

**London Borough of Havering  
Audit Results Report -  
Update**

Year ended 31 March 2021

10 May 2024

10 May 2024



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

Dear Audit Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our current audit conclusions in relation to the audit of the London Borough of Havering (the Council) for 2020/21. We will update the Audit Committee at its meeting scheduled for 14 May 2024 on any further progress to that date and outline the remaining steps to the issue of our final opinion. This report provides an update on the report presented to the Committee on 18 April 2023. There have been significant delays in the completion of the audit due to poor quality responses to audit queries and lack of evidence to support the accounts in a number of areas. These issues have also resulted in a large number of audit differences being identified. We will issue a final Audit Results Report once all our audit procedures are complete.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements in this report.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 14 May 2024.

Yours faithfully

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP

Encl

## Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website ([Statement of responsibilities of auditors and audited bodies from 2018/19 - PSAA](#)) The 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 and further guidance (updated July 2021)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



**01** Executive Summary

## Executive Summary

### Scope update

In our Audit Planning Report, presented at the 28 April 2021 meeting of the Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

#### **Changes to risk:**

##### **Infrastructure assets accounting:**

In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to accounting for infrastructure assets. Under the CIPFA Code, these assets are held at depreciated historic cost. It has been identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence, gross cost and gross accumulated depreciation are continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.

CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets and in December 2022 DLUHC issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022) which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil.

The Council will take the option to apply the Code adaptation and statutory instrument to their 2020/21 financial statements. They will amend the presentation of infrastructure assets, included the required disclosure note and updated the accounting policy as required by the statutory instrument.

Our work to review this restatement and confirm the material accuracy of the in year depreciation has been completed and we have not identified any issues.

##### **Minimum revenue provision calculation:**

Under statute the Council is required to calculate and set aside a minimum revenue provision (MRP) for the repayment of debt. The Council's MRP is not material, however in light of the significant levels of borrowing associated with the Council's regeneration programme we have identified a risk that the provision may not be appropriately calculated, resulting in a risk of material understatement.

##### **Additional significant risk relating to accounting for hosting, agency and partnership arrangements**

Our audit testing identified a number of issues with how the Council is accounting for arrangements where it is the host for services or is acting as an agent or where it is acting in partnership with others. In many cases the Council was unable to provide clear details of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined. The quantum of these arrangements are material to the Council and impact on both income and expenditure. As our materiality is based on gross expenditure we have therefore identified this as a new significant risk.

## Executive Summary

### Scope update

#### Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure, we have updated our overall materiality misstatement to £10.4 million (Audit Planning Report – £10.3 million). This results in updated performance materiality, at 75% of overall materiality, of £7.8 million, and an updated threshold for reporting misstatements of £0.52 million.

We will need to revisit materiality on conclusion of the audit taking into account the level and nature of errors identified and in particular those that impact on gross expenditure (as our materiality is based on this) to determine whether it remains appropriate.

#### Information Produced by the Entity (IPE):

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

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

### Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2021. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Review and assessment of the Council's updated our going concern assessment and completion of our internal consultation in relation to this;
- ▶ Completion of final Partner and Manager review of the outstanding areas noted in this report;
- ▶ Completion of the general conclusion procedures;
- ▶ Completion of subsequent event procedures up to the date of the audit report;
- ▶ Agreement of all final amendments to the financial statements;
- ▶ Final reviews by the Engagement manager, Partner and Quality Control Reviewer; and
- ▶ Receipt of a signed accounts and a signed letter of management representation.

There have been significant delays in the completion of the audit due to poor quality responses in response to audit queries and lack of evidence to support the accounts in a number of areas. Following completion of the audit work in these areas a number of errors have been identified. Some of the main areas which have resulted in delays and errors are set out on slide 8.

Given that the audit process is not yet fully complete, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion which is included in Section 4 of this report.

## Executive Summary

### Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020, 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:**  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

### Status of the audit - Value for Money

In the Audit Results Report presented to the 18 April 2023 Audit Committee, we reported that we had completed our planning, taking into consideration the findings from the 2019/20 value for money work, our discussion with management and our knowledge of sector-wide issues that may affect the Council. We had identified one risk of significant weakness in respect of the Council's governance arrangements for delivering housing regeneration schemes through three joint venture partners.

We engaged our EY Forensics team to assess whether the Council had in place reasonable ongoing governance for delivering its regeneration objectives. We considered this in relation to the achievement of the Council's objectives for the housing regeneration schemes delivered through the three joint ventures: Havering and Wates Regeneration LLP; Rainham and Beam Park Regeneration LLP and Bridge Close Regeneration LLP (which is now under the Council's ownership after the relationship was terminated with the private sector partner). In particular, we considered:

- whether the Council makes properly informed decisions through access to appropriate and reliable financial and performance information relating to the regeneration scheme
- how the Council is working with the JVs to deliver its intended strategic priorities from the housing regeneration schemes (i.e., affordable housing and income)
- how the Council reflects significant changes to the funding / benefits of the regeneration scheme in its annual budget setting process

For Bridge Close we also considered:

- the termination of the agreement with private sector partner and assessed whether the ownership transfer of the assets adhered to Council processes;
- Whether risks arising from the termination were assessed and mitigated accordingly
- whether new governance processes were implemented to reflect the Council's sole ownership of the venture

Overall, we concluded that Council's arrangements in relation to the above areas were adequate and did not identify any significant weakness in arrangements. We will therefore not be reporting by exception in our audit report. Our detailed value for money commentary will be included in our Auditor's Annual Report which we will issue before issuing our certificate of completion of the audit.

## Executive Summary

### Audit differences

We have identified a significant number of differences and/or amendments during the audit which are greater than £0.5 million (audit differences threshold) that require bringing to your attention.

Some of the main areas where differences were identified included:

- accounting for hosting, agency and partnership arrangements.
- Group accounting and disclosures, including accounting for the Councils interesting in companies and joint ventures
- Minimum revenue provision calculation.

Further detail on these areas and the challenges encountered are set out in this report. We would however particularly highlight our findings in relation to the Council's minimum revenue provision which have resulted in a cumulative understatement of £4.507 million by 31 March 2021. The impact of this on the Statement of Accounts is to overstate the Council's useable reserves (the General Fund balance) and understate unusable reserves (the Capital Adjustment Account). As useable reserves are a key measure of the Council's financial resilience, we strongly recommend that the Council reviews its CFR and MRP calculations to ensure they are accurate.

A number of the other issues identified will also continue to impact on the Council's accounts in subsequent years and it is therefore important that action is taken to address the underlying issues to ensure similar issues did not reoccur.

We include further details in Section 4 of this report. The differences reported are based on the updated draft accounts which we only received on 9 May 2024, and which were not supported by a clear audit trail of adjustments made, although the Council has agreed to provide this. Therefore, further changes may be identified.

### Other reporting issues

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit. The Council is below the threshold requiring detailed procedures and the NAO has now confirmed that they do not require any additional procedures for 2020/21. We will therefore complete our WGA submission and issue this along with our audit opinion.

We have no other matters to report.

# Appendix B

## Executive Summary

### Areas of audit focus

We identified a number of key areas of focus for our audit of the financial report of London Borough of Havering. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section 02 of this report.

Below we have summarised the conclusions of our work on the areas of audit focus.

Fraud/Significant Risks	Findings & Conclusions
Misstatements due to fraud or error (management override)	We have not identified any material weaknesses in controls or evidence of material management override and not identified any instances of inappropriate judgements being applied from the work completed.
Incorrect capitalisation of revenue spend	We completed our work on the testing of REFCUS and capital additions during the year and have not identified any evidence of manipulation through inappropriate capitalisation.
Valuation of investment properties	We have completed our audit work in respect of to the valuation of investment properties and have no issues to report.

### Additional significant risk not identified in our audit plan or previous Audit Results Report

Accounting for hosting, agency and partnership arrangements	<p>Our audit testing identified a number of issues with how the Council is accounting for arrangements where it is the host for services or is acting as an agent or where it is acting in partnership with others. In many cases the Council was unable to provide clear details of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined. In a number of cases, our assessment and further audit work indicated that the accounting for these arrangements was incorrect. This has resulted in the comprehensive income and expenditure statement (CIES) incorrectly including a number of income and expenditure items on a gross basis where the Council is acting as an agent or host and therefore should only be reflecting the net cost that relates directly to the Council. The total of the items where such issues were identified was material and results in both income and expenditure in the CIES being overstated. The Council is currently proposing to amend for one of these items. Further detail is included in Section 4 of this report.</p> <p>The issues identified here also represent weakness in governance arrangements and this is considered further in Section 5 of this report as part of our value for money responsibilities.</p>
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# Appendix B

## Executive Summary

### Areas of audit focus

Area of audit focus	Findings & Conclusions
Infrastructure assets	We have completed our audit work on infrastructure assets and have no matters to report. The Council has applied the statutory override and Code adaptation and reported these assets on a net book value basis and made appropriate disclosures in the accounts related to this. Our work on depreciation has concluded this is materially accurate.
Pension liability valuation	We have completed the work on this area and not identified any material issues.
Group financial statements	We have completed the work on the Council's Group, including consideration of its subsidiaries and Joint Ventures and identified a number of differences and amendments which are detailed in Section 4 of this report. Overall the quality of the accounts in these areas was poor and the Council demonstrated a weak understanding of accounting requirements in this area.
Going concern disclosures	<p>At the time of writing, our going concern assessment and procedures are incomplete.</p> <p>Due to the delays in the completion of the audit, for the reasons outlined in this report, the Council is required to provide an updated going concern disclosure and assessment and supporting cash flow forecast. The disclosure and assessment need to consider the Council's circumstances for the foreseeable future, which is at least twelve months from the date the accounts are authorised for issue.</p> <p>The Council's disclosure and assessment needs to cover the Council and Group position, including consideration of the entities in which the Council has an interest which are not currently consolidated into the Group accounts. It will also need to consider the impact of the Council's current financial position and the associated capitalisation direction. Once we have been provided with this updated assessment and supporting information we will complete our review. This will include challenge of the assumptions underpinning management's assessment and internal consultation with our Profession Practice Department.</p>
Valuation of land and buildings	We have completed the work on this area and have not identified significant issues to report.
Minimum revenue provision calculation	We have completed the work on Minimum Revenue Provision and identified misstatements, which have resulted in a cumulative understatement of £4.507 million by 31 March 2021. The impact of this on the Statement of Accounts is to overstate the Council's useable reserves (the General Fund balance) and understate unusable reserves (the Capital Adjustment Account). As useable reserves are a key measure of the Council's financial resilience we strongly recommend that the Council reviews its CFR and MRP calculations to ensure they are accurate. Further details are in Section 4 of this report.

## Executive Summary

### Areas of audit focus

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no other matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.

### Control observations

We have identified several weaknesses and deficiencies in the Council processes in a number of areas, with particular weaknesses in the processes for the production of the accounts in more complex areas.

Further details are included in section 7.

### Independence

Please refer to Section 09 for our update on Independence.



## 02 Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error (management override)

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

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

##### What judgements are we focused on?

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

##### What did we do?

- ▶ Identified fraud risks during the planning stages, which reflect the significant fraud risk recognised in this report (the risk of inappropriate capitalisation of expenditure).
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud; and
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including:
  - Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
  - Assessing accounting estimates for evidence of management bias, and
  - Evaluating the business rationale for significant unusual transactions.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. Please also separate sections of this report for our conclusion on valuation of investment properties, valuation of land and buildings and pension liability valuation.

Our testing of journals is completed with no material issues identified.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

## Areas of Audit Focus

### Significant risk

#### Incorrect capitalisation of revenue expenditure

##### What is the risk?

In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalization of revenue spend.

##### What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

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

##### What did we do?

In response to this risk, we:

- ▶ For significant capital additions, we examined invoices, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- We extended our testing of items capitalised in the year by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.
- Reviewed and tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), and verified that revenue costs have not been inappropriately funded from capital.
- ▶ Tested year end journals which moves expenditure from revenue to capital.

##### What are our conclusions?

We have completed our work on capital additions and REFCUS and have not identified any additions that were incorrectly capitalised or REFCUS items which did not meet the statutory definition.

Our testing of year end journals did not identify any movements from expenditure to capital outside of the normal course of business.



## Areas of Audit Focus

### Significant risk

#### Valuation of investment properties

##### What is the risk?

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

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

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.

The ongoing impact of Covid-19 means there is potential for significant impact on the estimations and assumptions applied to asset valuations. This impacts, in particular, on investment properties valued at fair value due to the uncertainty over the future of rental income and predicted yields. There is therefore a risk that investment property may be misstated in the accounts.

##### What did we do?

- ▶ Considered the work performed by the Council's valuer over the Council's assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Assessed the classification of the assets and whether the appropriate valuation basis has been applied;
- ▶ Considered the annual cycle of valuations to ensure that investment property have been valued annually as required by the Code and considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Sample tested key asset information used by the valuer in performing their valuation, and agreed this to what had been recorded in the fixed asset register and general ledger.
- ▶ Tested accounting entries had been correctly processed in the financial statements; and
- ▶ Ensured that appropriate disclosure had been made in the financial statements concerning the material uncertainty relating to year end valuations.

##### What are our conclusions?

We concluded that we could rely on the work of the Council's valuer over the Council's investment property assets, and that the scope of the work performed and their professional capabilities were adequate.

We concluded that assets were correctly classified as investment properties and had been valued on an appropriate basis annually.

Sample testing of the individual valuations of 16 investment properties was undertaken. This work did not identify any differences.

We were satisfied that related accounting entries had been correctly processed in the financial statements.

We have noted that the Council's valuer included a material uncertainty in their report in relation to retail and specific trading related assets/sectors such as car parks. The Council has not included any reference to this in its accounts. We have therefore asked the Council to consider whether they hold any such assets and if they do, to include a disclosure regarding this in the accounts - under Note 3 - Critical Judgements in Applying Accounting Policies, Assumptions made about future and other major source of estimation uncertainty. We are currently awaiting the Council's response in relation to this.

# Appendix B



## Areas of Audit Focus

### Significant risk

#### Accounting for host, agency and partnership arrangements (new risk not previously reported)

##### What is the risk?

The Council is party to a number of arrangements which include working with other authorities in a number of cases which may result in the Council acting as a host or agent for services and passporting funding for others.

Management is required to undertake an assessment to determine the appropriate accounting for such arrangements based on the nature of the arrangement and the agreements in place. This needs to be undertaken in line with the CIPFA Code and relevant ISA accounting standards.

During our audit work we identified a number of these arrangements where the Council was unable to provide details of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined.

The quantum of these arrangements for the Council is material.

##### What did we do?

- ▶ Undertook a detailed assessment of the Council's main income and expenditure streams and drew on our knowledge of the Council to identify any agency, host or partnership arrangements
- ▶ Assessed the nature of the arrangements in order to determine whether the appropriate accounting treatment had been applied;
- ▶ Assessed the adequacy of the Council's underpinning documentation and any impact on our value for money assessment from a governance perspective;
- ▶ Ensured that appropriate disclosure had been made in the financial statements concerning the judgements made by the Council in determining the accounting treatment to be adopted.

##### What are our conclusions?

We concluded that the Council has a poor understanding of the various hosting, agency and partnership arrangements it is part of from an accounting perspective.

For a number of the key arrangements, for example OneSource, the Council was unable to locate the original partnership agreement which is key to understanding the nature of the arrangement and therefore the resulting accounting. This also represents a governance weakness as it is important that the Council has copies of such agreements in case of future disputes.

We also found that the Council's general approach is to account for all these arrangements on a gross basis, without reference to, or consideration of, the underlying nature of the arrangement. This has therefore resulted in the material overstatement of income and expenditure in the Council's accounts.

The main such area is the £7.38 million of income and expenditure in respect of the Hospital Discharge Programme (HDP). HDP is a Department of Health and Social Care scheme for which the Council was an agent and hence neither the income or expenditure is reportable within the Council's accounts. Both income and expenditure were therefore overstated by £7.38 million. The Council has agreed to amend for this item. Further details of the unadjusted items are in Section 4 of this report.

We have also asked the Council to consider whether it has included sufficient reference to the judgements in relation to accounting for these arrangements in its accounts. We would expect this to be included under Note 3 - Critical Judgements in Applying Accounting Policies, Assumptions made about future and other major source of estimation uncertainty. We are currently awaiting the Council's response in relation to this query.

## Areas of Audit Focus

### Other areas of audit focus

#### What is the risk/area of focus?

##### Accounting for infrastructure assets

In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code, these assets are held at depreciated historic cost. It has been identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulated depreciation are therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.

The Council has a material infrastructure assets amounting to £117.6 million held on its balance sheet at 31 March 2021.

DLUHC issued a Statutory Instrument which came into effect on the 25 December 2022 which allowed for a temporary change in accounting rules in this area giving Authorities the option to account for Infrastructure Assets on a net rather than gross basis. CIPFA also released an update to the Local Authority Accounting Code and a Local Authority Accounting Panel (LAAP) bulletin was issued which provided practitioners guidance on how they should account for Infrastructure Assets should an Authority wish to adopt the Statutory Instrument.

#### What did we do?

We initially:

- ▶ Reviewed the draft financial statements to identify prima facie whether the Council is recording disposals of infrastructure assets, or components.
- ▶ Made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.

Once the Council confirmed that it chose to adopt the statutory instrument and Code adaptation, we:

- ▶ Confirmed that the value of these assets is reported correctly on a net book value basis.
- ▶ Performed a reasonableness check to determine whether the economic useful lives used by management to calculate depreciation were appropriate and obtained an understanding of how these had been determined.
- ▶ Compared the depreciation charge included in the financial statements to the potential depreciation charge using the CIPFA example useful economic lives.
- ▶ Reviewed updated accounting disclosure to ensure they are in line with the requirement of amended CIPFA code of practice and accurately reflected the Council's practices.

We are satisfied with the changes made to disclosures and that depreciation is materially accurate and have not identified any issues

## Areas of Audit Focus

### Other areas of audit focus

#### What is the risk/area of focus?

##### Valuation of land and buildings

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

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet and are likely to have a significant impact on the valuation of these assets.

#### What did we do?

We:

- ▶ Checked the correct classification of the Council's land and buildings and that the appropriate valuation basis has therefore been adopted;
- ▶ Assessed the expertise and independence of management's valuation specialist by confirming their qualifications, experience in the sector and the terms of their engagement with the Council.
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Checked the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom for property, plant and equipment.
- ▶ Identified assets not subject to valuation in 2020/21 and applied indices to confirm that the value of these assets had not changed materially since the last valuation date in order to confirm that the remaining asset base is not materially misstated.
- ▶ Reviewed the fixed asset register and confirmed there had been no significant changes to useful economic lives as a result of the most recent valuation.
- ▶ Tested that accounting entries have been correctly processed in the financial statements.

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

## Areas of Audit Focus

### Other areas of audit focus (continued)

#### Conclusion

##### Valuation of land and buildings

- ▶ We are satisfied that assets have been correctly classified and valued on an appropriate basis.
- ▶ We are satisfied that the scope of the work performed by the Council's valuer is appropriate and within their professional capabilities.
- ▶ Our sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) has not identified any significant 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 2020/21 to confirm that the remaining asset base is not materially misstated has not identified any material differences.
- ▶ We did not identify any changes to useful economic lives as a result of the most recent valuation.
- ▶ We confirmed that accounting entries have been correctly processed in the financial statements.

Based on the procedures completed, we have not identified any material errors in the valuation of the Council's land and buildings included in the property plant and equipment balance in the financial statements.

## Areas of Audit Focus

### Other areas of audit focus (continued)

#### What is the risk/area of focus?

##### Pension liability valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £546 million.

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

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.

#### What did we do?

We:

- ▶ Liaised with the auditor of the Havering Pension Fund to obtain assurances over the information supplied to the actuary in relation to the London Borough of Havering.
- ▶ Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC, being the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY Pensions actuarial team.
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ The revised ISA 540 standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports, run a parallel actuarial model and compare to that produced by Hymans Robertson.

Our conclusion:

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

We have considered the assurance report received from the Havering Pension Fund Auditor and assessed that the impact of the difference identified in the valuation of investments asset values is not material to the Council.

We have also agreed the Council's IAS 19 disclosures to the actuaries' report and ensured these are fairly stated in the accounts. We note that the Council obtained an update IAS19 report from the actuary to reflect actual year end asset values and this resulted in an increase in the net liability of £1.25 million. The Council has not adjusted for this.

Our procedures to determine our own estimate for the Council's pension liability found that the liability calculated by the actuary fell within our reasonable range.

# Appendix B

## Areas of Audit Focus

### Other areas of audit focus (continued)

#### What is the risk/area of focus?

##### Group financial statements

The Council has entered into three 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.

The Council consolidated the transactions or balances relating to these joint venture arrangements within its group financial statements for the first time in 2019/20. Although 2020/21 will be the second year of consolidation for the joint ventures there remains a risk that they may not be consolidated accurately and that all required disclosures may not be included in the accounts, particularly as the level of activity in and size of the joint ventures increases.

In addition, during the year, the status of Bridge Close changed from being a JV arrangement to a 100% owed subsidiary of the Council, following the termination of the agreement with the JV partner. This would therefore change the required accounting for this.

#### What did we do?

We:

- Reviewed and assessed the accuracy of the Council's Group boundary assessment and the entities that were within scope
- Checked the amounts consolidated by the Council and determined the accuracy of the consolidation process
- Assessed the accounting treatment for those entities which were within scope but not required to be consolidated.
- Assessed the completeness of disclosures made within the Council's financial statements in relation to the Group.

Our findings and conclusions

Our work on this area has been particularly challenging and a number of meetings have been held with management to try to gain a clear understanding of the relationship between the Council and the JVs and subsidiary companies and the appropriate accounting requirements and disclosures.

Following these meetings it was clear that the Council did not have an adequate understanding of either the arrangements or the resulting the accounting requirements. As a result, the Council engaged an external firm to review the arrangements and provide advice on the appropriate accounting requirements. We reviewed the report provided by the external firm with consultations from our technical specialist and Financial Reporting Group. The work of the consultant and our own work identified several misstatement.

The Council has subsequently made adjustments to single entity and group accounts to address the issues identified. Not all adjustments have however been made and there remain unadjusted differences although the impact of these is not material.

Some of the main issues identified were:

- The Council initially consolidated the JVs within the Group accounts but had done this on a line by line rather than equity basis which was incorrect.
- On further review, it was also determined that, as these entities are currently loss making, the Code requires these not to be consolidated but to be accounted for on a different basis.

Further details are in Section 4 of this report.

## Areas of Audit Focus

### Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
<p><b>Going concern disclosures</b></p> <p>Covid-19 has created a number of financial pressures throughout Local Government. It has created financial stress leading to increased expenditure in specific services, and reductions in income sources.</p> <p>In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</p> <p>The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, so for the Corporation the 2020/21 financial statements are the first to be impacted. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.</p> <p>However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p>	<p>We initially:</p> <ul style="list-style-type: none"> <li>▶ Reviewed management's going concern assessment in the draft financial statements.</li> <li>▶ Read the Narrative Report and financial statement disclosures in relation to the financial statements being prepared on a going concern basis to ensure that they were consistent with our knowledge of the Council's financial position.</li> <li>▶ Reviewed, tested and challenged the supporting evidences provided by management in relation to going concern</li> <li>▶ Assessed the reasonableness of the assumptions included in the Council's cash flow forecasts.</li> <li>▶ Stress tested the Council's medium term financial strategy</li> </ul> <p>At the time of writing, our going concern assessment and procedures are incomplete.</p> <p>Due to the delays in the completion of the audit, for the reasons outlined in this report, the Council is required to provide an updated going concern disclosure and assessment and supporting cash flow forecast. The disclosure and assessment need to consider the Council's circumstances for the foreseeable future, which is at least twelve months from the date the accounts are authorised for issue.</p> <p>The Council's disclosure and assessment needs to cover the Council and Group position, including consideration of the entities in which the Council has an interest which are not currently consolidated into the Group accounts. It will also need to consider the impact of the Council's current financial position and the associated capitalisation direction.</p> <p>Once we have been provided with this updated assessment and supporting information we will complete our review. This will include challenge of the assumptions underpinning management's assessment and internal consultation with our Profession Practice Department.</p>

## Areas of Audit Focus

### Other areas of audit focus (continued)

#### What is the risk/area of focus?

##### Minimum revenue provision (MRP) calculation

Under statute the Council is required to calculate and set aside a minimum revenue provision (MRP) for the repayment of debt. The Council's MRP is not material, however in light of the significant levels of borrowing associated with the Council's regeneration programme we have identified a risk that the provision may not be appropriately calculated, resulting in a risk of material understatement.

#### What did we do?

We have:

- ▶ Reviewed the Council's calculation of the Capital Financing Requirement (CFR) and minimum revenue provision (MRP)
- ▶ Checked that Council's MRP Policy is compliant with the statutory guidance issued by DLUHC (previously MHCLG).

##### Findings and conclusion

Review of the CFR calculation identified that it contained a number of errors that resulted in it being understated. The most significant of these being the double counting of Adjustment A (an allowance arising from a previous capital financing regime that reduces the CFR), and the omission of investment properties transferred from the HRA to the General Fund in 2013/14.

The MRP, which is the setting aside of revenue resources to fund capital expenditure / future debt redemption is based on the CFR. As a result of the above CFR error MRP has been understated by £4.507 million to the end of 2021 on a cumulative basis. The impact of this on the Statement of Accounts is to overstate the Council's useable reserves (the General Fund balance) and understate unusable reserves (the Capital Adjustment Account).

As useable reserves are a key measure of the Council's financial resilience we strongly recommend that the Council reviews its CFR and MRP calculations to ensure they are accurate.

See Section 4 of this report for more details.



# 03 Audit Report



## Audit Report - Draft

### Draft audit report

#### Our opinion on the financial statements - draft

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

##### Opinion

We have audited the financial statements of London Borough of Havering ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 45.
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 5
- Collection Fund and the related notes 1 to 2

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Havering and the Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

##### Basis for opinion

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

We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Operating (Section 151) Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Authority's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Operating (Section 151) Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Operating (Section 151) Officer is responsible for the other information contained within the statement of accounts.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to



## Audit Report

### Our opinion on the financial statements

determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Group and the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

### Responsibility of the Chief Operating (Section 151) Officer

As explained more fully in the Statement of the Chief Operating (Section 151) Officer's Responsibilities set out on page 19, the Chief Operating (Section 151) Officer is responsible for the preparation of the Statement of Accounts, which includes the Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Operating (Section 151) Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due

to fraud or error. In preparing the financial statements, the Chief Operating (Section 151) Officer is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

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

### Auditor's responsibilities for the audit of the financial statements

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

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government and Housing Act 1989 (England and Wales),



## Audit Report

### Our opinion on the financial statements

determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Group and the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

### Responsibility of the Chief Operating (Section 151) Officer

As explained more fully in the Statement of the Chief Operating (Section 151) Officer's Responsibilities set out on page 19, the Chief Operating (Section 151) Officer is responsible for the preparation of the Statement of Accounts, which includes the Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Operating (Section 151) Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due

to fraud or error. In preparing the financial statements, the Chief Operating (Section 151) Officer is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

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

### Auditor's responsibilities for the audit of the financial statements

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

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government and Housing Act 1989 (England and Wales),



## Audit Report

### Our opinion on the financial statements

- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2021,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how London Borough of Havering is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management/head of internal audit/those charged with governance/monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and the Authority's committee minutes and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the London Borough of Havering had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Havering put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



## Audit Report

### Our opinion on the financial statements

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements..

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

#### Use of our report

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



# 04 Audit Differences



# Appendix B

## Audit Differences

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

The differences reported are based on the updated draft accounts which we only received on 9 May 2024, and which were not supported by a clear audit trail of adjustments made, although the Council has agreed to provide this. As the audit procedures are not yet fully complete, further differences may be identified in relation to the outstanding areas noted in the Executive Summary and once we have been able to check the amendments that have been made to the accounts. An update will be provided to the Committee for any new differences identified subsequent to the release of this report.

### Summary of differences

#### Adjusted audit differences

We identified a number of differences which management has agreed to amend, some of which were immaterial in nature or were narrative disclosure amendments only. We have therefore not reported these here. We do however bring to your attention the following:

#### ***Group accounting***

A number of amendments were made to the Council single entity and Group accounts to correct the errors referred to earlier in this report. The impact of these changes are summarised in the tables in the following slides (34 and 35). We note that the Council has not however made all the amendments we have identified as being required and there remain unadjusted difference. The impact of these are also summarised in the following slides.

#### ***Overstatement of income and expenditure***

As noted in this report the CIES incorrectly includes a number of income and expenditure items where the Council is acting as an agent or host and therefore should only be reflecting the net income and expenditure that relates directly to the Council. The Council has amended the accounts to remove income and expenditure of £7.36 million in respect of the Hospital Discharge Programme (HDP). Both income and expenditure were therefore overstated by £7.38 million.

Recharges to the Pension Fund of £0.64 million in respect of administrative costs have been shown gross within the CIES rather than net.

There are other similar areas of income and expenditure which are incorrectly reported on a gross rather than a net basis and have not been adjusted. These are set out in the unadjusted differences in the following slides.

## Audit Differences

### Summary of differences (cont'd)

#### **Grant notes**

A number of changes have been made to the Grant note to remove items that do not meet the definition of grants. We are in the process of checking these adjustments.

#### **Expenditure and Funding Analysis (EFA)**

The EFA in the draft accounts did not agree to the CIES (which it should do). This was due to the inclusion of an incorrect 'off ledger' adjustment of £2.651 million. The Council was not able to explain the reason for this adjustment and we have subsequently confirmed that was incorrect and has now been reversed.

#### **Officer's remuneration disclosure**

The disclosure omitted an 'other payment' of £46.8k for the Director of Regeneration. The other payments should be £187.2k but only £140.4k was disclosed in the draft accounts. As this is a sensitive note, we understand that the Council will amend for this.

### Unadjusted Audit Differences

We highlight misstatements greater than £0.52 million which have been identified during the course of our audit that have not been corrected.

#### **Projected misstatements**

We have identified two projected misstatements in relation to expenditure and creditors:

- Overstatement of creditors as a result of two sampled items which were not supported with evidence and one item where a purchase order was raised but should have been cancelled. The projected misstatement amounts to £0.65 million.
- Overstatement of expenditure as a result of unsupported expenditure. The projected misstatement amounts to £1.93 million.

#### **Factual misstatements**

- The Council obtained an updated IAS19 report from the actuary which resulted in a £1.25 million increase in the net liability. As a result, the pension liabilities, remeasurement loss and pension reserve are all understated
- The amended single entity accounts provided for audit include a movement of £1.4 million from long term to short term debtors which is incorrect. As a result, long term debtors are understated and short term debtors overstated.
- We identified a misclassification of codes between sundry debtors and sundry creditors with a net impact of £0.68 million, resulting in an overstatement of both debtors and creditors.

## Audit Differences

### Summary of differences (cont'd)

#### *Judgemental misstatements*

- Estimated understatement of Minimum Revenue Provision (MRP) charges up to and including 31 March 2021 of £4.51 million. Resulting in understatement of useable reserves (general fund) and overstatement of unusable reserves (capital adjustment account)
- Recharges to other authorities for costs relating to the OneSource joint working arrangement have been shown gross within the CIES and balance sheet but should have been shown net as they are not transactions related to the Council. As a result, both income and expenditure are overstated by £5.5 million and debtors and creditors by £4.01 million.
- The CIES incorrectly contains income and expenditure of £3.14 million in respect of the Adopt London East (ALE) arrangement for which the Council are the host and hence the Council should be reporting the net position. As a result, both income and expenditure are overstated.

# Appendix B

## Audit Differences

### Summary of differences (cont'd)

Impact of adjustments - Single entity Accounts, showing movement between draft and updated accounts and remaining unadjusted differences

SINGLE ENTITY BALANCE SHEET	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
<b>L/T Assets</b>				
PPE	£1,432,160	£1,432,160	£0	£0
Heritage Assets	£2,319	£2,319	£0	£0
Investment Property	£64,552	£64,552	£0	£0
Intangible Assets	£621	£621	£0	£0
L/T Investments	£0	£0	£0	£0
L/T Investments in Subs and JV	£26,460	£19,199	£-7,261	£-1,455
L/T Debtors	£39,394	£42,735	£3,341	£3,683
<b>TOTAL</b>	<b>£1,565,506</b>	<b>£1,561,586</b>	<b>£-3,920</b>	<b>£2,228</b>
<b>Current Assets</b>				
S/T Investments	£110,276	£110,276	£0	£0
Inventories	£400	£400	£0	£0
S/T Debtors	£67,046	£68,488	£1,442	£-6,147
Cash and Cash Equiv.	£7,861	£7,861	£0	£0
Assets Held for Sale	£0	£0	£0	£0
<b>TOTAL</b>	<b>£185,583</b>	<b>£187,025</b>	<b>£1,442</b>	<b>£-6,147</b>
<b>Current Liabilities</b>				
S/T Borrowing	£-12,242	£-12,242	£0	£0
S/T Creditors	£-111,328	£-111,328	£0	£5,973
<b>TOTAL</b>	<b>£-123,570</b>	<b>£-123,570</b>	<b>£0</b>	<b>£5,973</b>
<b>L/T Liabilities</b>				
L/T Creditors	£0	£0	£0	£0
Provisions	£-10,955	£-10,955	£0	£0
L/T Borrowing	£-264,124	£-264,124	£0	£0
Other L/T Liabilities	£-545,811	£-545,811	£0	£-1,424
Cap Rec in Advance	£-8,094	£-8,094	£0	£0
<b>TOTAL</b>	<b>£-828,984</b>	<b>£-828,984</b>	<b>£0</b>	<b>£-1,424</b>
<b>NET ASSETS</b>	<b>£798,535</b>	<b>£796,057</b>	<b>£-2,478</b>	<b>£630</b>
<b>Reserves</b>				
Usable Reserves	£-208,999	£-208,999	£0	£3,224
Unusable Reserves	£-589,536	£-587,058	£2,478	£-3,854
<b>TOTAL</b>	<b>£-798,535</b>	<b>£-796,057</b>	<b>£2,478</b>	<b>£-630</b>

SINGLE ENTITY CIES	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
<b>SEA - Income Side</b>				
Corporate Budgets	£-2,410	£-2,410	£0	£0
Neighbourhoods	£-22,666	£-22,666	£0	£0
Housing	£-65,693	£-65,693	£0	£0
Regeneration Programme	£-1,692	£-1,692	£0	£0
Adult Services	£-32,956	£-25,580	£7,376	£0
Childrens Services	£-151,409	£-151,409	£0	£3,139
Public Health	£-19,710	£-19,710	£0	£0
OneSource Non Shared	£-70,193	£-70,193	£0	£0
OneSource Shared	£-6,309	£-6,309	£0	£6,042
<b>TOTAL</b>	<b>£-373,038</b>	<b>£-365,662</b>	<b>£7,376</b>	<b>£9,181</b>
<b>SEA - Expenditure Side</b>				
Corporate Budgets	£33,397	£33,397	£0	£-1,283
Neighbourhoods	£44,302	£44,302	£0	£0
Housing	£25,863	£25,863	£0	£0
Regeneration Programme	£7,448	£7,448	£0	£0
Adult Services	£97,547	£90,171	£-7,376	£0
Childrens Services	£205,731	£205,731	£0	£-3,139
Public Health	£15,588	£15,588	£0	£0
OneSource Non Shared	£84,844	£84,844	£0	£0
OneSource Shared	£24,790	£24,790	£0	£-6,042
<b>TOTAL</b>	<b>£539,510</b>	<b>£532,134</b>	<b>£-7,376</b>	<b>£-10,464</b>
<b>Other Op Income and Expenditure</b>				
Other Operating Expenditure	£16,162	£16,162	£0	£0
Financing and Investment I&E	£12,900	£15,377	£2,477	£-770
Taxation and Non Specific Grants	£-231,939	£-231,939	£0	£0
<b>(Surplus) / Deficit on Services</b>	<b>£-36,405</b>	<b>£-33,928</b>	<b>£2,477</b>	<b>£-2,053</b>
<b>Other Comprehensive I&amp;E</b>				
(S)/D on PPE Revaluation	£-99,572	£-99,572	£0	£0
L/(G) on Pension Assets	£119,593	£119,593	£0	£1,424
<b>TOTAL</b>	<b>£20,021</b>	<b>£20,021</b>	<b>£0</b>	<b>£1,424</b>
<b>Total Comprehensive I&amp;E</b>	<b>£-16,384</b>	<b>£-13,907</b>	<b>£2,477</b>	<b>£-629</b>

# Appendix B

## Audit Differences

### Summary of differences (cont'd)

Impact of adjustments - Group Accounts, showing movement between draft and updated accounts and remaining unadjusted differences

GROUP	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
<b>BALANCE SHEET</b>				
<b>L/T Assets</b>				
PPE	£1,450,251	£1,446,115	-£4,136	-£1
Heritage Assets	£2,319	£2,319	£0	£0
Investment Property	£112,505	£112,505	£0	£0
Intangible Assets	£621	£621	£0	£0
L/T Investments	£0	£0	£0	£0
L/T Investments in Subs and JV	£693	£1,674	£981	£3
L/T Debtors	£215	£5,078	£4,863	£490
<b>TOTAL</b>	<b>£1,566,604</b>	<b>£1,568,312</b>	<b>£1,708</b>	<b>£492</b>
<b>Current Assets</b>				
S/T Investments	£110,276	£110,276	£0	£0
Inventories	£400	£400	£0	£0
S/T Debtors	£64,677	£64,784	£107	-£4,705
Cash and Cash Equiv.	£13,177	£12,788	-£389	£0
Assets Held for Sale	£0	£0	£0	£0
<b>TOTAL</b>	<b>£188,530</b>	<b>£188,248</b>	<b>-£282</b>	<b>-£4,705</b>
<b>Current Liabilities</b>				
S/T Borrowing	-£11,938	-£12,240	-£302	-£2
S/T Creditors	-£112,266	-£111,963	£303	£5,975
<b>TOTAL</b>	<b>-£124,204</b>	<b>-£124,203</b>	<b>£1</b>	<b>£5,973</b>
<b>L/T Liabilities</b>				
L/T Creditors	£0	£0	£0	£0
Provisions	-£12,075	-£12,075	£0	£0
L/T Borrowing	-£264,245	-£264,124	£121	£0
Other L/T Liabilities	-£545,946	-£545,946	£0	-£1,424
Cap Rec in Advance	-£8,094	-£8,094	£0	£0
<b>TOTAL</b>	<b>-£830,360</b>	<b>-£830,239</b>	<b>£121</b>	<b>-£1,424</b>
<b>NET ASSETS</b>	<b>£800,570</b>	<b>£802,118</b>	<b>£1,548</b>	<b>£336</b>
<b>Reserves</b>				
Usable Reserves	-£211,034	-£205,921	£5,113	-£5,621
Unusable Reserves	-£589,536	-£596,197	-£6,661	£5,285
<b>TOTAL</b>	<b>-£800,570</b>	<b>-£802,118</b>	<b>-£1,548</b>	<b>-£336</b>

GROUP	Published Accts	Value per Revised SoA 9-5-24	Difference	Unadjusted Differences
<b>CIES</b>				
<b>SEA - Income Side</b>				
Corporate Budgets	-£2,410	-£2,410	£0	£0
Neighbourhoods	-£22,666	-£22,666	£0	£0
Housing	-£65,693	-£65,693	£0	£0
Regeneration Programme	-£12,281	-£3,366	£8,915	£818
Adult Services	-£32,956	-£25,580	£7,376	£0
Childrens Services	-£151,409	-£151,409	£0	£3,139
Public Health	-£19,710	-£19,710	£0	£0
OneSource Non Shared	-£70,193	-£70,193	£0	£0
OneSource Shared	-£6,309	-£6,309	£0	£6,042
<b>TOTAL</b>	<b>-£383,627</b>	<b>-£367,336</b>	<b>£16,291</b>	<b>£9,999</b>
<b>SEA - Expenditure Side</b>				
Corporate Budgets	£33,397	£33,397	£0	-£1,283
Neighbourhoods	£44,302	£44,302	£0	£0
Housing	£25,863	£26,107	£244	-£244
Regeneration Programme	£10,500	£8,157	-£2,343	-£580
Adult Services	£97,547	£90,170	-£7,377	£1
Childrens Services	£205,731	£205,731	£0	-£3,139
Public Health	£15,588	£15,588	£0	£0
OneSource Non Shared	£84,844	£84,844	£0	£0
OneSource Shared	£24,790	£24,790	£0	-£6,042
<b>TOTAL</b>	<b>£542,562</b>	<b>£533,086</b>	<b>-£9,476</b>	<b>-£11,287</b>
<b>Other Op Income and Expenditure</b>				
Other Operating Expenditure	£16,191	£16,225	£34	-£63
Financing and Investment I&E	£15,522	£7,122	-£8,400	£157
Taxation and Non Specific Grants	-£230,819	-£230,819	£0	£0
<b>(Surplus) / Deficit on Services</b>	<b>-£40,171</b>	<b>-£41,722</b>	<b>-£1,551</b>	<b>-£1,194</b>
<b>Other Comprehensive I&amp;E</b>				
(S)/D on PPE Revaluation	-£99,572	-£99,572	£0	£0
L/(G) on Pension Assets	£119,718	£119,718	£0	£1,424
<b>TOTAL</b>	<b>£20,146</b>	<b>£20,146</b>	<b>£0</b>	<b>£1,424</b>
<b>Total Comprehensive I&amp;E</b>	<b>-£20,025</b>	<b>-£21,576</b>	<b>-£1,551</b>	<b>£230</b>



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## Value for Money

# Appendix B

## Value for money

### The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

### Risk assessment

In the performance of our risk assessment procedures, we identified one risk of a significant weaknesses in the Council's VFM arrangements relating to Governance reporting criteria:

- Council's governance of the regeneration schemes being delivered through the joint venture partners.

We engaged our EY Forensics team to assess whether the Council had in place reasonable ongoing governance for delivering its regeneration objectives. We considered this in relation to the achievement of the Council's objectives for the housing regeneration schemes delivered through the three joint ventures: Havering and Wates Regeneration LLP; Rainham and Beam Park Regeneration LLP and Bridge Close Regeneration LLP (which is now under the Council's ownership after the relationship was terminated with the private sector partner).

In particular, we considered:

- whether the Council makes properly informed decisions through access to appropriate and reliable financial and performance information relating to the regeneration scheme
- how the Council is working with the JVs to deliver its intended strategic priorities from the housing regeneration schemes (i.e., affordable housing and income)
- how the Council reflects significant changes to the funding / benefits of the regeneration scheme in its annual budget setting process

For Bridge Close we also considered:

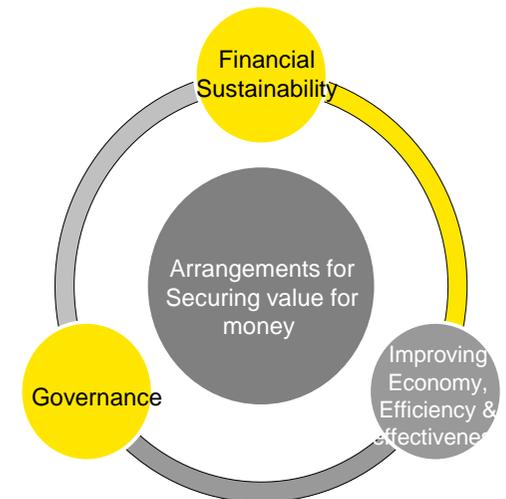
- the termination of the agreement with private sector partner and assessed whether the ownership transfer of the assets adhered to Council processes;
- Whether risks arising from the termination were assessed and mitigated accordingly
- whether new governance processes were implemented to reflect the Council's sole ownership of the venture

Overall, we concluded that Council's arrangements in relation to the above areas were adequate and did not identify any significant weakness in arrangements.

### Status of our VFM work

Our VFM work has been completed as noted above and no significant weakness in arrangements were identified Council. We will therefore not be reporting by exception in our audit report. Our detailed value for money commentary will be included in our Auditor's Annual Report which we will issue before issuing our certificate of completion of the audit.

We are satisfied that this work does not have a material effect on the financial statements.





## 06 Other reporting issues

## Other reporting issues

### Other reporting issues

#### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

At the time of writing, we have not concluded our work to determine whether the financial information in the final version of the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We will complete this procedure once we receive the final version of accounts including audit amendments.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

#### Whole of Government Accounts

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

We will commence our work in this area once the accounts have been finalised and will report any matters arising to the Audit Committee.

The audit certificate will be issued once this work is complete and we have reported our VfM commentary in the Auditors Annual Report.

#### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

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

## Other reporting issues

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### Other reporting issues

#### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

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



07

## Assessment of Control Environment

# Appendix B

## Assessment of Control Environment

### Financial controls

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

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

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

We have identified control deficiencies which we wish to bring to your attention related to the following areas:

- Poor processes for the assessment of the group accounting and disclosure requirements in relation to the various subsidiaries and Joint Venture arrangements the Council is a party to. Incorrect group accounting has been applied to Bridge Close Regeneration LLP as it has transitioned from a Joint venture to subsidiary during the year. In addition, the consolidation of the remaining two Joint Ventures, namely Rainham & Beam Park Regeneration LLP and Havering and Wates Regeneration LLP, was on an incorrect basis as they were consolidated in proportionate line by line basis rather than on an equity basis. There was also a lack of understanding of the various arrangements and their impact on the financial statements.
- Poor processes to support the audit of the accounts in a number of areas. The main areas identified were:
  - Provision of year end transaction level listings to support debtor and creditor balances in the accounts to enable audit testing
  - Poor timeliness and quality of working papers and responses to audit queries. For example, 'source' evidence provided was often simply a journal rather than the originating document for the transaction such as an invoice or purchase order
  - Grants disclosures were of a poor quality and not Code compliant. This resulted in significant additional audit time and a fundamental re-working of the notes. The Council did not perform detailed review and analysis of the grants and contributions other than rough grouping of the account codes within the grants
  - Incorrect/inappropriate accounting treatment of for hosted transactions, principal/ agent accounting and partnerships. For a number of these arrangements the Council was unable to provide details or copies of the agreements underpinning these arrangements and was therefore unable to demonstrate the basis on which the accounting for these arrangements had been determined. This also resulted in the overstatement of income/expenditure and/or debtors/creditors and items incorrectly included in the grants note. This also represents a governance weakness as it is important that the Council has copies of such agreements in case of future disputes.
- Three year-end declarations of interest supporting the Related Party Transactions note were not provided as part of the audit. As a result we had to undertake alternative procedures.
- In relation to our contracts testing, there were some contract not provided to the audit team, contract which was not signed and instances where contracts were included in the register where it has not been awarded yet. There is a poor maintenance of the contract registers by the Council.

# Appendix B



## Assessment of Control Environment

### Financial controls

Our recommendation are as follows:

- We recommend that the Council reviews its processes in the areas noted above and ensures that it has a clear understanding of Code requirements in these areas and has processes and skills in place to ensure it is able to comply with these requirements
- We recommend that the Council undertakes a review of the processes and working papers to support the audit of the financial statements to ensure working papers are fit for purpose and that officers understand what is meant by audit evidence and source documentation. We would be happy to assist in facilitating any training in this area.
- We recommend that arrangements should be put in place to ensure that complete member declarations are obtained and retained as part of the accounts production process.
- We recommend that Council performed proper review of contract register and put in place robust monitoring arrangements to ensure that they have copies of signed contracts.
- We recommend that the Council reviews its governance arrangements over host, agency and other partnership agreements to ensure there is a clear understanding of the nature and governance of these arrangements and the resulting accounting treatment. This should be done for all existing arrangements and processes should also be put in place to ensure these issues are considered at the time any new arrangements are entered into.



# 08 Data Analytics

### Data analytics

#### Journal Entry Testing

##### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

##### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

##### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

##### What are our conclusions?

Our testing of journals is completed with no material issues identified and is currently in review with Manager and Partner.



09

# Independence

# Appendix B

## Relationships, services and related threats and safeguards

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

There are no relationships from 1<sup>st</sup> April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The next page includes a summary of the fee due for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

At the time of writing, we have undertaken non-audit work in relation to the housing benefits assurance process (HBAP). Non audit work is work not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017. There are no other non-audit services being provided to the Council.

### EY Transparency Report 2022

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for period ending June 2023:

[ey-uk-2023-transparency-report.pdf](#)

# Appendix B



## Relationships, services and related threats and safeguards

<b>Services provided by Ernst &amp; Young</b>			
<b>Description</b>	<b>Planned Fee - 2020/21 (£) (estimated)</b>	<b>Scale Fee - 2020/21 (£)</b>	<b>Final Fee - 2019/20 (£)</b>
PSAA Scale fee	116,920	116,920	116,920 (a)
Proposed recurring variation to the scale fee	91,148 (b)	N/A	N/A
Total variation to the scale fee	N/A	N/A	92,798 (a)
Group/JVs issues	40,000 (c)	N/A	N/A
Infrastructure assets	2,700 (d)	N/A	N/A
Analytics charge	2,500 (e)	N/A	N/A
Grants	10,000 (f)	N/A	N/A
MRP review	8,000 (g)	N/A	N/A
Delays during the audit	14,000 (h)	N/A	N/A
Covid-19 related risks	4,000 (i)	N/A	N/A
Others	TBC (j)	N/A	N/A
VFM	16,000 (k)	N/A	N/A
ISA 540 accounting estimates	4,400 (l)	N/A	N/A
<b>Total Proposed Fees</b>	<b>TBC</b>	<b>116,920</b>	<b>209,718</b>

All fees exclude VAT

# Appendix B



## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

(a) For 2019/20, PSAA approved a total of £92,978 fee variation in addition to the scale fee of £116,920. The additional fees represents the cost incurred in assessing the risks the Council faced in relation to Covid-19, increased FRC challenge, Group accounts, technical accounting issues, VFM, PPE and Pension valuations, and others (e.g. quality preparation issues).

(b) We do not believe that the current scale fee set by PSAA adequately reflects the level of audit work required. For 2020/21, we therefore proposed an increase to the scale fee and provided the details to the Audit Committee in our previous reports. This will be subject to determination by PSAA once the audit is concluded.

(c) This fee variation relates to the work carried out on the accounting and arrangements the Council has in relation to its subsidiary and joint ventures.

(d) This fee variation relates to the additional inherent risk for 2020/21 relating to accounting of Infrastructure assets

(e) Due to a system change during the year, two data analysers were required to perform the audit. This also includes the audit team review of the completeness of the data migration from old to new system.

(f) Additional work carried out on the Council's accounting for grants including review of the disclosures in the accounts.

(g) The fee variation relates to the review carried out on the additional inherent risk for 20/21 relating to Council's minimum revenue provision (MRP) charges.

(h) The fee variation relates to the ongoing delays in provision of evidence in relation to debtors, creditors, income, expenditure, etc.

(i) Additional work carried out in assessing the covid-19 related risks.

(j) Other fee variations may arise up to signing of the financial statements since audit is still on-going at the time of writing the report. This includes but not limited to:

- Review on the revised financial statements once all audit adjustments have been made.
- Going concern procedures and consultation

(k) VFM work carried including the work on risk on governance arrangement by Council of its Joint venture arrangements.

(l) Variation in relation to addressing the requirements of the updated ISA 540 -Estimates

All proposed fees will be discussed with management and are subject to determination by PSAA. Until the audit is fully concluded the above fees are estimates. These will be finalised on conclusion of the audit.

A hand is shown reaching towards a row of hanging folders. The folders are filled with papers and are organized in a filing cabinet. The background is a light-colored wall with a subtle pattern.

# 10 Appendices

## Appendix A

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### Audit approach update

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

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

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

There were no significant changes to our audit approach from the prior year apart from adding the accounting for Infrastructure assets as significant risk for 2020/21.

# Appendix B

## Appendix B

### Required communications with the Audit Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - April 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - April 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - April 2023 Audit Results Report (update)- May 2024  Annual Auditor's Report - TBC

# Appendix B

## Appendix B

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	<p>Audit Results Report - April 2023                      Audit Results Report (update)- May 2024</p>
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Audit Results Report - April 2023                      Audit Results Report (update)- May 2024</p>
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	<p>Audit Results Report - April 2023                      Audit Results Report (update)- May 2024</p>
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit, Standards and Statutory Accounts Committee responsibility.</li> </ul>	<p>Audit Results Report - April 2023                      Audit Results Report (update)- May 2024</p>

# Appendix B

## Appendix B

		 Our Reporting to you
 Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>Audit Results Report - April 2023 Audit Results Report (update)- May 2024</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report - April 2021</p> <p>Audit Results Report - April 2023 Audit Results Report (update)- May 2024</p> <p>Annual Auditor's Report - TBC</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>Audit Results Report - April 2023 Audit Results Report (update)- May 2024</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	<p>Audit Results Report - April 2023 Audit Results Report (update)- May 2024</p>

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		Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - April 2023 Audit Results Report (update)- May 2024  Annual Auditor's Report - TBC
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit Planning Report - April 2021  Audit Results Report - April 2023 Audit Results Report (update)- May 2024
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - April 2023 Audit Results Report (update)- May 2024
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - April 2023 Audit Results Report (update)- May 2024
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - April 2023 Audit Results Report (update)- May 2024

## Appendix C

# Management representation letter - Draft

This is our draft letter of management representation. This could be subject to change following the completion of the final audit procedures

### Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

**Debbie Hanson**

Ernst & Young  
400 Capability Green  
Luton  
LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of London Borough of Havering ("the Group and Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of London Borough of Havering as of 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022))Council.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022))Council and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

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4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21(as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) for the Group and Council Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and the effects of the conflicts and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

#### **B. Non-compliance with law and regulations, including fraud**

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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# Management representation letter

### Management Rep Letter

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanction in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Group and Council, and Audit, Cabinet, Governance, and Full Council committees [held through the year to the most recent meeting on the following date: *[list date]*].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact on the Group and Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

#### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 43 to the consolidated and Council financial statements all guarantees that we have given to third parties.

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#### E. Going Concern

1. Note 1 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### F. Subsequent Events

1. Other than the disclosure described in Note 6 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

#### G. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Council, subsidiary undertakings and associated undertakings.

#### H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

#### I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered.

#### J. Ownership of Assets

1. Except for assets recognised as right-of-use assets in accordance with IFRS 16 *Leases*, the Group and Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.

#### K. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

#### L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property, land and buildings and pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any

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# Management representation letter

### Management Rep Letter

matters that have had an effect on the independence or objectivity of the specialists.

#### M. Estimates

##### Property and Pension liability valuation Estimates

1. We confirm that the significant judgments made in making the property and pension liability valuation estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the property and pension liability valuation estimates.
3. We confirm that the significant assumptions used in making the property and pension liability valuation estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
5. We confirm that appropriate specialized skills or expertise has been applied in making the property and pension liability valuation estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements, including due to the COVID-19 pandemic.

#### N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

\_\_\_\_\_  
Chief Operating (Section 151) Officer

\_\_\_\_\_  
Chairman of the Audit Committee

# Appendix B

EY | Assurance | Tax | Transactions | Advisory

## About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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