

Susan John, Principal
Committee Co-
ordinator

020 8489 2615

susan.john@haringey.gov.uk

24 November 2017

To: All Members of the Corporate Committee

Dear Member,

Corporate Committee - Thursday, 30th November, 2017

I attach a copy of the following reports for the above-mentioned meeting which were not available at the time of collation of the agenda:

12. ANY OTHER BUSINESS OF AN URGENT NATURE (PAGES 1 - 12)

To consider any items admitted at item 2 above.

Yours sincerely

Susan John, Principal Committee Co-ordinator
Principal Committee Co-Ordinator

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A photograph of four business professionals (three men and one woman) sitting around a glass conference table in a modern office. They are all dressed in business attire (shirts and ties). The man on the left, with grey hair, is gesturing with his hands while speaking. The other three are listening attentively. On the table, there are several white coffee cups on saucers, a laptop, and some papers. Large windows in the background show a cityscape.

LONDON BOROUGH OF HARINGEY COUNCIL AND PENSION FUND

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
20 October 2017



EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code), and to review and report on:

- The Council's and pension fund's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
20 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinions on the Council's and pension fund's financial statements on 30 September 2017.

We reported our detailed findings on the Council's financial statements to the Corporate Committee on 21 September 2017. We identified material misstatements in respect of land and buildings valuations covering the valuation of a leisure centre in the previous year and enhancements to existing assets that do not increase the value of the assets. Management amended the financial statements for these issues. The remaining unadjusted audit differences would decrease the surplus on the provision of services by £5.030 million to £1.070 million.

We reported our detailed findings on the pension fund financial statements to the Pension Committee and Board on 14 September 2017. No misstatements were identified and only presentational amendments were required to the financial statements.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2017.

The Council needs to continue to monitor the control of demand-led services, the delivery of the savings necessary to meet the MTFS and the impact of changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

EXERCISE OF STATUTORY POWERS

We received a number of objections regarding the lawfulness of certain decisions and transactions included in the financial statements.

This work remains on going although we were satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified true and fair opinions on the Council’s and pension fund’s financial statements on 30 September 2017.
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SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council’s and pension fund’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and pension fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
There is a risk that revenue or capital grants that are subject to performance conditions may be inappropriately recognised as revenue before the condition have been met, revenue may not exist or be recognised in the wrong financial year.	We tested an increased sample of revenue and capital grants subject to performance conditions to confirm that these were only recognised as revenue when the conditions had been met.	We concluded the revenue had been recorded correctly.
There is also a risk in relation to the existence of fees and charges. Cash received after year end may be incorrectly recognised in the current year.	We tested an increased sample of fees and charges income throughout the year to confirm that the amounts recorded agreed to underlying documentation for charge or service provided and that the revenue had been recorded in the correct period.	

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Local authorities are required to ensure that land, buildings and investment properties are regularly revalued.</p> <p>All investment properties and higher value operational properties, other land and buildings and dwellings are revalued at the beginning of the financial year. Management uses external valuation data to assess whether there has been a material change in the value of classes of assets to 31 March.</p> <p>We consider there to be a risk over the reasonableness of the valuations due to the estimation and judgments applied.</p>	<p>We responded to this risk by reviewing the instructions provided to the valuer to confirm that the planned scope of the valuation was appropriate and that the valuer was independent of the Council. We reviewed the valuer's skills and expertise and were satisfied that we could rely on this work.</p> <p>We checked whether accurate and complete data on assets held was provided to undertake the review and that the basis of valuation for assets was appropriate. This identified a number of errors in the data that resulted in duplication of some assets, inclusion of some assets that had previously been disposed of, incorrect valuations such as Tottenham Green Leisure Centre undervalued by £26 million in the previous year, not adjusting for capitalised expenditure on Alexandra Palace, and updates required to the valuations for garages.</p> <p>We reconciled the asset register to the financial statements and tested a sample of asset additions, revaluations and depreciation charges. We found that enhancements to existing assets which do not increase the value of the assets amounting to £47.3 million had not been written off during the year, Alexandra Palace had not been depreciated in the group financial statements and some enhancements on Alexandra Palace incorrectly included as Heritage assets.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and concluded valuation movements were reasonable. We challenged the valuer where asset valuations were not within an expected range and agreed the explanations in each case to supporting reasons, such as rent reviews and income growth.</p>	<p>A significant number of errors in the carrying values for land, buildings and investment properties were corrected in the financial statements as a result of the audit.</p> <p>Following these corrections, we concluded that the valuations were reasonable.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>An estimate of the Council’s pension fund liability is calculated by an actuary with specialist knowledge and experience.</p> <p>The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>We considered there to be a risk that the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability.</p>	<p>We received and reviewed a report from a consulting actuary, commissioned by the National Audit Office, that confirmed that the actuary was independent of the Council and suitably experienced and qualified.</p> <p>We reviewed the accuracy of the data recorded in the membership records and the information provided to the actuary. Our testing found that 32 active members recorded on the pensions system had actually left the Council (in some instances a number of years ago). The actuary confirmed that he had used the roll-forward data from the 2016 triennial valuation and that adjustments had been made to remove members who were no longer active.</p> <p>We checked and confirmed that there had been no significant changes in employee numbers relating to the Council to be communicated to the actuary that could require amendment to the 2016 roll forward data used by the actuary.</p> <p>We reviewed the reasonableness of the assumptions used by the actuary against other local government actuaries and other observable data. We were satisfied that the assumptions used were within an acceptable range.</p>	<p>We concluded that the actuarial valuation of the Council’s pension fund liability was reasonable.</p>

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Council's financial statements as a whole was set at £16 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

The materiality for the pension fund's financial statements as a whole was set at £13 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing the financial performance.

We agreed with the Corporate Committee that we would report all individual audit differences in excess of £500,000. We agreed with the Pension Committee and Board that we would report all individual audit differences in excess of £260,000.

AUDIT DIFFERENCES - COUNCIL

Our audit found two material audit differences that were corrected in the Council's financial statements as follows:

- Increase in Tottenham Green Leisure Centre prior year valuation by £26 million
- £47.3 million worth of capital expenditure on HRA dwellings that did not add value to the properties was written off

In addition we found six audit differences not corrected in the final financial statements which would decrease the surplus on the provision of services by £5.030 million to £1.070 million.

We consider that these uncorrected misstatements did not have a material impact on our opinion on the Council's financial statements.

AUDIT DIFFERENCES - PENSION FUND

No misstatements were identified and only presentational amendments were required to the financial statements.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance ‘Delivering Good Governance in Local Government: Framework’ (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

INTERNAL CONTROLS

We reported significant deficiencies in the Council’s internal controls during the course of our audit covering:

- Segregation between ordering and approval of non-purchase orders
- Segregation between raising and approving journals above £50,000.

A number of other areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non-current assets); liabilities (excluding pension liabilities); income or expenditure.

We have completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The DCT was amended as a result of the audit and we were able to conclude that the revised DCT was consistent with the audited financial statements.

USE OF RESOURCES

CONCLUSION

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and alternative delivery models.</p> <p>There is a risk that savings may not be delivered as planned, placing additional pressures on reserves and sustainable finances in the medium term.</p>	<p>We reviewed the reasonableness of the Medium Term Financial Strategy (MTFS), reviewed budgeted to actual savings in 2016/17 and the plans to reduce services costs and increase income from 2017/18.</p> <p>The General Fund revenue outturn reported overspends of £16.1 million for 2016/17 mainly due to pressures on Children's services, Adult social services and Temporary accommodation.</p> <p>The update to the MTFS covers a five year period from 2017/18 to 2021/22. This shows a deficit of £45.6 million, with £23.6 million of budgeted savings to be delivered and remaining shortfall of £22 million to be addressed. For 2017/18, an £8.8 million deficit will be funded from the use of reserves in order to set a balanced budget.</p> <p>The Council recognises that reliance on reserves is not sustainable in the long term and the MTFS will be refreshed during 2017/18 and options developed to fund later years' residual shortfalls.</p> <p>The key to ensuring that savings proposals are implemented and shortfalls are addressed will be to carry out detailed assessments in demand-led services such as Children's, Adults and Temporary accommodation which constitute approximately 70% of the Council's net expenditure to clearly understand what drives these costs.</p>	<p>The Council needs to continue to monitor the control of demand-led services, the delivery of the savings necessary to meet the MTFS and the impact of changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes.</p> <p>While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p>

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
The Haringey Development Vehicle (HDV) proposed joint venture presents new challenges and risks to the Council to deliver regeneration and growth across the borough.	<p>We reviewed the work undertaken by the Council regarding the proposed governance of the joint venture and the due diligence undertaken to support the decision to proceed with the proposal.</p> <p>The Council has responded to address concerns raised by the internal audit review regarding risk management and governance and has responded to concerns raised by the Scrutiny Committee.</p> <p>Cabinet obtained external legal advice to confirm that it has the appropriate powers to make the decision whether or not to proceed and concluded that this was within the scope of the Council’s budgetary framework.</p> <p>We were pleased to note that the project team had a clear understanding of the proposal, are appropriately experienced and have obtained appropriate external legal, financial and taxation due diligence advice.</p> <p>We will continue to monitor the development of this proposal as it progresses.</p>	We are satisfied that the Council has undertaken sufficient review of the proposed governance, financial risks and financial modelling to support its proposal to enter into the Haringey Development Vehicle joint venture.

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We received objections from local taxpayers regarding the lawfulness of certain decisions and transactions included in the financial statements.

OBJECTIONS RECEIVED FROM TAXPAYERS

We received the following objections from local taxpayers regarding the lawfulness of certain transactions included in the financial statements:

- Lawfulness of Lender Option Borrower Option (LOBO) borrowing held by the Council
- Lawfulness of the Schools PFI contract
- Setting summons costs for non-payment of council tax
- Lawfulness of decision to proceed with the Haringey Development Vehicle joint venture.

This work remains on going on these objections although we were satisfied that these matters do not have a material effect on the financial statements or on our value for money conclusion.

We will formally respond to the objectors upon completion of our work.

AUDIT CERTIFICATE

We are unable to issue the audit certificate to close the audit until we have completed our investigations and responded to objectors for the matters raised.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan - Council	10 March 2017
Audit plan - pension fund	13 March 2017
Audit completion report - Council	30 September 2017
Audit completion report - pension fund	25 September 2017
Annual audit letter	20 October 2017

FEES

We reported our original fee proposals in our audit.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council audit - scale fees	⁽¹⁾ 206,475	206,475
Pension fund audit - scale fees	21,000	21,000
Housing benefits subsidy certification fees	38,223	38,223
Fees relating to investigating objections	⁽²⁾ TBC	-
Total audit fees	265,698	265,698
Pooled housing receipts certification	3,500	3,500
Teachers pensions return	3,500	3,500
Audit related services fees	7,000	7,000
Other non-audit services	-	-
Total assurance services	272,698	272,698

⁽¹⁾ Additional audit work was required relating to the Haringey Development Vehicle and the additional costs are subject to agreement with management and PSAA.

⁽²⁾ Work remains on-going dealing with objections and these will be billed upon completion of this work.

FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS
Engagement lead

T: +44 (0)20 7893 2616
E: leigh.lloyd-thomas@bdo.co.uk

KERRY BARNES
Manager

T: +44 (0)20 7893 3837
E: kerry.barnes@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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