

# *London Borough of Newham*

*Report to those charged with governance*

Report to the Investment and Accounts Committee of the authority  
on the audit of the statement of accounts and pension fund accounts  
for the year ended 31 March 2014 (*ISA (UK&I) 260*)

Government and  
Public Sector

December 2014

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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.*

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*An audit of the Statement of Accounts 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 have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.*

## Executive summary

### Background

This report tells you about the significant findings from our audit of the authority accounts and the pension fund accounts. We presented our plan to you in March 2014; we have reviewed the plan and concluded that it remains appropriate apart from the following changes to our risk assessment (set out in more detail on pages 4 and 7):

- A significant risk has been noted for the financial resilience of the Authority as part of our consideration of the Value for Money criteria after considering the Authority's medium term financial strategy, which identifies a significant budget gap due to cost pressures and funding reductions.
- We have added a new elevated risk in relation to oneSource, the joint committee between the Council and the London Borough of Havering (see also page 19).

This report provides an update to the report presented to the Audit Board and Investment and Accounts Committee on 15 September 2014, with updates in blue text.

### Audit Summary

We began the audit of the accounts on June 16<sup>th</sup>, in accordance with the timetable agreed with management.

The first draft of the financial statements was presented to us on 30<sup>th</sup> June in accordance with the timetable agreed with management. The quality of the draft financial statements reflected an improvement on the prior year.

However, the audit of the transactions and balances in the accounts has been subject to significant delay, due to the lack of quality in the responses provided by Officers, and the time taken by Officers to respond to audit queries. This comment applies to the main statement of accounts rather than the pension fund, where the only delays to the audit were caused by issues in obtaining audit evidence in relation to payroll.

We were due to have completed the majority of our audit work by 25<sup>th</sup> July, but as at the date of drafting this report (3<sup>rd</sup> September), many areas of the audit remained outstanding. This will result in additional audit fees being charged to the Council. [At the date of drafting this updated report \(5<sup>th</sup> December 2014\), our financial statements audit work was complete, other than finalisation procedures on the final version of the accounts.](#)

The key outstanding matters, where our work has commenced but is not yet finalised, are listed on pages 11-12.

We were unable to complete our audit of the financial statements by 30<sup>th</sup> September owing to the delays referred to above. Furthermore, we received objections to the accounts, described below. We also needed to understand the implications for our audit work, disclosures in the accounts and our reporting responsibilities in response to the governance issues with regard to East Ham Campus project also referred to below.

There are two key judgments which require the Investment and Accounts Committee's attention – further details are set out commencing on pages 13-14.

We have noted a number of control deficiencies, as set out in more detail on pages 21-28.

We also ask that the Investment and Accounts Committee confirm the proposed treatment of unadjusted misstatements listed in Appendix 1.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 15<sup>th</sup> September 2014.

Attending the meeting from PwC will be Julian Rickett, Chris Hughes and Nicholas White.

### *Objections to the accounts*

On 9 October 2014, we received three objections to the accounts from an elector.

One of the objections requested that we apply under section 17 of the Audit Commission Act 1998 to the court to have, what was set out in the objection, a material amount of income declared unlawful.

As the amount quoted is material to the financial statements, we have had to undertake sufficient work on the objection to satisfy ourselves that there is not a potentially material unlawful item of account in the 2013/14 accounts before we are able to sign our audit opinion on them. This work has been completed.

### *Public Interest Report*

In August 2014, we were made aware of overspends against budget in relation to the East Ham Campus project ('the

project'). On 28 October 2014, we were also made aware of potential unlawfulness in relation to the expenditure incurred on the project in 2013/14, as well as significant governance weaknesses. These matters were set out in a report prepared by the Chief Executive to Cabinet on 4 December 2014.

We are considering exercising our discretion to issue a report in the public interest under Section 8 of the Audit Commission Act 1998 to bring attention to a number of governance weaknesses identified in respect of the project.

We have also had to undertake sufficient work on this issue to satisfy ourselves that there is not a potentially material unlawful item of account in the 2013/14 accounts and sufficient disclosures within the accounts and Annual Governance Statement before we are able to sign our audit report. This work has now been completed.

### *Acknowledgements*

We would like to thank Deborah Hindson, Roy Nolan, Radwan Ahmed, Grant Miles, Stephen Wild and their team for their help and assistance provided to us during the course of our audit.

# Audit approach

Our audit approach was set in our audit plan which we presented to you in March 2014.

Since we communicated our audit plan, we have amended our audit approach to reflect the following changes:

| Risk                                   | Risk level                                       | Response to new risk/change in risk level  | Reason for change  |
|--|--|--|--|
| Value for money (financial resilience) | Original – Elevated<br><br>Revised – Significant | The Authority, like other Local Authorities, is facing increasing financial pressures and significant challenges to identify the levels of savings they require over the next three to five years.<br><br>At present, as per the Authority’s medium term financial strategy, there exists a significant “budget gap” over the medium term, with gaps of £43.3m in 2015/16 and £53.0m in 2016/17. | As part of our value for money responsibilities, we are required to consider the financial resilience of the Authority into the foreseeable future. This definition of foreseeable future has been expanded by the Audit Commission to include the medium term rather than the next 12 months.<br><br>As the identified “budget gap” is material and is in the progress of being addressed, we have reassessed the risk level concluding it to be significant.<br><br>Full detail on the work performed against this risk is detailed on page 7. |
| oneSource                              | New risk identified - elevated                   | The risks faced by the Council are that: <ul style="list-style-type: none"> <li>• savings are not realised;</li> <li>• there is no capacity to deliver the shared service;</li> <li>• the governance structure is not robust, and</li> <li>• the monitoring function is ineffective.</li> </ul>  | The London Boroughs of Havering and Newham (“the Councils”) agreed to establish a shared service to provide certain support services through a Joint Committee arrangement under delegated authority from each Council, known as “oneSource”.  |

We have summarised below the significant and elevated risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

### Main council audit

| Risk   | Categorisation | Audit approach   | Results of work performed  |
|--|----------------|--|--|
| <b>Fraud and management override of controls</b> | Significant    | <p>During the audit we focused on areas where management could override the control environment to materially misstate the financial statements.</p> <p>We:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments to the general ledger on a sample basis;</li> <li>• tested accounting judgements that affected the General Fund for bias, such as bad debts, accruals and provisions;</li> <li>• considered if there had been significant transactions outside the normal course of business;</li> <li>• reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and</li> <li>• performed unpredictable procedures targeted on fraud risks.</li> </ul> | <p>As at the date of drafting this report, we had not identified any material issues to report to you as a result of our work.</p> <p>We will provide a verbal update to the Committee.</p> <p><a href="#">Other than the matters described on pages 19-20 in relation to the East Ham Campus issue, there are no matters that we wish to bring to your attention.</a></p> |

| Risk  | Categorisation | Audit approach   | Results of work performed  |
|---|----------------|--|--|
| <b>Recognition of income and expenditure</b>                              | Significant    | <p>We obtained an understanding of key revenue and expenditure controls.</p> <p>We evaluated and tested the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting for 2013/14 (“the Code”).</p> <p>We performed detailed testing of revenue and expenditure transactions, focussing on the areas considered to be of greatest risk.</p> <p>For income, these were sales, fees and charges.</p> <p>For expenditure, these were non-payroll service expenditure.</p> | <p>As at the date of drafting this report, we had not identified any material issues to report to you as a result of our work.</p> <p>We identified issues in relation to the cut-off of income and expenditure and have described these in detail on page 12 of this report.</p> <p><a href="#">There are no further matters that we wish to bring to your attention.</a></p> |
| <b>Risk of material misstatement in cash and cash equivalents balance</b> | Elevated       | <p>We reviewed the year end bank reconciliations for bank accounts held by the Council, including a selected number of schools bank reconciliation.</p> <p>We tested reconciling items between the bank statement and the general ledger balances back to supporting documents.</p> <p>We evaluated whether bank reconciliations have been performed for the whole of 2013/14 financial year.</p>  | <p>We have raised a number of control points in relation to bank and cash, which are detailed on pages 21-28.</p> <p>Other than those matters, as at the date of drafting this report, we had not identified any material issues to report to you as a result of our work.</p> <p><a href="#">There are no further matters that we wish to bring to your attention.</a></p>    |
| <b>Risk of material misstatement in investment properties</b>             | Elevated       | <p>We:</p> <ul style="list-style-type: none"> <li>agreed the source data used by the District Valuer to supporting records;</li> <li>assessed the work of the District Valuer through use of our own internal specialists where required; and</li> <li>agreed the outputs to your Fixed Asset Register and accounts.</li> </ul>  | <p>As at the date of drafting this report, we had not identified any material issues to report to you as a result of our work.</p> <p><a href="#">There are no matters that we wish to bring to your attention.</a></p>  |

## Value for Money Conclusion

| Risk          | Categorisation   | Audit approach   | Results of work performed  |
|---------------|--|--|--|
| Savings plans | Significant (previously reported as elevated – see page 4 for further details) | <p>We will review your savings plan.</p> <p>We will consider how you manage the plan, and will investigate the reasons behind any significant variations from the plan.</p> <p>We will specifically consider:</p> <ul style="list-style-type: none"> <li>• your record in delivering savings;</li> <li>• the governance structure in place to deliver the targets (including extent of Member involvement);</li> <li>• the level and extent of accountability;</li> <li>• project management arrangements;</li> <li>• monitoring and reporting; and</li> <li>• progress on delivering the plan.</li> </ul> <p>We will consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure</p> | <p>As at the date of drafting this report, our audit work in this area had not commenced, as our work to address this risk is planned to be undertaken in September 2014.</p> <p><a href="#">There are no matters that we wish to bring to your attention.</a></p> |
| oneSource     | Elevated   | <p>We will conduct interviews with senior stakeholders at the council and review relevant documentation to assess how the council is managing the risks identified on page 4 above.</p>  | <p>As at the date of drafting this report, our audit work in this area had not commenced, as our work to address this risk is planned to be undertaken in September 2014.</p> <p><a href="#">There are no matters that we wish to bring to your attention.</a></p> |

## Pension Fund Audit

| Risk  | Categorisation     | Audit approach  | Results of work performed   |
|---|--------------------|---|---|
| <p><b>Fraud and management override of controls</b></p> | <p>Significant</p> | <p>During the audit we focused on areas where management could override the control environment to materially misstate the financial statements.</p> <p>We:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments to the general ledger on a sample basis;</li> <li>• tested accounting judgements that affected the Pension Fund for bias, such as bad debts, accruals and provisions;</li> <li>• considered if there had been significant transactions outside the normal course of business;</li> <li>• tested that expenditure had been recorded in the correct financial year;</li> <li>• considered whether any segregation of duties weaknesses give rise to a significant risk of material misstatement;</li> <li>• reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and</li> <li>• performed unpredictable procedures targeted on fraud risks.</li> </ul> | <p>As at the date of drafting this report, we had not identified any material issues to report to you as a result of our work.</p> <p><a href="#">There are no matters that we wish to bring to your attention.</a></p> |

| Risk  | Categorisation | Audit approach   | Results of work performed  |
|---|----------------|--|--|
| <p>Valuation of Diversified Alternative Investments including Private Equity Investments, and Pooled Property Investments</p> | Elevated       | <p><i>For Private Equity investments, we:</i></p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments to the general ledger on a sample basis;</li> <li>• obtained third party confirmations from the investment manager and reviewed controls assurance reports from the investment manager and placed reliance on controls where possible;</li> <li>• obtained the most recent transactions report post 31 March 2014 and understood significant movements in the value for each asset class within the portfolio;</li> <li>• reviewed the allocation of investments compared with the requirements of the Statement of Investment Principles (SIP).</li> </ul> <p><i>For Pooled Property Investments, we:</i></p> <ul style="list-style-type: none"> <li>• Obtained independent confirmation from the fund manager and re-performed the calculation of year-end valuation by multiplying the confirmed number of units by the confirmed unit price and converted by PwC sourced foreign currency exchange rate where necessary.</li> <li>• In order to gain evidence that the confirmed price was a realisable value, obtained details of a transaction in the fund close to the year-end, where available, and compare the transacted price to the year-end price.</li> <li>• We obtained a copy of fund manager's report on internal controls and identified whether there were any weaknesses in the controls over the pooled vehicle valuation process, and the audited accounts for the fund, where available, and compared the audited unit price to the unaudited price provided by the fund manager or custodian.</li> </ul> | <p><i>Private Equity</i></p> <p>The draft accounts are prepared on custodian reports. For private equity holdings, the valuation reports included these with a valuation as at 31.12.13, not the year end valuation.</p> <p>The private equity fund manager's year end valuation was available when we performed the testing and we found the draft accounts undervalued the investment by approximately £5m. This uncorrected misstatement is set out in Appendix 1.</p> <p>Other than the above matter, as at the date of drafting this report, we had not identified any material issues to report to you as a result of our work.</p> <p><a href="#">There are no further matters that we wish to bring to your attention.</a></p> <p><i>Pooled Property Investments</i></p> <p>We did not identify any issues to report to you as a result of our work.</p> |

### *Scoping – materiality*

In our audit plan presented to you in March 2014 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality varied because it had to be updated for the Authority’s actual results for 2013/14.

Our revised materiality levels are as follows:

|  | <b>£</b>   |
|--|------------|
| Overall materiality – Main accounts                  | 11,357,970 |
| Overall materiality – Pension Fund                   | 9,041,500  |
| Clearly trivial reporting de minimis – Main accounts | 500,000    |
| Clearly trivial reporting de minimis – Pension Fund  | 250,000    |

Overall materiality has been set at 1% of actual gross expenditure for the year ended 31 March 2014.

Overall materiality for the pension fund audit has been set at 1% of net assets for the year ended 31 March 2014.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated.

We agreed the de minimis threshold with the Investment and Accounts Committee at its meeting in March 2014.

# Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

## Accounts

We began the audit of the accounts on June 16<sup>th</sup>, in accordance with the timetable agreed with management.

The first draft of the financial statements was presented to us on 30<sup>th</sup> June in accordance with the timetable agreed with management. The quality of the draft financial statements was good and an improvement on the prior year.

However, the audit of the transactions and balances in the accounts has been subject to significant delay, due to the lack of quality in the responses provided by Officers, and the time taken by Officers to respond to audit queries.

The key areas where we experienced the most significant delays were (I) payroll, where we agreed a timetable with management for the audit of payroll transactions in February 2014, which management failed to adhere to, (II) testing of income and expenditure transactions, where services failed to provide sufficient, appropriate audit evidence in a timely manner for the majority of our sample selected. This was disappointing, as we invested time during the planning phase of the audit to explain to Business Partners what constituted sufficient, appropriate audit evidence (III) cash, where the audit took two months due to the fact that all knowledge concerning the bank reconciliation was held by an officer who had an unplanned absence and (IV) Property, Plant and Equipment where, while working papers were generally of a better standard than those provided by services, some

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additional audit effort was required to understand certain working papers.

The root cause of the majority of the issues we experienced in the audit were poor quality 'working papers', which we define as including responses to audit queries on transactions and balances. Specifically, working papers often could not be understood by the audit team (including experienced members of the audit team), as the papers did not include sufficient explanation in them to enable us to conduct the audit efficiently.

We note that working papers in relation to the Collection Fund, Housing Revenue Account and loans and investments were of a good standard and facilitated an efficient audit process.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- testing of government grants income; [this work has now been completed](#)
- testing in relation to the inputs to Property Plant and Equipment (PPE) valuations and investment property valuations; [this work has now been completed](#)
- testing of accounting entries in relation to the Council's PFI schemes; [this work has now been completed](#)
- testing of payroll expenditure; [this work has now been completed](#)
- testing of Housing Revenue Account (HRA) other income; [this work has now been completed](#)

- testing of outstanding evidence to support the senior officer redundancy payments; [this work has now been completed](#)
- testing of senior officer pay; [this work has now been completed](#)
- testing of provisions for NNDR appeals; [this work has now been completed](#)
- confirmation of accounts amendments for undisclosed Related Parties; [this work has now been completed](#)
- our completion procedures including subsequent events review;
- testing of the Whole of Government Accounts submission; [this work has now been completed](#)
- finalisation of the financial statements;
- senior engagement team member review of audit working papers; [this work has now been completed](#)
- finalisation of our value for money conclusions; and [this work has now been completed](#)
- your approval of the Statement of Accounts and letter of representation.

### *Accounting issues*

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

We identified the following matters during the course of our work that we wish to draw to your attention:

- Cut-off of income and expenditure, where we identified, as part of our sample of income and expenditure transactions posted during 2013/14, a number of items that actually related to the 2012/13 financial year, and items that should have been accrued as expenditure for at 31 March 2014 but were not. We considered whether a prior period adjustment

was required to adjust the 2012/13 accounts for the items that had not been accounted for in 2012/13, but concluded that this was not necessary on the basis that the total of the items concerned was not material (see pages 33-36 for details).

- The most significant issue that we identified in our testing of cut off of expenditure, was the incorrect recognition of an expenditure accrual in the 2013/14 financial statements of £1.6m for planned future capital expenditure, requested by Elmhurst school. [This item has been adjusted for in the final version of the accounts. A second adjustment was made in relation to a £909k over-accrual in relation to repairs and maintenance expenditure.](#)
- [A third adjustment has been made to the accounts in relation to the disposal of land at Sugar House Lane. The net book value of the land \(£1.7m\) had not been written out of the accounts in the version that was presented to the Audit Board and the Investment and Accounts Committee on 15 September– this has been corrected for in the final draft.](#)
- [A prior period adjustment has been made to the final version of the accounts in respect of re-classifications of amounts presented in the 2012/13 comparatives within the Comprehensive Income and Expenditure Statement. The comparatives have been restated so that they comply with the CIPFA Service Reporting Code of Practice \(SeRCOP\). There has been no overall effect on the total net cost of services. Note 53 has been added to the statement of accounts to explain the prior period adjustment.](#)
- Cash, where there remains an unexplained difference of £70k between the general ledger balance and the bank balance for the schools bank reconciliation.

## *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. Please refer to Appendix 1 on pages 33-36 for these.

## *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts, we have considered as part of the audit and we have no matters to raise with you.

We will ask management to represent to us that the selection of, or changes in significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

## *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

As at the date of drafting this report, we had identified related parties that had not been disclosed in the first draft of the accounts. Our work in this area continues to be in progress.

We will provide a verbal update to the Committee.

[Following our audit work, management have made a number of changes to the related parties note to reflect related party transactions. We have audited the disclosures made in Note](#)

[40 to the financial statements and have no further matters to raise.](#)

## *Judgments and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

### ***Valuation of property, plant and equipment and investment properties***

In accordance with its accounting policy the Authority re-values Council Dwellings and Investment Properties annually. All other asset classes are re-valued on a five year rolling basis.

The Authority has utilised the expertise of external valuers in evaluating the valuation of the Authority's property, plant and equipment and investment properties. Our valuation experts have reviewed the assumptions and methodologies used by the external valuer.

In addition, we selected a sample of properties in the Beacon group to re-perform the valuation calculation which was based on the average sale price of properties with similar characteristics. As part of our work, we also challenged management in respect to the specific adjustments made to the value of each property. This work is in progress. [This work has been completed and we have no matters to raise.](#)

Management carried out an impairment review during the year for assets that were not re-valued in 2013/14. The assumptions and methodology were reviewed by PwC valuers. We also further challenged management by assessing the impact of properties which were not re-valued

on the financial statements. In particular, we calculated the value of the assets if they had been revalued annually using the Gerald Eve's IPD Capital Value indices and compared this recalculated value with the current net book value of the assets. This work is in progress. [This work has been completed and we have no matters to raise.](#)

In respect of those assets subject to formal valuation in the year, we have considered the approach adopted by the external valuer and the Authority and, in the context of the truth and fairness of the accounts as a whole, are satisfied that the valuations recorded in the accounts for the assets revalued in the year are not materially misstated. We will provide a verbal update to the committee in respect of our other work on asset valuations.

### ***Pensions liability***

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the London Borough of Newham pension fund. Your net pension liability at 31 March 2014 was £904 million (2013 - £840 million).

The 2013 triennial valuation has been finalised and the effect has been reflected in the 2013/14 Statement of Accounts.

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

We utilised the work of actuarial experts to assess the assumptions applied by the Council and found no issues.

We audited the data supplied to the actuary on which to base their calculations.

We performed reasonableness checks over pension assets by comparing expected fair value of scheme assets with the actual value. The expectation was based on the assumption that there were no significant changes affecting the allocation

of assets. The difference is within what we consider to be a tolerable threshold, and hence the fair value of the assets was deemed to be reasonable.

### ***Changes to IAS 19: Employee Benefits***

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected appropriately in the Authority's financial statements.

### ***Pension Fund***

We have noted that no tolerance is set in the Statement of Investment Principles, or other investment strategy documents. We understand the actual allocation compared to benchmark is reported to Investment and Accounts Committee on a quarterly basis. However, it is good practice to set a strategic allocation target with a tolerance range.

### ***Management representations***

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

### ***Audit independence***

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

### *Relationships between PwC and the Authority*

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

### *Relationships and Investments*

Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Chris Hughes, the Engagement Senior Manager, is married to a part-time teacher at the St Helen's Primary School, which is within the borough. Mrs Hughes has no accounting responsibilities in the school and is not part of the senior management team. Chris Hughes will not be involved in any external work in relation to the St Helen's School.

Therefore at the date of this ISA 260 report to those charged with governance we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

### *Employment of PricewaterhouseCoopers staff by the Authority*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

### *Business relationships*

We have not identified any business relationships between PwC and the Authority.

### *Services provided to the Authority*

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority:

| <b>Support provided by PwC</b>  | <b>Value (£)</b> | <b>Threats to independence and safeguards in place</b>  |
|---|------------------|---|
| <b>Certification of claims and returns</b><br><br>Our procedures will consist of certifying the 2013/14 Housing Benefit Subsidy Claim and the 2013/14 Pooling Housing Capital Receipts return in accordance with the certified instructions issued by the Audit Commission. | 48,533           | <b>Self-Review Threat:</b> The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.<br><br>There is no self-review threat as we are certifying management completed grant returns and claims.<br><b>Self-Interest Threat:</b> As a firm, we have no financial or other interest in the results of the Authority.<br><br>We have concluded that this work does not pose a self-interest threat.<br><b>Management Threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.<br><b>Advocacy Threat:</b> We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.<br><b>Familiarity Threat:</b> Work complements our external audit appointment and does not present a familiarity threat.<br><b>Intimidation Threat:</b> We have |

concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with integrity and professionalism.

**Management threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**VAT Awareness Workshop**

2,200

The provision of two half day VAT Awareness training sessions to be provided for finance officers.

**Self-review threat:** There is no overlap in the members of the audit team and the tax team involved in providing the VAT workshop and accounting advice. There is no self-review threat as the audit and tax teams are not part of the same engagement team or line of service.

**Self-interest threat:** As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat.

**Advocacy threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.

**Familiarity threat:** Work is not linked to our external audit appointment and does not present a familiarity threat.

**Intimidation threat:** We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.

**Management threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**Teacher’s Pensions Agency return certification**

Certification procedures over the Teacher’s Pensions Agency return

**Self-review threat**

While members of the audit team will conduct the engagement, management have prepared the return.

**Self-interest threat**

PwC has no financial or other interest in the results of the Authority. Fee for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature. Concluded that this work does not pose a self-interest threat.

**Advocacy threat**

We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.

**Familiarity threat**

Proposed work does not impact on the audit team’s ability as the appointed auditor to be objective. Conclude that there is not a threat of familiarity in this situation

**Intimidation threat:** We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.

**Management threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**Work for entities performed outside the LB Newham Group**

**London Legacy Development Company**

Newham Legacy Investments (NLI) and London Legacy Development Company (LLDC) are setting up a Joint Venture, E2o Stadium LLP (E2o).

NLI is 100% owned by the London Borough of Newham.

PwC have been working with LLDC with the bid evaluation process for concessionaires and also the development of a business plan for the Olympic Stadium. The Olympic Stadium is to be leased into E20. LLDC have asked PwC to update the business plan to reflect the latest position regarding capital expenditure, maintenance and other matters.

We are content that this work does not pose any independence threat to our audit of LB Newham, but present these details here for the purposes of transparency for those charged with governance.

#### **Active Newham**

PwC is being engaged by the charity, Active Newham, to review and comment on the Charity's short term weekly cash flow forecast, its current financial position, historical and forecast performance and its three year business plan.

We are content that this work does not pose any independence threat to our audit of LB Newham, but present these details here for the purposes of transparency for those charged with governance.

We are also in discussion with management concerning providing support to the council in respect of its programme of service reviews that the Council is undertaking. Should these discussions result in PwC being engaged to perform non audit work, we will update the Committee at the point in time where we have agreed a scope with management and assessed the threats to our independence.

#### *Fees*

The analysis of our audit and non-audit fees for the year ended 2013/14 is included on pages 30-31. In relation to the non-audit services provided, none included contingent fee arrangements.

#### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

#### *Rotation*

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be

carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity. 2013/14 represents Julian Rickett's 4th year as Engagement Leader.

#### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, senior management or staff.

#### *Conclusion*

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Investment and Accounts Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

#### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

We have provided comments to management on the AGS that are yet to be addressed in the draft accounts. Our comments have been addressed and additional disclosure has been made in the AGS in respect of the East Ham Campus project.

### *Economy, efficiency and effectiveness*

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

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

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

In our Audit Plan presented to you in March 2014, we assessed that the Authority’s financial resilience regarding savings plans was an elevated risk. We have subsequently reassessed this as a significant risk, due to the material budget gaps identified in the Authority’s medium term financial strategy.

As a result of the Local Government Financial Settlement, the Authority has set out a financial strategy from 2014/15 to 2016/17. There is a notable “budget gap” in the financial forecast as reported to the Cabinet in February 2014 and detailed below:

| <b>Financial year</b> | <b>Cumulative Budget gap (£m)</b> |
|-----------------------|-----------------------------------|
| 2014/15               | 0.0                               |
| 2015/16               | 21.0                              |
| 2016/17               | 43.0                              |
| 2017/18               | 67.0                              |

We are aware the Authority is in the process of determining actions to reduce the Authority’s medium term “budget gap” and will be performing audit work to address this risk in September.

However, common to all authorities, there are still outstanding issues to resolve and areas of uncertainty remaining in closing the budget gap.

*This work has been completed. While we intend to issue an unmodified conclusion in respect of the council’s arrangements to secure economy, efficiency and effectiveness in the use of resources, we will raise a recommendation in the Annual Audit Letter in respect of the importance of the council maintaining its focus on the achievement of its savings plans and on its processes for identifying additional savings plans and income streams so it can meet future budgetary challenges.*

### *Targeted audit work*

In our planning risk assessment we identified the following area for review:

The London Boroughs of Havering and Newham (“the Councils”) agreed to establish a shared service to provide

certain support services through a Joint Committee arrangement under delegated authority from each Council, known as “oneSource”.

The Audit Commission publication Local review guide – shared services, 2013/14 states that “a concern for members and managers in establishing shared services is the level of control they will be able to exert over financial and service performance. The risks faced by the Councils are that:

- savings are not realised;
- there is no capacity to deliver the shared service;
- the governance structure is not robust, and
- the monitoring function is ineffective”.

We have concluded that these risks give rise to an elevated risk in respect of our VfM conclusion at this stage, specifically in respect of the criteria “The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness”. As at the date of drafting this report, our audit work in this area was in progress, as the majority of our work to address this risk will be undertaken in September 2014.

We will provide a verbal update to the Committee in respect of this work. [This work has been completed and we have no matters to raise.](#)

### *Reports in the public interest*

In auditing the accounts of a Local Authority, the auditors must consider:

- Whether, in the public interest, they should make a report on any matter coming to their notice in the course of the audit, in order for it to be considered by the body concerned or brought to the attention of the public; and

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- Whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit.

We are considering exercising our discretion to issue a report in the public interest under Section 8 of the Audit Commission Act 1998 to bring attention to a number of governance weaknesses identified in respect of the East Ham Campus project which included establishing the Newham Sixth Form Collegiate (‘the project’).

A report by the Executive Director for Resources and Commercial Development was presented to the Cabinet on 25 September 2014. It identified that there had been:

- a clear breakdown in governance and reporting procedures for this project; and
- the project had overspent by £11.0m (a figure higher than that reported to us in August 2014).

Subsequent to the Cabinet meeting on 25 September 2014, and in addition to the financial governance issues, senior Council officers identified that the Council had previously received legal advice from Counsel (which the Council’s Internal Audit function understand was received in August 2013) that advised that the Council did not have the legal power to establish the Newham Sixth Form Collegiate.

The Council sought additional legal advice from external solicitors in November 2014 which advised that there are no statutory powers under which the Newham Sixth Form Collegiate could have been established in its current form, and that appropriate decision making had not been followed.

As such, the Council recognised that there was significant risk that the capital and revenue expenditure associated with the project could be declared as ultra vires (i.e., unlawful) in a court of law.

The Council's Internal Audit function has conducted a review of both the governance failings identified in the 25 September 2014 Cabinet report and the potential unlawfulness of the expenditure associated with the project.

Following the Internal Audit investigations and reports, the Council is currently putting arrangements in place to ensure that the ongoing expenditure on the services provided at the East Ham Campus are lawful. The Council envisages that these arrangements will be in place by January 2015.

An action plan has been developed and was presented to Cabinet on 4 December 2014 which contains a number of measures designed to prevent similar governance failings.

**We recommend** that this should be done at the earliest opportunity, with due regard to appropriate legal advice, to resolve the current unlawfulness.

Furthermore, in relation to the financial governance failings, **we recommend** that the Council understands the lessons from the project and puts in place the arrangements identified in the action plan presented to the Cabinet on 4 December, which include:

- Establishing a central Project Management Office with robust and consistent methodology and controls for all Council Programmes and Projects and clear reporting lines to senior officers and the Capital and Investment Board.
- Reviewing constitutional arrangements, protocols, guidance, schemes of delegation and governance arrangements (including mechanisms to track delegated decisions) across the Council to ensure they are appropriate and robust.

In addition, **we recommend** that the Council engages with relevant stakeholders, in particular relevant head teachers and the Education Funding Agency, to ensure that they are aware of the issues and to seek their support of the actions that the Council; is taking in respect of the project.

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As well as our ongoing consideration to issue a Public Interest Report and including these recommendations within it, we have also had to undertake sufficient work on this issue to satisfy ourselves that there is not a potentially material unlawful item of account in the 2013/14 accounts and sufficient disclosures within the accounts and Annual Governance Statement before we are able to sign our audit report.

### *Objections to the accounts*

On 9 October 2014, we received three objections to the accounts from an elector. One of the objections requested that we apply under section 17 of the Audit Commission Act 1998 to the court to have, what was set out in the objection, a material amount of income declared unlawful. As the amount quoted is material to the financial statements, we have had to undertake sufficient work on the objection to satisfy ourselves that there is not a potentially material unlawful item of account in the 2013/14 accounts before we are able to sign our audit opinion on them. This work has been completed.

# Internal controls

## Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

An audit of the Statement of Accounts 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 have to report to you significant deficiencies in internal control that we found during the audit. These are shown in the table below. [These deficiencies do not include the significant governance matters identified by Internal Audit in relation to the East Ham Campus project. Our recommendations, in relation to this project are set out on page 20 above.](#)

## Summary of significant internal control deficiencies

| Deficiency   | Recommendation  | Management's response  |
|--|---|--|
| <p><b>Performance and review of main Council accounts monthly bank reconciliations</b></p> <p>We noted that one officer prepared the monthly bank reconciliations for the Council's main income and expenditure account and that no other Officer is able to perform this function in that Officer's absence. We also noted that there was no evidence that the bank reconciliation had been reviewed by a senior officer.</p> | <p>The Council should review business continuity arrangements in relation to bank and cash.</p> <p>Bank reconciliations should be reviewed by a senior officer and that review should be evidenced.</p> | <p>In order to improve business continuity there has been a change in management arrangements for the Cash Control function. The function is now managed by OneSource's Transactional Services Team from the 1<sup>st</sup> April 2014. This will enable the pooling of knowledge and resources and will provide greater resilience.</p> <p>This team will be introducing improvements in 2014/15 to strengthen the robustness of controls, introduce improved business continuity arrangements and implement operational efficiencies in line with best practice. This includes a rationalisation of the coding structure</p> |

|   |  |   |
|---|--|---|
|   |  | <p>for the different elements of the cash balances shown within the Council's General Ledger.</p> <p>All Bank Reconciliations in 2014/15 are being reviewed and signed off by a Senior Officer.</p>   |
| <p><b>Schools bank reconciliations not performed at the balance sheet date</b></p> <p>For 8 schools, we identified that bank reconciliations were not performed as at 31/3/2014; bank balances at an earlier or later date than the year end date were used on the bank reconciliation.</p> <p>This has resulted in a total difference of £39,782 between bank balance used on the bank reconciliation and the bank statement as at the year-end date. The highest debit difference was £60,742.58 and highest credit difference was £41,114.35</p> | <p>The Council should review its financial management arrangements with schools, ensuring that all reconciliations are completed as at the year-end date and in accordance with the corporate timetable.</p> | <p>The Corporate Finance team is carrying out an ongoing reconciliation exercise in 2014/15 to reconcile School bank accounts, to each Schools SIMS system and the Council's General Ledger.. This involves a detailed analysis on a transactional level for each of the Council's 90 schools. As a result, the Council is able to achieve significant assurance the overall cash balances are materially correct.</p> <p><b>Funding agreed for Dedicated Post</b></p> <p>A dedicated post placed in CYPS has been agreed to deal with the cash reconciliation process. This post is currently being evaluated and will be recruited to as soon as possible. The post will carry out reconciliations between the General Ledger and School Bank Accounts going forward when the post is filled.</p> <p><b>Change to Cash/Transactional Relationship With Schools</b></p> <p>In the longer term it is proposed to introduce Cheque Book model (along the line of LB Havering) where all funding is passed to schools as cash and they generate locally all transactions. This will involve a major change in the way various parts of the Council interact with schools (invoicing and payments) but it will strengthen the relationship between school finance systems and the Council's General Ledger and avoid</p> |

the problems caused by trying to synchronize the two systems as is currently experienced. Implementation date for the change is timetabled for 1 April 2015. This approach will also necessitate a separate ledger for schools' activity. The introduction of One Oracle in April 2015 will allow this to be done cleanly with most of the uploads from schools being automated based on forms and processes Havering currently use and are willing to share.

#### **Future Reconciliations**

Schools will be required to submit returns from their finance systems monthly, and bank reconciliations monthly. Reconciliations between what is copied into the ledger from schools' systems and the schools' bank reconciliations will be done monthly, termly and quarterly. This will allow anomalies to be identified and dealt with quickly.

#### **Future Year Ends under the proposed new system**

Newham will liaise with PwC towards year end and produce key documents for them to test as early as possible. We propose adopting this approach for 2015-2016 onwards.

#### **Progress**

A project team has been established involving Newham staff and CYPS Finance staff from Havering. A timetable is being produced along with detailed work plans by oneSource who are the leads on this project. Initial discussions with school representatives have taken place and have been positively received. Meetings are planned on the more detailed and logistical nature of this project to ensure that the momentum is maintained.

### **Schools bank transactions posting to the general ledger**

We noted in schools bank reconciliation testing that £450k was posted twice, once by the relevant school and once by the schools finance team member. This error was not picked up until review by PwC. This was due to one member of staff being responsible for requesting journals to be posted to the relevant school GL codes for all schools bank transactions postings and no oversight of the individual's work over the GL posting requests.

We also noted that schools income adjustments posted to the general ledger after the schools submit financial information to the Council were not being reviewed by a senior member of the schools finance team to ensure that the adjustments were posted to the correct schools general ledger code.

This has resulted in unreconciled differences between the schools bank reconciliation for period 6. Upon further investigation by the cash team during our interim audit, it was noted that the adjustment was posted to the incorrect general ledger code.

### **Asset on fixed asset register not owned by the Council**

One asset on the fixed asset register was found not to be owned by Newham. The capital team and the property team explained that the asset may have been added as a result of the valuation exercise where the valuer asked Newham to add the asset on the fixed asset register (the asset is adjacent to another property owned by the Council).

As part of the review mentioned above, the Council should also ensure that there is a process for validation by a senior officer within the schools finance team, of school transactions prior to posting to the general ledger. This is to ensure that transactions are correctly posted to the general ledger.

The new post when recruited will be responsible for the ongoing validation of the accuracy of financial information prior to posting to the General Ledger.

Until this post is recruited the work will be undertaken by an officer in Finance. This will give assurance that the ledger is materially correct at the 31<sup>st</sup> March 2015 and that school accounts are accurate and ready for migration to the new arrangements.

The Council should review all other assets in the same asset class to ensure they belong to the Council and that the asset register is therefore accurate.

The Council's Fixed Asset Register is a key document that holds approximately 18,000 records of the Council's land and property assets and significant effort is taken to ensure that it is accurate. The Council has recently implemented a new property management system (K2) which contains all of the Council's Property holdings.

The K2 system has taken some time to make a live system as the numbers of records to be loaded are numerous. The Council is now planning to check the Fixed Asset Register against the K2 system to ensure that the assets in the Fixed Asset Register are correctly recorded, however this will take some time as there are a large number of records and property descriptions may not be consistently described between the two records.

A pilot exercise to check a sample of records will be carried out by the 31<sup>st</sup> March 2015 to determine the scale of the task required with a provisional

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|  | <p>target date for agreeing the assets between the two systems by the 31<sup>st</sup> March 2016.</p>  |
| <p><b>Payroll records</b></p> <p>During our audit of payroll, we experienced significant delays in obtaining contracts of employment for Officers and Teachers and evidence of notification of change of grade. The delays were so substantial that we consider this may imply a deficiency in the completeness of records held by the Council's HR function.</p> <p>Furthermore, this caused a significant delay to the overall audit. We noted that it was only after significant input from the Corporate Finance team that this was progressed.</p> <p>Additionally we also encountered significant delays in obtaining the population data to enable us to select a sample at the outset of the audit. We also encountered delays as part of the pension fund audit that required input from the payroll service. As a consequence, this will result in additional Audit fees being charged to the Council.</p> | <p>The Council should consider its arrangements in relation to the operation of the payroll function, ensuring that it is sufficient to meet the business needs of the organisation, and whether the records held by HR are complete.</p> <p>It is acknowledged that there were delays in providing documentary information on employees in 2013/14.</p> <p>This is attributable primarily to the departure of the individual who previously lead on this work which has left a gap in the payroll service in terms of knowledge and experience.</p> <p>However there were also practical difficulties in accessing the data. Whilst the payroll team has access to the payroll records held in the iTrent system for all employees, records such as contracts are filed electronically and held in Iclipse. The HR administration of these is carried out under different arrangements: centrally based employees by payroll/corporate HR; schools based employees by NPW and cleaning and catering employees by NCCS. This resulted in delays obtaining information from third parties.</p> <p>It is recognised that the Council will need to identify a member of staff within Payrolls to act as a central co-ordinator for payroll information within the payrolls section, for the audit, so that the external auditors do not face similar experiences in future. This will be addressed as part of the planning for the 2014/15 closure of accounts to avoid a repetition of these</p> |

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|  | <p>issues.</p> <p>The non-corporate HR providers will be formally reminded of their responsibilities and monitored to ensure compliance in future.</p>  |
| <p><b>Cut – Off</b><br/>As described on page 12, we identified numerous issues relating the incorrect cut-off of income and expenditure in the 2013/14 accounts.</p> | <p>The Council should review its arrangements for the recording of transactions around the end of the financial year. This should include a review process of completed transactions during this period.</p> <p>In preparing the Closing Timetable and Closing Processes, the Council will review and introduce improved end of year arrangements to ensure that effective processes are in place for the 2014/15 accounts to identify and charge expenditure and income correctly to the relevant year.</p> <p>In order to provide awareness of the importance of correct cut off processes the Council will be providing training sessions to both finance colleagues, relevant service department staff and managers as part of preparation for the 2014/15 closing process. This will enable the communication of the lessons to be learned from 2013/14, in relation to cut off procedures, and ensure staff are aware of the changes necessary for 2014/15. This will be supplemented by clear and concise guidance distributed at the sessions and afterwards electronically.</p> <p>As agreed with External Audit the Council will be applying an accruals de-minimus threshold to £10k, to avoid a large volume of accruals for trivial amounts.</p> <p>As part of the 2014/15 closing</p> |

|  |  |   |
|--|--|---|
|  |  | <p>procedures Corporate Finance will be carrying out a robust corporate quality control review of all accruals (debtors and creditors) to validate the accuracy of the 2014/15 closing entries and the quality of the working papers.</p>   |
| <p><b>Pension Fund – Separation of bank accounts</b><br/> The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own bank account effective 1 April 2011. Specifically the regulations state the following:<br/> “On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation—<br/> (a) all monies held by the authority on that date; and<br/> (b) all monies received by it on or after that date for the purpose of its pension fund.”<br/> We reported in the prior year that the Fund had opened a bank account but was not fully operational during the 2011/12 financial year. We understand due to limitations in the payroll system, the Council is still unable to make the pension bank account fully operational in 2013/14.<br/> Pension payments continue to be paid out through the main Council’s bank account, with a transfer being made from the Fund to the Council to clear the settlement. The Fund is reimbursed interest on a daily basis using the 7 day LIBID rate.</p> | <p>The Council should investigate whether the approach is compliant with the requirements of the legislation and whether the Fund’s bank account can become fully operational under the One Oracle project, to comply with the above regulation.</p> | <p>As highlighted in the Auditors comments, the Council’s existing payroll system does not allow multiple bank account details to be uploaded, and as result, all transactions are effected through the Council’s main bank account. To ensure that neither the Council nor the Pension Fund profit from this arrangement, interest is applied to outstanding balances on a daily basis using the 7 day LIBID rate.</p> <p>This issue will be resolved in 2015/16 when the Council implements the Oracle Enterprise and Resource Planning (ERP) suite. Introduction of Oracle will enable the Council to charge all pension payments generated by the payroll system directly to the Pension Fund bank account.</p> |
| <p><b>Pension Fund – Timing of contribution receipts</b><br/> We have found one exception related to Chobham Academy’s employer contribution payments for Oct 2013 (actually paid on 31/01/14). The timing of the receipt exceeded the 22-day threshold as per the LGPS regs. 48. Chobham Academy was a newly set up body with an active date in the Fund as at Sep 2013.<br/> Late payment was also noted for the month of Sep 2013. The explanation provided by management was that administrative issues were experienced in setting up the payment process between the Fund and Chobham which were resolved in November.</p>   | <p>We recommend management process and chase contribution receipts in a timely manner to ensure no receipts exceed the threshold per LGPS regulations.</p>   | <p>In the particular instance highlighted, the Academy as the body to be admitted had become operational before the finalisation of the Admission Agreement. In the absence of such an agreement, and to protect the Council’s legal position, the Council cannot collect contributions until the agreement is finalised. The Council will work with future bodies to be admitted to ensure that that signed</p>  |

Reviewing the payment dates from November onwards no further exception was noted.

Admission Agreements are finalised promptly, prior to becoming operational.

We have introduced a monthly monitoring process within the Pensions team to ensure that pensions contributions are being received in a timely manner. Where delays in payment are experienced a letter will be written to the Admitted Body identifying their responsibilities under the Admission Agreement.

# Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## Your views on fraud

In our audit plan presented to the Audit Committee in March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

## Fees update for 2013/14

|  | 2012/13<br>outturn | 2013/14<br>outturn | 2013/14<br>fee<br>proposal |
|--|--------------------|--------------------|----------------------------|
| <b>Financial statements, local value for money conclusion and Whole of Government Accounts</b>                   | 287,806            | 287,806            | 287,806                    |
| <b>Fee variation for audit work performed under the Code of Audit Practice – financial statements (i)</b>        | 36,887             | 45,000             | N/A                        |
| <b>Fee variation for audit work performed under the Code of Audit Practice – value for money conclusion (ii)</b> | N/A                | 13,333             | N/A                        |
| <b>Fee variance – Council Tax Support and Business Rates income (iii)</b>  | N/A                | 1,300              | N/A                        |
| <b>Pension fund audit (iv)</b>   | 25,653             | 25,653             | 21,000                     |
| <b>Matters raised by electors (v)</b>  | 53,610             | 17,500             | 0                          |
| <b>Certification of claims and returns (vi)</b>  | 46,039             | 48,533             | 48,533                     |
| <b>Responsibilities under Section 8 of the 1998 Audit Commission Act (vii)</b>                                   | 0                  | 16,500             | N/A                        |
| <b>Non audit work (viii)</b>   | 27,200             | 10,950             | N/A                        |
| <b>TOTAL</b>   | <b>477,195</b>     | <b>466,575</b>     | <b>357,339</b>             |

(i) Owing to the delays in the audit referred to on pages 2 and 11, additional audit fees will be charged in relation to the audit of the financial statements. We will provide an update in respect of the actual overruns incurred at the next meeting of the Audit Board. *As at 5 December 2014, we estimate we have incurred £45,000 in additional fees in relation to the audit of the accounts.*

(ii) *This work relates to the oneSource risk identified on page 4.* As this work is additional to the scale fee set by the Audit Commission, we have agreed with the Councils that additional audit fees for this work will be split on a two thirds /one third basis between Newham and Havering respectively, which reflects how surpluses generated by oneSource are shared between the Councils. We will also need to consider the extent of work undertaken with respect to the financial resilience criteria. *As at 5 December 2014, we estimate that our fees for this work will be £20,000 with £13,333 charged to LB Newham.*

(iii) We presented our plan to you in March 2014 and noted that due to changes in the Audit Commission certification regime, we expected that we would need to obtain audit comfort over the 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 relevant to Council Tax benefit and business rates.

We expected that we would need to obtain audit comfort over Council Tax Benefit expenditure and Business Rates income in the statement of accounts from additional audit procedures over these items. We have undertaken additional work in this regard which included:

- Testing a sample of council tax support claims to the underlying documentation and policy as set out by the Council;
- Testing the Business Rates appeals provision contained in the financial statements for reasonableness; and
- Testing Business Rates income back to Valuation Office Agency information, supporting documentation and bank records.

The Audit Commission have indicated that a small amount of fees will be payable by all Councils in relation to the audit work auditors need to undertake in relation to Council Tax Support and Business Rates income in the statement of accounts, but this amount is yet to be finalised. [Following further discussions with the Audit Commission, the fees for work in relation to Business Rates is proposed at £1,300. The fees for work in relation to Council Tax Support is £nil.](#)

(iv) We will provide a final figure for the Pension Fund audit at the next Audit Board, once we have completed our audit work in relation to the additional risk in relation to diversified alternative investments. Please note that the [£21,000 fee proposal represents the Audit Commission scale fee that is relevant for entities that do not have diversified alternative investments. The final fee for the pension fund is £25,653, the same as in 2012/13.](#)

(v) PwC responded to a number of elector's questions in relation to the 2010/11, 2011/12 and 2012/13 years. Details of the recommendations arising and the total fees incurred in relation to those objections are included in the Annual Audit Letter for those years, to be presented to the Audit Board on 15 September 2014. The matters raised by electors in 2013/14 relate to two matters raised by whistle blowers. This represents our fees to date in relation to dealing with these matters, but our work remains ongoing. We have also been contacted by other electors and our work in considering those matters is in its early stages. [£7,500 reflects the costs we have incurred to date in considering all of these matters](#)

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and we will update the committee in due course regarding additional fees that we incur. [Since drafting our ISA260 report on 10 September 2014, we have incurred further fees in relation to addressing matters raised by electors, so that the total fees we have incurred is now £17,500. We will incur further fees from January 2015 on the three outstanding objections we are required to respond to under our statutory responsibilities.](#)

(vi) Our fee for certification of grants and claims is yet to be finalised for 2013/14, as we are still to complete our work on the certification of grants. These will be reported to those charged with governance in March 2015 within the 2013/14 Grants Certification Report.

(vii) As identified on Page 3, we are considering issuing a public interest report in relation to issues identified on the East Ham Campus project. [We estimate that our costs to complete the report will be £16,500.](#)

(viii) Non audit work includes work of [£8,750 in relation to the Teacher's Pensions Agency certification that the council has engaged us to perform. This work is undertaken outside of the remit of the Audit Commission Code of Audit Practice and is therefore reported as non audit work. £2,200 relates to a VAT workshop. Further details are included on page 16.](#)

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# *Appendices*

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## ***Appendix 1: Summary of uncorrected misstatements***

We found the following misstatements during the audit that have not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments.

| No | Description of misstatement<br>(factual, judgemental, projected)   |   | Income statement |           | Balance sheet |           |
|----|--|---|------------------|-----------|---------------|-----------|
|    |  |   | Dr               | Cr        | Dr            | Cr        |
| 1  | Dr Debtors 2012/13<br>Cr Comprehensive Income and Expenditure Statement 2012/13  | P |                  | 2,637,484 | 2,637,484     |           |
|    | Dr Comprehensive Income and Expenditure Statement 2013/14<br>Cr Debtors 2013/14  |   | 2,637,484        |           |               | 2,637,484 |
|    | <p>Being an adjustment for £327,641 income related to 2012/13 being incorrectly recognised within the 2013/14 financial year.</p> <p>We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £2,637,484.</p>  |   |                  |           |               |           |
| 2  | Dr Comprehensive Income and Expenditure Statement 2012/13<br>Cr Sundry Creditors 2012/13   | P | 1,755,205        |           |               | 1,755,205 |
|    | Dr Sundry Creditors 2013/14<br>Cr Comprehensive Income and Expenditure Statement 2013/14   |   |                  | 1,755,205 | 1,755,205     |           |
|    | <p>Being an adjustment for £152,737 expenditure related to 2012/13 being incorrectly recognised within the 2013/14 financial year.</p> <p>We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is currently £1,755,205. Our work is progress in this area and we will update the Committee on progress.</p> |   |                  |           |               |           |
| 3  | Dr Receivables 2013/14<br>Cr Comprehensive Income and Expenditure Statement 2013/14  | P |                  | 575,193   | 575,193       |           |
|    | <p>Being an adjustment for £5,709 income understated within the 2013/14 financial year.</p> <p>We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £575,193</p>   |   |                  |           |               |           |
| 4  | Dr Comprehensive Income and Expenditure Statement 2013/14<br>Cr Sundry creditors 2013/14   | P | 1,834,713        |           |               | 1,834,713 |
|    | <p>This error was identified in our testing of expenditure from the general ledger after the year end, the purpose of the test being to identify any liabilities that should have been recorded in the 2013/14 accounts that were note. We noted an adjustment for expenditure accruals that were omitted from the 2013/14 financial statements of £244,559.</p>                                 |   |                  |           |               |           |

We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £1,834,713.

|  |  |   |                  |                  |                  |                  |
|--|--|---|------------------|------------------|------------------|------------------|
| 5  | Dr Comprehensive Income and Expenditure Statement 2013/14<br>Cr Sundry creditors 2013/14   | P | 2,950,747        |                  |                  | 2,950,747        |
|  | <p>This error was identified in our testing of expenditure from the bank after the year end, the purpose of the test being to identify any liabilities that should have been recorded in the 2013/14 accounts that were note. We noted an adjustment for expenditure accruals that were omitted from the 2013/14 financial statements of £254,767.</p> <p>We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £2,950,747.</p> |   |                  |                  |                  |                  |
| 6  | Dr Prepayment 2013/14<br>Cr Comprehensive Income and Expenditure Statement 2013/14   | P |                  | 878,020          |                  | 878,020          |
|  | <p>This error was identified in our testing of grant expenditure. We noted overstatements of £45,481 for expenditure recognised in 2013/14 that actually related to 2014/15.</p> <p>We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £878,020.</p>   |   |                  |                  |                  |                  |
| <b>Total uncorrected misstatements – 2012/13</b> |  |   | <b>1,755,205</b> | <b>2,637,484</b> | <b>2,637,484</b> | <b>1,755,205</b> |
| <b>Total uncorrected misstatements – 2013/14</b> |  |   | <b>7,422,944</b> | <b>3,208,418</b> | <b>3,208,418</b> | <b>7,422,944</b> |

### Disclosure items

Note 52 to the statement of accounts currently includes a maturity analysis of financial liabilities; the note should include the analysis on the basis of gross cash flows. IFRS 7 requires the gross cash flows i.e., the actual cash the council will pay out including interest charges.

## Pension Fund

| No | Description of misstatement<br>(factual, judgemental, projected)  | Income statement |           | Balance sheet |           |
|----|---|------------------|-----------|---------------|-----------|
|    |   | Dr               | Cr        | Dr            | Cr        |
| 1  | Dr Pensions – Investments Private Equity<br>Cr Pensions – Change in market value<br>Being an adjustment to correct the undervaluation of Private Equity investment at year end. The current valuation is based on the 31 <sup>st</sup> December 2013 valuation as the custodian didn't have access to the year-end valuation when they had to close their accounts. |                  |           |               | 4,987,000 |
|    |   |                  | 4,987,000 |               |           |

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## ***Appendix 2: Letter of representation***

[LB Newham letterhead]

### ***PricewaterhouseCoopers LLP***

7 More London Riverside

London

SE1 2RT

Dear Sirs

#### **Representation letter – audit of the London Borough of Newham (the Authority) Statement of Accounts for the year ended 31 March 2014**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Director of Finance for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

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### ***Statement of Accounts***

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached to this letter.
- Regarding bad debt allowances, council tax income and accruals; accounting estimates that were recognised in the Statement of Accounts:
  - I confirm the Authority have used appropriate measurement processes, including related assumptions and models, in determining the accounting estimates in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
  - Measurement processes were consistently applied from year to year.
  - The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures.
  - Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
  - No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

### ***Additional written representations about the Statement of Accounts***

- The selection and application of accounting policies are appropriate.
- The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14:

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

### ***Information Provided***

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- I have communicated to you all deficiencies in internal control of which I am aware.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Accounting policies***

- I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

### ***Fraud and non-compliance with laws and regulations***

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you:
  - the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.

- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
  
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.
  
- **Other than the potential unlawfulness in relation to the establishment of the Newham Sixth Form Collegiate (all matters of which I am aware have been disclosed to you)**, I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.
  
- I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts. **In relation to the East Ham Campus project, whilst significant governance issues have been identified and reported to you, no matters have been identified which indicate irregularities including fraud, involving members, management or employees.**

### ***Related party transactions***

- I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.
  
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
  
- We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

- Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

### ***Employee Benefits***

- I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

### ***Contractual arrangements/agreements***

- All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.
- The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.
- I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

### ***Litigation and claims***

- I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- Following a formal objection raised by an elector, the Council has considered the legality of elements of its parking income and has put arrangements in place to repay all inappropriate charges to motorists.

### ***Taxation***

- I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing. In particular:
  - In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
  - I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
  - I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

### ***Pension fund***

- All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.
- The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.
- The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.
- Scheme documentation is fully up to date.
- No transactions have been made which are not in the interests of the scheme members or the scheme during the scheme year or subsequently;
- There has been no 'self-investment' in a scheme employer or stock-lending;

- The financial statements include some estimated figures that are based on assumptions made by the Fund. Estimates made take into account historical experience, current trends, expertise of advisors and fund managers and other relevant factors.

### ***Pension fund registered status***

- I confirm that the Newham Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

### ***Bank accounts***

- I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

### ***Subsequent events***

- Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

### ***Provisions***

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

### ***Using the work of experts***

- I agree with the findings of the District Valuer and the Council's own property experts; experts in evaluating the valuation of the Authority's property, plant and equipment and investment properties and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records.
- I agree the assumptions used by the District Valuer and the Council's own property expert are appropriate; in particular;
  - the useful economic lives accurately reflect the remaining lives of the assets.

- I consider it appropriate to not deduct purchaser costs from the gross capital value in their Existing Use Value or Market Value valuation.
- Valuations have assumed assets are at a suitable level of condition for service provision unless circumstances indicate that a specific property has a limited economic life.
- The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

### ***Assets and liabilities***

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- The Authority confirms its intentions to dispose of assets disclosed as assets held for sale within the next twelve months.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

### ***Disclosures***

- Where appropriate, the following have been properly recorded and adequately disclosed in the statement of accounts:
  - The identity of, and balances and transactions with, related parties.
  - Losses arising from sale and purchase commitments.
  - Agreements and options to buy back assets previously sold.
  - Assets pledged as collateral.

- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

### ***Retirement benefits***

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The Authority participates in the Teachers' Pension Scheme; a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:
  - Longevity at 65 for current pensioners is estimated to be 22.0 years for men and 24.3 years for women
  - Longevity at 65 for future pensioners is estimated to be 24.1 years for men and 26.7 years for women
  - The rate of inflation and the rate of increase in pensions is anticipated to be 2.8%
  - The rate of increase in salaries is anticipated to be 4.6%
  - The discount rate is estimated at 4.5%

### ***Items specific to Local Government***

- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes other than those disclosed in note 48 to the Statement of Accounts for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance

- I confirm that the Authority has determined a proper application of the statutory provisions for the deferral of the impact of impairment losses in relation to investments held in Icelandic Banks on the General Fund balance.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Investments and Account Committee at its meeting on 15/12/2014

.....

Director of Finance

For and on behalf of

Date .....

## Appendix 1 - Related parties and related party transactions

*A complete list of related parties will be added here*

|  |
|--|
| ActiveNewham   |
| Alkhair Trust  |
| Cestries Associates                                  |
| Create London  |
| Deltina Ltd  |
| East London Waste Authority                          |
| Justice Appeal Foundation                            |
| Lea Valley Regional Park Authority                   |
| Local Authority Pension Fund Forum                   |
| Local Space RP                                       |
| London City Airport Consultative Committee           |
| London Councils - London Borough Grants Committee    |
| London Legacy Development Corporation                |
| London Regatta Centre                                |
| Markaz Ud Dawat Wal Irshad Muslim Community Centre   |
| Newco Enterprises Limited and Newco Products Limited |
| Newham College of Further Education                  |
| Newham Community Renewal Programme                   |
| Newham CSM (Christians on the Left)                  |
| Newham Legacy Investments Ltd                        |
| Newham North Islamic Assoc                           |
| Newham Partnership Working Ltd                       |
| Parochial Church Council of Parish of East Ham       |

London Borough of Newham

|  |
|--|
| Related Party but not material                   |
| Renewal Programme                                |
| Royal Docks Management Authority (RoDMA) Limited |
| Royal Docks Trust (London)                       |
| Stratford Renaissance Partnership (SRP)          |
| Stratford School Academy                         |
| The Swift Centre - Youth Centre                  |
| United Aid Trust                                 |
| West Ham United Community Sports                 |
| Woodgrange Park Cemetery Trust                   |

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**Appendix 2 – Summary of uncorrected misstatements**

*The summary of uncorrected misstatements, when finalised, will be inserted as an appendix to the letter of representation.*



In the event that, pursuant to a request which the London Borough of Newham has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. the London Borough of Newham agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Newham shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Newham discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for the London Borough of Newham and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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