

London Borough of Havering

Annual Audit Letter

2013/14

*Government and
Public Sector*

October 2014

pwc

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

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

Introduction

The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Annual Certification Report for 2012/13 grant claims.
- Audit opinion for the 2013/14 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources.
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Authority.

Scope of Work

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

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the London Borough of Havering Pension Fund.

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We met our responsibilities as follows:

Audit Responsibility	Results	Audit Responsibility	Results
<i>Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	We issued an unqualified opinion.	<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	We did not identify any matters where we needed to take action in relation to our responsibilities under the Audit Commission Act.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	We issued an unqualified assurance statement.	<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We will issue our completion certificate after we have issued our opinion on the Pension Fund Annual Report.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	We issued an unqualified conclusion.	<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority's statement of accounts.</i>	We will issue an opinion on the Pension Fund Annual Report after we have completed our assurance procedures on it.
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	We did not identify any matters to bring to the attention of those charged with governance.		
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	We did not issue any reports in the public interest.		

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2014.

We noted the following significant issues arising from our audit within our report to those charged with governance (ISA (UK&I) 260):

- Capital expenditure incorrectly recognised as revenue expenditure.
- Incorrect accruals of income and expenditure.

These matters were reported in detail in our report to those charged with governance, presented to the Audit Committee on 25 September 2014 and are summarised on pages 5 and 6 below.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

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

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Annual Governance Statement

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

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

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 30 September 2014. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in February 2014. We certified 4 claims worth £188.3 million. In 2 case(s) a qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2012/13. We will issue the Annual Certification Report for 2013/14 in the first quarter of 2015.

Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

As part of our audit work in 2014/15, we will follow up all recommendations we have made and report the status of these in future reports.

Recommendation

Payroll reconciliation

The payroll reconciliation was not completed for the year end on a timely basis. We understand from the payroll team that payroll reconciliations have been produced throughout the year, but with issues needing to be resolved.

This matter was raised in our 2012/13 Annual Audit Letter and was not fully addressed.

We recommend the payroll reconciliation is performed monthly.

During the 2013/14 audit, the reconciliations provided at the start of the audit were not reconciled. The reconciliations were then revised and provided with trivial reconciling items.

We expect the payroll reconciliation to be provided at the start of the audit next year.



Management Response

A monthly reconciliation format has been agreed with the auditors and is in place for monthly payroll reconciliations to ensure the reconciliation is available at the start of the audit for 2014/15.

Accruals of income and expenditure

We have identified various instances from different testing (including income and expenditure cut-off testing, recorded liabilities, and accruals testing) in which accruals were either not raised or raised incorrectly.

We recommend that management should review the controls around the accruals of income and expenditure to ensure that income and expenditure is recorded in the correct period.



Under Shared Service arrangements, accruals are identified and raised by the Service concerned. Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters

Recommendation

Capital expenditure

In testing operating expenditure, we found several instances in which capital expenditure for Council's schools and highway maintenance service was incorrectly expensed.

We recommend that management should review the controls around the capitalisation of expenditure and ensure that clear instructions are provided to schools and other business units outside finance.



Management Response

Under Shared Service arrangements, Cost Centre Managers are responsible for ensuring their expenditure is correctly classified. As this capital expenditure would have been financed by revenue contributions, there was no impact on revenue outturn from these errors, but the accounting treatment was incorrect.

Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.

Education Finance will monitor schools building maintenance costs to ensure costs are capitalised as appropriate.

Bank reconciliations

We recommend that monthly bank reconciliations should be performed and reviewed in line with the policy for each of the bank accounts.

There should be clear evidence of review, for example, electronic signature and date of review. The review should make sure that the list of reconciling items is complete and valid.

Bank reconciliations should be prepared based on the statement as at 31/03/14. The reviewer checklist should include checking the date of the bank statement.



The incorrect reconciliation files were initially provided to the auditors, and this was corrected when identified. The Number 1 account had a balance of £29k relating to un-presented cheques. A new form is being introduced to improve control of reconciliations on a daily basis, included un-presented cheques.

Reconciliations are reviewed by the relevant senior officer and a date of review inserted into the file to show the date approved or reviewed.

Housing & General Account reconciliations will be reviewed to identify whether it is practical to have separate reconciliations for these two areas.

Pension contributions paid into Council's main bank account

We found that in three instances, the contributions have been paid into the Council's main bank account and not the special-purposed bank account set up for separating contributions payments from other Council payments as per the LGPS laws and regulations.

We recommend that Pension Fund Management ensure these contribution payments, especially the contribution from admitted or scheduled bodies, are made into the separate Pension Fund bank account.



Bank Account reconciliations identify when contributions are paid into the wrong bank account. Schedules of expected contributions identify late payment, and a Charging Policy is to be taken to the Pensions Committee to allow the Pension Administration team to impose charges on scheme employers for failing to comply with administrative requirements.

Pension benefit payment

We have identified two occasions where payroll processed payments for people who had already terminated their employment with the Council.

We recommend that management should process the paperwork relating to the terminated employee in a timely manner to ensure no payment is made to leavers after their termination date.



The Transactional services Manager is investigating the issues giving rise to the auditor's recommendation and will implement any necessary change in procedures in liaison with them.

Recommendation

Issues with admission agreements

We have identified that the Pension Fund Manager did not have bond values for 6 out of 9 admitted bodies. Bonds have only been valued for admitted bodies as at admission and these are assessed every three years.

- 1 We recommend that a formal protocol is established for admission of admitted bodies, including monitoring and the pensions accounting team being given a full schedule of admission agreements so that the accounts can be kept up to date in this respect.*
- 2 We recommend that management have more frequent revaluations of bonds. Although the regulations do not stipulate how frequently this is needed, it would be reasonable to do this at least annually.*

Lack of pensions specific risk register

We recommend the Pensions Committee consider drawing up a pensions specific risk register.

Management Response

A TUPE manual and Admission Policy is currently being consulted upon and will be presented to the Pension Committee before March 2015. CMT have been briefed on the issues with Admission Agreements to disseminate clear responsibilities to their directorate service managers. Regular meetings are held with Legal Services to monitor progress on finalising Bond and Admission Agreements. Regular briefings are provided to external scheme employers, such as Academies, to remind them of their duties regarding Admission and Bond terms for contractors to be admitted to the Pension Fund. Where there is failure to comply it is reported to members of the Pension Panel.

The TUPE manual and Admission Policy will set out the timescales for reviewing bonds, with annual bond review put in place for the latter years of a contract that is coming to the end of the contract period. Who meets the costs for the bond revaluations has been addressed in the Charging Policy, which is being presented to the Pension Committee in September 2014.

Risks and how they are controlled are already covered in the appropriate individual statutory policies. Officers are currently compiling a register to pull together all the identified pension risks for members to consider later in the year.

Final Fees

Final Fees for 2013/14

We reported our fee proposals in our audit plan.

We reported in our report to those charged with governance, issued to the Audit Committee on 25 September 2014, a number of factors causing variances to our proposed fees.

These were:

- Overruns incurred during the final audit (£8,063).
- Additional targeted work undertaken in respect of oneSource to inform our value for money conclusion (£6,666).
- Changes in the Audit Commission certification regime, which required us to obtain audit comfort over Council Tax Support awarded and Business Rates income in the statement of accounts from additional audit procedures over these items, rather than by relying on certification work undertaken over the respective grant claims (£1,300 for Business Rates, Council Tax Support figure to be determined).
- Additional audit work in relation to the additional risk in relation to pooled investment vehicles and the Pension Fund Annual Report (£3,645).

(i) We are currently in the process of agreeing the fees described above, that are in addition to the scale element, with the Audit Commission, and will report the final position in due course.

(ii) Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance at a later date within the 2013/14 Annual Certification Report.

London Borough of Havering

Our fees charged to date, which are subject to change following approval of additional fees by the Audit Commission, are therefore:

	2013/14 charged to date	2013/14 fee proposal	2012/13 final outturn
Audit work performed under the Code of Audit Practice	220,859 (i)	220,859	222,359
• Statement of Accounts			
• Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
• Whole of Government Accounts			
Certification of Claims and Returns	22,565 (ii)	22,565	41,390
Non Audit Work	0	0	25,000
TOTAL	243,424	243,424	288,749



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