
Government and Public Sector

***London Borough of
Havering***

Annual Audit Letter

2011/12 Audit

October 2012

Introduction

The purpose of this letter

This letter is a public document which summarises the results of our 2011/12 audit for members of the Authority and other stakeholders.

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

- LB Havering Audit Plan 2011-12
- LB Havering Pension Fund Audit Plan 2011-12
- Audit report for the 2011/12 Statement of Accounts, incorporating the value for money conclusion
- Report to those charged with Governance (ISA (UK&I) 260)

We shall also report to management an 'insights' report on our testing of journals during the audit and a summary of less significant issues noted during the course of the audit.

The matters reported here are the most significant for the Authority. Appendix A summarises our recommendations for the year.

Scope of work

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

Our 2011/12 audit work has been undertaken in accordance with the Audit Plan that we issued on 29 February 2012 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit responsibility	Result
<i>Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	We reported our findings to the Audit Committee on 25 September 2012 in our 2011/12 <i>Report to those charged with governance (ISA (UK&I) 260)</i> . On 28 September 2012 we issued an unqualified audit opinion.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	We reported our findings to the National Audit Office on 5 October 2012.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	On 28 September 2012 we issued an unqualified value for money conclusion.
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with</i>	There were no issues to report in this regard

Audit responsibility	Result
<i>CIPFA / SOLACE guidance.</i>	
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	There were no issues to report in this regard
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	There were no issues to report in this regard
<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We have not been able to issue our audit certificate because the Council has not yet prepared its Pension Fund Annual Report and Accounts on which we are required to give an audit opinion and there is an outstanding matter in relation to an objection on the 2009/10 financial statements (see below for detail).

We also provide an audit report on the separate Annual Pension Fund Report and Accounts. The Council is currently completing and once this is done we will then issue our Audit Report. There are no matters to draw to your attention in relation to this.

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 letter, 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.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 28 September 2012.

We identified the following key issue from our audit of accounts:

- 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. There was no impact on the resources available to the Council as a result of the changes made by the Council to correct this matter in the accounts.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit Commission guidance specifies the criteria for our value for money conclusion:

- 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 determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We issued an unqualified value for money conclusion.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 5 October 2012. We found no areas of concern to report as part of this work.

Grant Claims and Certification

We presented our most recent Annual Certification Report for 2010/11 to the Audit Committee on 29 February 2012. We certified 10 claims worth £201.9m. In 1 case a qualification letter was required to set out significant issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2010/11. We will issue the Annual Certification Report for 2011/12 in December 2012.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Appendix A – Summary of recommendations

A summary of the significant recommendations we have made to the Authority during 2011/12 is included below:

Source Document	Recommendation	Management's response	Target Implementation Date
ISA 260 Report to those charged with governance, page 18.	<p>Listing of creditor and accruals from Oracle system</p> <p>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.</p> <p>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.</p> <p>We recommend that this situation is addressed for the 2012/13 financial statements closedown.</p>	Options to produce the report will be investigated and explored to determine the most appropriate way forward.	As part of the planning for 12/13 Corporate Finance are working closely with ISS to ensure that the relevant reports will be made available to PwC by the end of 12/13.
ISA 260 Report to those charged with governance, page 18.	<p>Monthly payroll reconciliations did not operate as intended throughout the financial year</p> <p>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.</p> <p>From discussion with management we understand the control deficiency is due to an Oracle report issue which is being investigated and corrected.</p> <p>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.</p> <p>Additional audit procedures were</p>	Reconciliations are taking place on a regular basis. The evidence log for 12/13 is available. An automated report for the Gross to net to General Ledger reconciliations is being developed.	Already implemented.

	undertaken to reconcile the balance. We recommend that reconciliations between the payroll system and the main accounting Oracle R12 system are undertaken regularly.		
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Where we have made other recommendations during the year these have been reported to management.

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

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Other Matters

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

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