

Government and Public Sector

November 2009

London Borough of Havering 2008/09 Annual Audit Letter

The Members
London Borough of Havering
Town Hall
Main Road
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12 November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members on 8 December 2009.

Yours faithfully

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

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at the London Borough of Havering that is accessible for members and other interested stakeholders.

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

- Audit opinion for 2008/09 financial statements, dated 30 September 2009, incorporating the conclusion on Use of Resources;
- 2008/09 Report to those charged with Governance (ISA (UK&I) 260), dated 4 September 2009; and
- Report to the Chief Executive following the conclusion of our Use of Resources work, dated 7 October 2009.

The matters reported here are those that we consider are most significant for the Authority and a summary of the key recommendations that we have made can be found in Appendix A.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Authority's Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued on 17 June 2008.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

We identified the following key issues from our audit which were included in our report on the accounts presented to the Audit Committee, as those responsible for governance at the Authority, on 15 September 2009:

- **Accounting treatment of assets under the course of construction:** At any point in time, the Authority has a range of capital projects in operation. As a result, at year end there may be projects which are incomplete and should be classified as 'assets under construction'. Assets under construction are recognised at cost and treated as non-operational, until they are brought into use. Our review of the Authority's draft accounts noted that it did not account for 'assets under construction' separately in the balance sheet. Through discussions with management, the final accounts were amended in this respect. £1.3m of assets were transferred to the assets under construction category as at 31 March 2009 and this approach will be adopted to account for assets under construction going forward.
- **Infrastructure impairments:** Local authorities are expected to account for infrastructure assets at cost. The Authority currently writes off some of the costs on smaller schemes as it did not have the detailed analysis necessary to comply with the expected accounting practice. Going

forward, the Authority will consider ways in which it can comply more fully with the requirements and in the interim has revised its disclosed accounting policy to reflect the current treatment of these costs.

- **Systems of internal control:** As part of our work on the audit of accounts we documented and assessed the control systems and processes supporting financial reporting. We drew attention to areas where there were potential risks which could be addressed by modifying or strengthening controls in our report to the Audit Committee. We recommended modified checks on the processing controls for business rates to reflect the revised arrangements for this service and stronger monitoring and authorisation procedures for the operation of school bank accounts.

We have reported all of these matters to Management and agreed an appropriate course of action. We will follow up the implementation of our recommendations next year.

Use of Resources

The Audit Commission requires us to assess the overall arrangements that the Authority has in place in the following three areas:

- Managing finances;
- Governing the business; and

- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Authority.

Managing Finances

We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	2

The Council plans its finances effectively in consultation with its partners and the local community to enable it to direct money to areas of strategic need and to demonstrate improvements in priority service areas. A robust Capital strategy is in place covering an 8 year period with funding plan in place linked to agreed capital priorities. The Council's improved financial strength and

forward financial planning has been underpinned by creating a £17m strategic reserve. The Council understands its costs, and has shown how whole life costing has been used to improve the efficiency of service delivery. It has exceeded its efficiency targets; the total savings figure delivered to the end of 2007/08 was £22.3m, of which £17.3m was cashable against a target of £13.3m. It has put in place capacity to analyse and deliver improvements in its efficiency and improve services. Financial Reporting is generally sound but could be improved.

We drew attention to the following examples of areas for improvement:

- Review the form and content of external reporting to provide a more rounded and accessible summary of financial and service performance.
- Agree actions to deal with the small number of areas of non-compliance with local authority accounting practice and continue to monitor and liaise on new developments.
- Continue to refine the budget monitoring reports for Members to ensure reports meet their needs.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	3
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The Authority promotes and demonstrates the principles and values of good governance	2
2.4	The Authority manages its risks and maintains a sound system of internal control	2

The Council has built capacity during 2008/09 to enable it to take a corporate approach to delivering improved commissioning, efficiency and improved interaction with its customers. It bases its performance on reliable data which is reviewed regularly by officers and Members and has led to improvements in outcomes in Adult Social Care, Parks and Open Spaces and Libraries. The Council's governance arrangements are sound and it has developed an approach to assist in working effectively with partners. The system of internal control generally meets expected standards and the quality and effectiveness of internal audit and the Audit Committee continue to improve. If this rate of improvement is sustained it would be reflected in higher scores in these areas in 2010.

We drew attention to the following examples of areas for improvement:

- Continue to work with NHS Havering to develop and implement strategic commissioning based on the Joint strategic Needs Assessment to ensure appropriate services are commissioned for all residents in need.
- Strengthen data security and business continuity arrangements.
- Ensure that the agreed improvements to partnership agreements and arrangements for consultation on the value for money of particular partnerships are implemented.
- Consider the scope to increase reliance on the framework of internal control assurance and to incorporate more added value work in the internal audit programme.

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources	2
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs	3

3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	N/A
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The Council understands and can quantify its use of some natural resources and can identify the main influencing factors. It can demonstrate that it has taken specific actions to reduce its impact on the environment and has worked with partners on a range of projects which have taken into account the joint impact on the environment. The Council has a strategic approach to asset management based on an analysis of need to deliver strategic priorities, service needs and intended outcomes. It actively monitors the performance of its assets to ensure that they are fit for purpose and provide value for money. In redeveloping its Libraries and through its Office Property Strategy the Council has worked with partners and community groups to maximise the use of its assets for the benefit of the local community.

We drew attention to the following examples of areas for improvement:

- Strengthen performance monitoring for the main indicators for environmental sustainability and monitor the effectiveness of the Sustainability Impact Appraisals

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Authority's arrangements for its Use of Resources on 30 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is included in the financial statements.

We reviewed the AGS to consider whether it complied with the relevant guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern in terms of

the content of the statement.

Treasury Management

The Authority had £12.5m invested in Icelandic Banks and has accounted for these investments and the potential for losses in line with guidance prepared for local authorities. The potential losses as at 31 March 2009 were calculated at £2.7 million and the Authority has taken this into account when assessing its level of reserves and its financial projections.

Alongside our audit work, we carried out a separate review of the Council's treasury management activities in 2008. The review concluded that although the Council's arrangements were similar to those we had seen in other places there was a need to broaden the range of measures used by the Council to assess the suitability of financial institutions with whom it might invest. In view of the greater risks apparent in 2008, the Authority had already implemented a number of measures to strengthen its arrangements and has taken account of our recommendations as part of its revised arrangements. As a result, we did not identify any issues of concern based on the scope of a subsequent programme of work on Treasury Management mandated by the Audit Commission in 2009.

Members' Allowances

As part of our work on Use of Resources we reviewed the Council's scheme for members' allowances. This work was also mandated by the Audit Commission. We considered whether the Council is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme. We did not identify any matters of concern.

London Borough of Havering Pension Fund

We have completed our audit of the Council's Pension Fund and did not identify any significant issues to be brought to the attention of the Pension Fund Panel. We issued an unqualified opinion on the Pension Fund accounts on 30 September 2009.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

There are proposed changes to the basis of financial reporting which are being introduced across the public sector. This will apply to accounting periods starting on or after 1 April 2010. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Council will need to be aware of the additional requirements for assets and transactions that will be required to comply with IFRS from this date.

In advance of full adoption, the 2009 SORP adopts IFRS accounting principles for PFI schemes and similar service arrangements. Under IFRS there is an expectation that more of these types of schemes will be accounted for as “on balance sheet”, in contrast with current practice under UK GAAP and the SORP, where many schemes are predominately accounted for as “off balance sheet”.

The Authority will need to ensure that it has a good grasp of the changes to accounting requirements and that it has robust plans in place to enable collection and processing of the information needed to comply with the new requirements.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;

- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

Summary of recommendations

Page	Recommendation	Management Response	Target Implementation Date
5	<p>Business Rates Shared Service Agreement</p> <p>The Authority should include in its shared service arrangement the provision of assurance over the operation of the systems and processes operated by the shared service provider.</p>	<p>The service agreement will be reviewed to ensure that adequate risk management arrangements are in place. The authority will ensure that sufficient comfort can be obtained through the controls and processes that deliver services to its resident businesses.</p>	1 April 2010
5	<p>School Bank Accounts</p> <p>The Authority's rights to information should be reflected in bank mandates to open and operate school bank accounts. The Authority should also review value for money considerations of schools setting up their own bank accounts against the potential efficiencies to be achieved from the Authority consolidating its banking arrangements with a single provider.</p>	<p>The closure timetable will be updated to include a process to review any changes in schools' banking arrangements and obtain any new authorities required. The Authority will not become a signatory. In addition the Authority will seek to include schools within its corporate banking contract and will ask the banks to consider the level of service they can provide to the schools.</p>	1 March 2010

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

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