income, as recognised in the Pension Fund's net asset statement and fund account, and independent third party valuation reports. We are therefore satisfied that there is no evidence of incorrect posting of investment valuation and investment income journals for the year end 31 March 2020.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Incorrect capitalisation of revenue expenditure (Council only)</p> <p>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.</p> <p>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.</p>	<p>To address this risk we:</p> <ul style="list-style-type: none">• 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. <p>Our work did not identify any expenditure that were incorrectly capitalised.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk

Conclusion

Valuation of investment properties (Council only)

The fair value of investment properties represents a significant balance in the Council's accounts and are subject to valuation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. At 31 March 2020, the value of investment property in the Group accounts totalled £109.9 million. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We had previously identified the valuation of all land and buildings as a higher inherent risk. 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. We therefore increased the risk around the valuation of these types of assets to a significant risk.

To address this risk we employed the use of our own expert to support the work in relation to the valuation of investment properties, and to assess the impact of the material uncertainty issued by the Council's valuer in their valuation report due to the impact of Covid-19.

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 this was updated in the final version of the financial statements.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk

Valuation of complex investments (Level 3 investments including pooled property funds) (Pension Fund only)

The Fund's investments include complex investments, such as pooled property investments. The valuation of such investments are classified under IFRS 13 as Level 3 investments. As such the valuation of Level 3 investments are based on 'unobservable' inputs.

Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

Covid-19 has created an uncertain economic environment immediately prior to the Pension Fund's reporting date of 31 March 2020. As a result, the valuation of these complex investment assets as of 31 March 2020 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.

Conclusion

To gain assurance over the valuation of complex investments, for a sample of Level 3 investments, including pooled property funds we have:

- Made enquiries of the Pension Fund and its Investment Managers to understand how the valuation impact of Covid-19 has been assessed.
- Reviewed the basis of valuation for level 3 investments and assessed the appropriateness of valuation methods used.
- Compared the investment value included in the Pension Fund's financial statements to direct confirmations from the Fund Managers.
- Reviewed the latest audited financial statements of the investment funds to corroborate net asset values used in determination of investment valuations.
- Performed analytical procedures, in light of Covid-19, to verify the valuation output (from fund managers) for reasonableness against our own expectations.
- Reviewed investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 investments have been appropriately made in the Pension Fund's financial statements.

We have identified audit differences with a net impact of £2.9 million, in relation to the valuation investment assets. Management have chosen not to amend these based on their assessment that these differences are not material to the Pension Fund accounts.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk

Conclusion

Consideration of the potential impact of Covid-19 on the valuation of Level 3 investment assets including pooled property funds

- The Royal Institute of Chartered Surveyors (RICS) issued guidance in light of Covid-19 advising the use of a material valuation uncertainty clause in 31 March 2020 valuations due to the uncertainty associated with the market value of property. Upon the receipt of the draft 2019/20 financial statements it was confirmed that such material valuation uncertainty clauses have been included across some of the pooled property funds included in the Pension Fund financial statements.
- The value of the pension fund's Level 3 investments, including pooled property funds, as at 31 March 2020, was £133.7 million (18.9% of the pension fund's total net assets).
- We consulted internally on whether we needed to include an 'Emphasis of Matter' paragraph in our audit report in respect of the material uncertainty disclosures included by valuers regarding the valuation of property assets due to the impact of Covid-19 as at 31 March 2020. We concluded that this was not required based on a sensitivity analysis that indicates that there would need to be a 10% change in value of the fund's total pooled property to have a material impact on the pension fund's financial statements.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Valuation of land and buildings (Council only)	<p>To address this risk we undertook procedures to gain assurance over the material accuracy of the this balance. As a result of the procedures undertaken:</p> <ul style="list-style-type: none">▶ 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. <p>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.</p> <p>We asked the Council to enhance its disclosure around the valuers material uncertainty within the estimation uncertainty note in the Council's financial statements. We have also consulted internally in relation to the adequacy of these disclosures and concluded that no emphasis of matter in our audit report is required.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Pension liability valuation (Council only)	<p>We have received reports from the Havering Pension Auditor and the EY Pensions actuarial team are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable. We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements.</p> <p>Our testing has not identified any material misstatements</p> <p>The assurance report from the Havering Pension Fund Auditor noted that the Council's share of the downward valuation of investment assets was £2.4 million. Management have not adjusted for this misstatement on the basis that it is not material.</p> <p>We are also satisfied that appropriate allowances have been made in relation to recent legal rulings within the IAS 19 reports provided by the actuary which are used in the preparation of the draft financial statement.</p>
Accounting for the Council's regeneration assets (Council only)	<p>We identified those assets relating to the Council's regeneration programmes and considered the classification of these assets to confirm this is in line with their current usage and CIFPA Code requirements. We ensured the valuation basis adopted is appropriate and reviewed the associated accounting treatment.</p> <p>Our work did not identify any issues.</p>
Group Financial Statements (Council only)	<p>We considered the Council's assessment of whether any transactions or balances relating to joint venture arrangements with Rainham and Beam Park Housing Zone, Bridge Close, and 12 Housing Estates within the Borough should be consolidated within its group financial statements. We agreed with the Council's assessment that these arrangements be consolidated in the Group accounts.</p> <p>We also reviewed the associated group disclosures in the financial statements and concluded they were appropriate.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Going concern disclosures (Council and Pension Fund)	We have reviewed managements going concern assessment, including stress testing of assumptions and cash flow forecasts. We have also reviewed the going concern disclosure for consistency with managements going concern assessment. As a result of our work, we proposed some enhancements to the going concern disclosures which have been reflected in the final statements of account.
Events after the Balance Sheet Date (Pension Fund only)	We have reviewed the disclosures in the accounts and has assessed them as adequate and appropriate.

Section 4

Value for Money



Value for Money

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.

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.

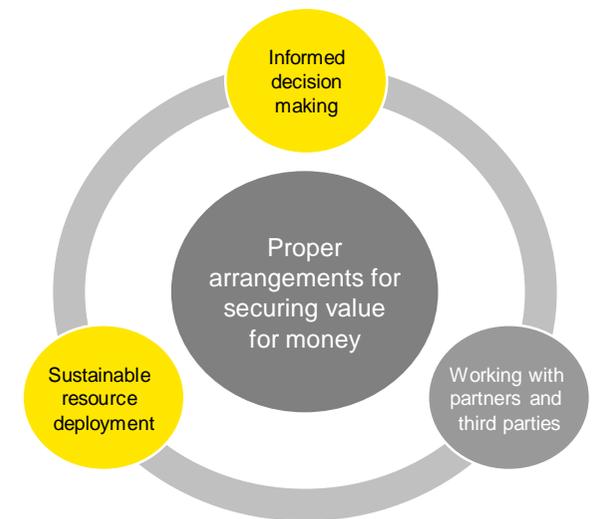
We identified the following areas as potential significant value for money risk in our Audit Plan:

- ▶ 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 slide and have no issues to report in relation to the Council's arrangements for value for money.



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 28 May 2021.

Significant Risk	Conclusion
<p><u>Governance of the regeneration schemes being delivered through the joint ventures</u></p> <p>In 2018, the Council entered into joint venture (JV) arrangements for the redevelopment and regeneration of the Rainham and Beam Park Housing Zone, Bridge Close, and 12 Housing Estates within the Borough.</p> <p>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.</p> <p>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.</p>	<p>We reviewed the arrangements relating to the three JVs to assess whether:</p> <ul style="list-style-type: none"> • 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. <p>In undertaking our work we focused on Bridge Close, 12 Sites, Rainham and Beam Park.</p> <p>The Council has put in place effective governance and risk management arrangements related to the establishment and management of the JVs.</p> <p>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.</p> <p>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.</p>

A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table, looking at documents. A woman with blonde hair is in the foreground, resting her chin on her hand and looking intently at the papers. Other people's hands and arms are visible, some pointing at the documents. The scene is brightly lit, suggesting an indoor office environment with large windows in the background.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

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.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Reports to the Audit Committee on 24 February 2021. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Section 6

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the revised 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

Audit Fees

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

We confirm that we have undertaken the non-audit services for the year ended 31st March 2020 set out in the table below.

Description ²³	Planned Fee 2019/20 £	Final Fee 2018/19 £
Scale Fee Council accounts - Code work (Note 1)	116,920	116,920
Additional work to address areas of risk and others (Note 2)	57,856	27,853
Additional work required due to changes in scope and as a result of Covid-19 including additional internal consultation on the audit report (Note 3)	14,154	0
Total audit fees - Council	188,930	144,773
Scale Fee Pension Fund accounts -Code work (Note 1)	16,170	16,170
IAS 19 assurance letters - non Code work	8,000	5,500
Additional triennial review procedures - non Code work	4,000	0
Work to address additional risks including Covid-19 and others	4,320	0
Going concern and PBSE assessments and disclosures, including EY consultations (note 3)	3,500	0
Total audit fee - Pension Fund	35,990	21,670
Non-Audit Fees - Council		
Other non-audit services not covered above (Note 4)	12,000	18,500

Audit Fees

Notes

Note 1: For 2019/20, we have proposed an increase to the scale fee for both the Council and Pension Fund to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our Audit Planning Reports. Our proposed increases have been discussed with management and are currently being considered by PSAA. These proposed increases are not reflected in the figures in this Letter.

Note 2: For 2019/20, additional work was undertaken to address the areas of risk identified, as detailed in our Audit Planning Reports. The main areas of additional work was the work on valuation of other land and buildings and investment property, group consolidation, pension liability valuation and accounting for Council's regeneration assets which were all designated as either significant or higher inherent risks. In addition, in order to address and respond to value for money risk identified we engaged EY specialists (Forensics team) to complete this work.

Note 3: As a result of Covid-19 we identified increased risk and work required in relation to the higher risk related to going concern disclosures as well as the work to address the material uncertainty in the valuer's report relating to the valuation of land and buildings, in particular investment property. We also engaged our own internal valuation experts to review a sample of property valuations. Additional time was also required for internal consultation processes on the audit report as a result of Covid-19.

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.

Additional fees are subject to agreement by management and PSAA.

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