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Co-ordinator

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22 July 2019

To: All Members of the Corporate Committee

Dear Member,

Corporate Committee - Thursday, 25th July, 2019

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:

**8. 2018/19 STATEMENT OF ACCOUNTS – AUDIT COMPLETION REPORT (BDO) (PAGES 1 - 52)**

Yours sincerely

Philip Slawther, Principal Committee Co-ordinator
Principal Committee Co-Ordinator

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## Report to the Corporate Committee

# LONDON BOROUGH OF HARINGEY COUNCIL

## Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST

# CONTENTS

# WELCOME

## Introduction

We have pleasure in presenting our initial Audit Completion Report to the Corporate Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Corporate Committee. At the completion stage of the audit it is essential that we engage with the Corporate Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We will issue a final Audit Completion Report once any outstanding work has been completed. We look forward to discussing these matters with you at the Corporate Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Corporate Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas

19 July 2019

**Leigh Lloyd-Thomas**

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group and the Council financial statements and use of resources. This report has been prepared solely for the use of the Corporate Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

# OVERVIEW

## Executive summary

This summary provides an overview of the audit matters that we believe are important to the Corporate Committee in reviewing the results of the audit of the financial statements of the Council and Group and use of resources of the Council for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

### Overview

Our audit work is substantially complete.

Subject to the successful resolution of outstanding matters and management agreeing to correct for the remaining misstatements, we anticipate issuing our opinion on the Council and Group's financial statements and the Council's use of resources for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed in the appendices and highlighted in green text in this report.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

### Audit report

The uncorrected misstatements at £12.542 million are above our acceptable threshold based on the audit strategy we have adopted.

These misstatements represent 78% of our agreed materiality level and there remains an unacceptable audit risk based on testing to date that there may be further undetected misstatements that, in aggregate, could result in material misstatement of the financial statements.

Should management be unwilling to correct these misstatements, we will need to perform additional procedures and additional sample testing of transactions and balances to confirm that the Group and Council financial statement remain free from material misstatement.

We are proposing to issue an unqualified use of resources conclusion.

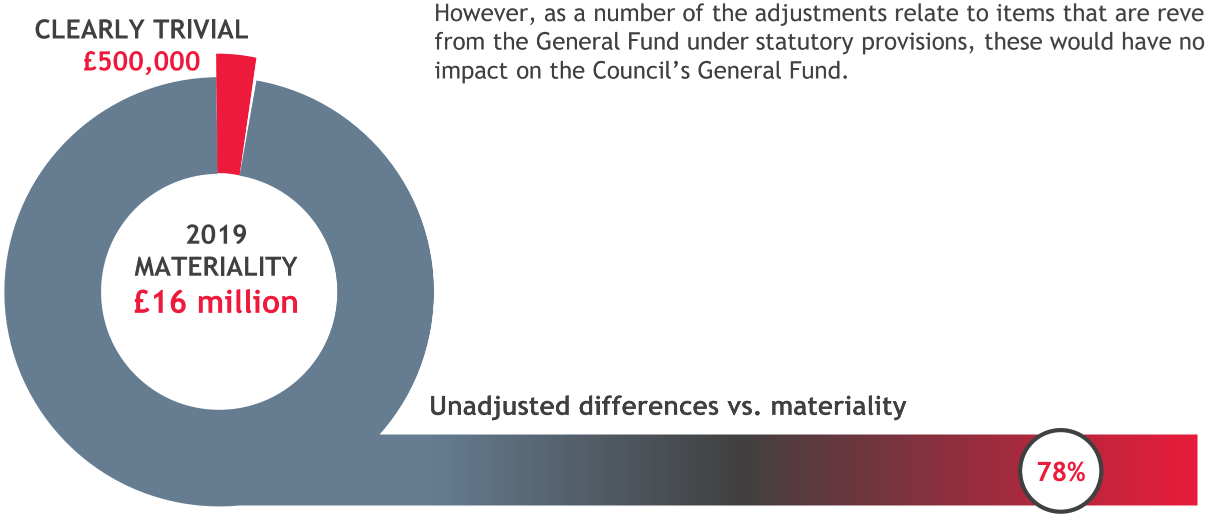
# THE NUMBERS

## Executive summary

### Final materiality

Group and Council final materiality was determined based on gross expenditure.

We have decreased our Group materiality from £16.4 million to £16 million (Council materiality £15.8 million) as a result of a decrease in final outturn of gross expenditure compared to the prior year.



### Material and other adjusted misstatements

We identified one material misstatements in respect of the treatment of the increase in school valuations arising from using updated land and buildings areas data.  The Council recognised the entire increase in the current year but as this related to the correction of an error in previous years, this has required a restatement of the prior period financial statements.

Other corrected misstatements have increased the deficit on the provision of services by £7 million.

### Unadjusted audit differences

We identified further audit adjustments that, if posted, would increase the deficit on the provision of services for the Group by £12.542 million and the Council by £10.083 million.

However, as a number of the adjustments relate to items that are reversed from the General Fund under statutory provisions, these would have no impact on the Council's General Fund.

### Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 Audits of Group Financial Statements.

We have audited the Council's financial statements under the NAO Code of Audit Practice.

Homes for Haringey is audited by PWC and Alexandra Park and Palace Charitable Trust is audited by Haysmacintyre.

We have not yet received the audit pack from the two auditors to support the transactions and balances included in the Group accounts.

# OTHER MATTERS
## Executive summary

### Financial reporting

- We have not identified any non-compliance with group accounting policies or the CIPFA Code.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

### Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.

# AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 11 March we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

| Audit Risk | Risk Rating | Significant Management Estimates or Judgement | Use of Experts Required | Error Identified | Significant Control Findings | Discussion points / Letter of Representation |
|---|---|---|---|---|---|---|
| Management override of controls | Significant | No | No | No | No | No |
| Revenue and expenditure recognition | Significant | No | No | No | No | No |
| PPE and investment property valuation | Significant | Yes | Yes | Yes, adjusted | Yes | To note the impact on schools valuations from using corrected land and buildings data |
| Pension liability valuation | Significant | Yes | Yes | Yes, unadjusted | No | To consider the impact of McCloud and GMP liabilities on the pension liability |
| Completeness and accuracy of the fixed asset register | Normal | No | No | No | No | No |
| Allowance for non-collection of receivables | Normal | No | No | No | No | No |
| Related party transactions | Normal | No | No | No | No | No |
| Classification and measurement of financial instruments (IFRS 9) | Normal | No | No | No | No | No |
| Revenue from contracts with customers (IFRS 15) | Normal | No | No | No | No | No |

▨ Areas requiring your attention

# MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

| | |
|---|---|
| **Significant risk** | ■ |
| **Normal risk** | |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

## Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

## Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud; and
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

## Results

Our detailed testing of a sample of journals is still in progress and we are awaiting supporting documentation to the journals selected for testing.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

# REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

| | |
|---|---|
| **Significant risk** | ■ |
| **Normal risk** | |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

## Risk description

We consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions as these may be recognised as revenue in the comprehensive income and expenditure statement (CIES) before the performance conditions are satisfied.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council.  This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

## Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

## Results

Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

Our audit work to confirm expenditure has been recorded in the correct period is on-going and we will update the Committee on the results in our final completion report.

# PPE AND INVESTMENT PROPERTIES VALUATION

**There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.**

| | |
|---|---|
| **Significant risk** | ■ |
| **Normal risk** | |
| **Significant management judgement** | ■ |
| **Use of experts** | ■ |
| **Unadjusted error** | |
| **Adjusted error** | ■ |
| **Additional disclosure required** | |
| **Significant Control Findings** | ■ |
| **Letter of Representation point** | |

## Risk description

Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. The Council engages a valuation expert to value these assets on an annual basis. The assets are valued as at 31 January 2019 and updated where there are significant movements at the end of the year.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation required, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes; and
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual

## Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues.

We also confirmed basis of valuation for assets valued in year is appropriate and in line with Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation is still on going and we will update the Committee on the results in our final completion report.

The results of our review of the assumptions and estimates used by the valuer for classes of assets is reported on the following pages.

# PPE AND INVESTMENT PROPERTIES 2

## Significant estimate

### Council dwellings at Open Market Value Social Housing (£1,323 million)

Council dwellings are valued at open market value and adjusted to 25% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional (London) differences between market rents and social rents.

The valuer has undertaken a review of 56 (14%) of all Beacon properties to calculation the uplift to be applied for the year. There are 413 Beacons into which each dwelling is allocated as a representative dwelling by number of bedrooms, architype or location. We noted that the valuer's report stated that 20% of Beacons were subject to review in the year but there appears to be only 14% valued from our analysis. We have raised a deficiency in this regard. However, we are satisfied that this is sufficient to support the valuations.

The valuer obtained recent sales for similar properties for these Beacons and adjusted for differences such as location, size and price movements since that sale. The remaining Beacons not revalued had applied an average 1% increase based on a blended average of the Beacons that were subject to revaluation in year and applying professional judgement for any movements in the market.

We have reviewed a sample of Beacon valuations to data used by the valuer to confirm that appropriate similar recent sales had been used. For a sample of dwellings we confirmed that these were allocated to an appropriate Beacon by reference to location, architype and number of bedrooms.

We compared the overall movement to information on general market movements for Haringey using Land Registry and Nationwide. The information on house priced from the Land Registry and Nationwide shows a slight decrease in the prices of properties, this is in contradiction to the Council's movement on properties. The Council's uplift is based on the observed beacons against recent sales and we consider the valuation uplift applied to be reasonable. Furthermore, the valuer has indicated on the market view report that there has been an average decrease of up to 1% for the period between 31 January 2019 and 31 march 2019. No adjustment has been made to reduce the valuations for the price falls experienced in this last quarter. While we consider the valuations to be within range of acceptable valuations we be believe that valuations have tended to the higher end scale by not adjusting for the 1% fall between the valuation date and the 31 March 2019.

### Council's other land and buildings at Existing use value (£59 million)

The valuer undertook valuations at 31 January 2019 on all assets valued on an existing use basis where there is an active market. The valuer has calculated values based on floor areas and estimated rental income based on a review of comparable properties in the area and benchmarking data available.

We have reviewed a sample of valuations to data used by the valuer and confirmed that for the majority of those tested, appropriate inputs had been used. However, a number of differences were found between the information used in calculations for floor areas and what we have found in the underlying property data records. We are in discussion with management to resolve these issues and assess any potential impact on the valuations.

# PPE AND INVESTMENT PROPERTIES 3

## Significant estimate

**Buildings at Depreciation Replacement Costs including schools and leisure centres (£708 million)**

Council owned schools, leisure centres, care homes and libraries are valued at depreciated replacement cost using the existing gross internal area and estimated rebuild costs. This valuation is reduced to reflect the age and remaining useful economic life of the building.

The valuer has used tender rebuild prices provided by RICS (using mean prices for January 2019) with a Haringey location cost adjustment, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an aging adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic live, with aging only coming into effect after the first 10 years of its live as little aging in the building is expected in these initial years.

For a sample of properties we confirmed that the size (square metre) agrees to estates records and that the tender price used agrees to the RICS tender prices. Appropriate evidence was obtained for the majority of assets. However, a number of differences were found between the data used in the calculations for floor/land areas and what we have found in the underlying property data records. We have been unable to obtain some evidence for data used for some assets particularly where there appears to have been a changes in the land sizes used this year. We are in discussion with management to resolve these issues and assess any potential impact on the valuations.

Following concerns we have raised in recent years over the accuracy of data provided to the valuer, the Council has undertaken a review of the data held internally and data used by the valuer. This resulted a number of assets, principally school land and buildings, requiring updated gross internal areas or land areas used in the valuations, and increased the valuations by £164 million. The Council had treated this increase as a current year movement. We discussed with management that this should be treated as a prior period adjustment as it relates to errors that relate to previous years. Management has agreed to correct the financial statements to show the impact on the valuation increase in restated prior year financials statements.

We compared the percentage movement of revalued assets to general market from the BCIS tender price index with local pricing adjustments using information provided by Gerald Eve LLP and RICS, and challenged the valuer for any valuations that were outside of an acceptable range.

Our work is still ongoing and we will give a verbal update to Committee.

# PPE AND INVESTMENT PROPERTIES 4

## Significant estimate

**investment properties at fair value (£70 million)**

< lower valuation

> Higher valuation

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. This could potentially include an increase where the purchaser may be able to amend the consents for use or develop the property and increase the value of the asset.

Investment properties have seen an overall increase in valuation of £4.57 million in year. MSCI Sector Capital (regional) index from the Gerald Eve report suggests a small decrease in values between Q1 2018 and Q1 2019 at the effective date of revaluation. The valuer undertook valuations at 31 January 2019 on all assets using rental amounts for the property and market yields of 7% to 9%.

We have reviewed a sample valuations to data used by the valuer and confirmed that rental amounts agree to rental agreements, and the market yield applied was appropriate. Explanations were provided for each asset that initially fell outside of our benchmark valuation range.

# PENSION LIABILITY VALUATION

**There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.**

| | |
|---|---|
| **Significant risk** | ■ |
| **Normal risk** | |
| **Significant management judgement** | ■ |
| **Use of experts** | ■ |
| **Unadjusted error** | ■ |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

*Note: The teachers pension scheme is accounted for on a defined contribution basis as employers are unable to identify their own share of the assets and liabilities.*

## Risk description

The net pension liability comprises the Council and Group's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

## Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

## Results

We have agreed the disclosures to the information provided by the pension fund actuary.

We are satisfied that appropriate controls are in place to maintain accurate membership records and we have agreed the cash flow and investment information provided to the actuary to undertake the 31 March 2019 valuation. We identified trivial differences between actuary's estimated investment asset valuation and the final investment valuation pension fund accounts. However, we identified a £1.9 million difference between the pensions benefit paid estimated by the actuary and the actual benefits paid. We need to seek assurance from the actuary that this does not have a material impact on the pension liability in respect of future benefits payable to pensioned members.

We have confirmed with the Council that no significant changes in membership were communicated with the actuary.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

# PENSION LIABILITY VALUATION 2

## Significant estimate

**Pension liabilities (Council £1,799 million and Group £1,992 million)**

The Council’s pension liability has increased from £1,657 million to £1,799 million and it’s share of the scheme assets increased from £1,079 million to £1,125 million. The net deficit increased by £97 million to £674 million. The increased liability includes £95 million arising from changes to financial assumptions including annual salaries increases above CPI at 3.1% (previously 3.0%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.5%). The changes to financial assumptions also increased the Group pension liability by a further £15 million. We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

| | Actual used | Acceptable range | Comments |
|---|---|---|---|
| Financials: | | | |
| - RPI increase | 3.5% | 3.4 - 3.50% | Reasonable |
| - CPI increase | 2.5% | 2.4 - 2.50% | Reasonable |
| - Salary increase | 3.1% | 1.0 - 3.50% | Reasonable - short term assumption of +1% and post 2020 set in line with RPI |
| - Pension increase | 2.5% | 2.4 - 2.50% | Reasonable |
| - Discount rate | 2.4% | 2.4 - 2.50% | Reasonable |
| Commutation: | 50% | 50% | Reasonable |
| Mortality: | | | |
| - Male current | 23.8 years | 23.7 - 24.4 | Reasonable |
| - Female current | 26.0 years | 26.2 - 26.6 | Reasonable – see note below |
| - Male retired | 21.8 years | 21.5 - 22.8 | Reasonable |
| - Female retired | 24.1 years | 24.1 - 25.1 | Reasonable – see note below |
| Mortality gains | CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments | | Reasonable |

Female mortality is lower than bottom end of the range. The actuary uses an analysis on the Fund’s actual membership, which takes into account both postcode considerations and also factors such as earnings which statistically also impact on longevity. This supports a lower mortality rate than LGPS average and we accept this to be more reflective of the fund members.

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.

# PENSION LIABILITY VALUATION 3

## Significant estimate

### McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The actuary has updated the valuation and increased the Council's liability for the McCloud judgment by £5.965 million (0.34%). We have estimated that the additional liability arising from other components in the Group would be £1.643 million. This is lower than forecast by GAD using a worse case scenario and we are still to obtain additional information on the assumptions used and how this additional liability has been calculated.

Management has not corrected the financial statements to include this additional liability and we have reported this as an uncorrected misstatement.

### GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council's actuary has confirmed that the calculation of pension liabilities has made no allowance for GMP equalisation costs. We have estimated that this could increase liabilities by £5.136 million for the Council and £5.934 million for the Group.

We have reported this as an uncorrected misstatement.

# COMPLETENESS AND ACCURACY OF THE FIXED ASSET REGISTER

## There is a risk the fixed asset register is not complete and accurate as a result of errors found in previous audits

| | |
|---|---|
| **Significant risk** | |
| **Normal risk** | ■ |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

### Risk description

We identified numerous errors in previous years in relation to completeness and accuracy of the fixed assets register and allocating valuations provided by the valuer to each asset.

### Work performed

We carried out the following planned audit procedures:

- Compared the fixed asset register to the valuer’s report and obtaining explanations for any discrepancies;
- Reviewed instructions and detailed information provided by the Council to the valuer and perform procedures to confirm accuracy and completeness of the information; and
- Tested an increased sample of additions, disposals and revaluations to confirm correct treatment in the asset register.

### Results

Management has worked closely during the year to reconcile asset data in the fixed asset register with the valuer’s records to ensure that assets in the register are appropriately grouped with the valuer’s report on asset valuations, and that additions and enhancement works in the register are allocated to the correct assets.

We compared the list of assets in the fixed asset register to the valuer’s report and we identified no discrepancies to the assets subject to revaluation. We did not identify any issues from our testing of additions and disposals and the information provided to the valuer.

# NON-COLLECTION OF RECEIVABLES

**There is a risk over the valuation of the allowance for the non-collection of arrears and debt.**

| | |
|---|---|
| **Significant risk** | |
| **Normal risk** | ■ |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | ■ |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

## Risk description

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears and, for receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

## Results

The Council has applied the ‘simplified approach’ to calculate the expected credit loss on trade receivables that fall within the scope of IFRS 9.

The Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. The disclosures around forward looking information used, the use of the simplified approach and the type of debtors this has been applied to should also be improved.

Our review of the appropriateness of the allowance for non-collection of receivables is noted on the following pages.

# NON-COLLECTION OF RECEIVABLES 2

## Significant estimate

### Council tax arrears (total collection fund £22.4 million the Council's share £14.8 million)

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £14.8 million against its share of the arrears of £22.2 million (total collection fund arrears is £27.2 million). The Council's provision has decreased £3.0 million from the prior year.

The provision is estimated using historic collection rate information from last 4 years. Our testing has indicated that the collection rate for arrears has improved in recent years following an increased focus by the Council to collect arrears owed.

Our testing has indicated that the collection rate for arrears has improved in recent years following an increased focus by the Council to collect arrears owed. This would suggest that the Council may potentially have overstated its Council Tax arrears provision by potentially up to £1.9 million, and understated the net recoverable amount of the council tax arrears. However, we are satisfied that the provision is within a acceptable range although does tend towards being prudent.

### Penalty Charge Notice (PCNs) debt (£17.3 million)

The Council has recognised an allowance for non-collection of PCN debt of £17.3 million on total debt of £18.9 million. This has decreased by £0.9 million from the prior year. The provision is estimated using the collection history.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

### Housing rents arrears (£9.7 million)

The Council has recognised an allowance for non-collection of housing rents arrears of £9.7 million on total debt of £12.4 million. This has increased by £0.6 million from the prior year. All the balances in more than 90 days were provided for.

Our audit work indicated that the provision is reasonable but tending towards being prudent.

# NON-COLLECTION OF RECEIVABLES 3

## Significant estimate

**Housing benefits overpayment debt (£30.7 million)**

The Council has recognised an allowance for non-collection of housing benefit overpayment debt of £30.7 million on total debt of £38.1 million. This has increased by £1.1 million from the prior year. The provision is estimated based on 100% for balances over four years, 80%, 70%, 65% and 40 for three, two, one and current year balances. However, limited information could be provided to support the collection rates used by management.

Our audit work indicated that the average recovery rates for the housing benefit over payment were in line with the Council's estimation, and therefore reasonable.

# RELATED PARTY TRANSACTIONS

**There is a risk that related party disclosures are not complete and accurate.**

| | |
|---|---|
| **Significant risk** | |
| **Normal risk** | ■ |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

### Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Corporate Committee.

There is a risk that related party disclosures are not complete or accurate.

### Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and review councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

### Results

Our testing is still in progress although we have not identified any undisclosed related party transactions within the draft accounts.

# CLASSIFICATION & MEASUREMENT OF FINANCIAL INSTRUMENTS

There is a risk that financial instruments are not classified and measured in accordance with IFRS9.

| | |
|---|---|
| **Significant risk** | |
| **Normal risk** | ■ |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

## Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group;
- Reviewed the disclosures required relating to the adoption of the new accounting standard; and
- Reviewed the classification and measurement of any loans to subsidiaries to ensure measurement and classification comply with the requirements of the new accounting standards.

## Results

We are satisfied the financial instruments have been properly classified under IFRS 9.

# REVENUE FROM CONTRACTS WITH CUSTOMERS

**There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.**

| | |
|---|---|
| **Significant risk** | |
| **Normal risk** | ■ |
| **Significant management judgement** | |
| **Use of experts** | |
| **Unadjusted error** | |
| **Adjusted error** | |
| **Additional disclosure required** | |
| **Significant Control Findings** | |
| **Letter of Representation point** | |

## Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

## Results

Our initial review of revenue streams suggests that there are unlikely to be material restatements required for the Council.

Our review on the Group components is in progress and will update the Committee in final completion report.

# OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

| Issue | Comment |
|---|---|
| The Code and IAS 7 has introduced an additional cash flow disclosure this year to reconcile the movement in financial liabilities in the balance sheet with the cash flow statement for cash movements and other non-cash movements. | The Council has not included this additional disclosure.<br>We have reported this as a presentation misstatement. |
| In previous years, the Code has required that debtors and creditors should be presented by analysis of the type of counter party, such as amounts due from Government or NHS bodies.  This year, the Code has removed this requirement and refers to IAS 1 presentation of financial statements and provides an example in the template financial statements, showing an analysis (for receivables) by trade customers, receivables from related parties, prepayments and other amounts. | The debtors and creditors notes should be analysed by the nature of the type of debtor and creditor rather than by the counter party.<br>We have reported this as a presentation misstatement. |

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

## Fraud

Whilst the members and Director of Finance have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.

Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan to the Corporate Committee.

## Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Internal audit

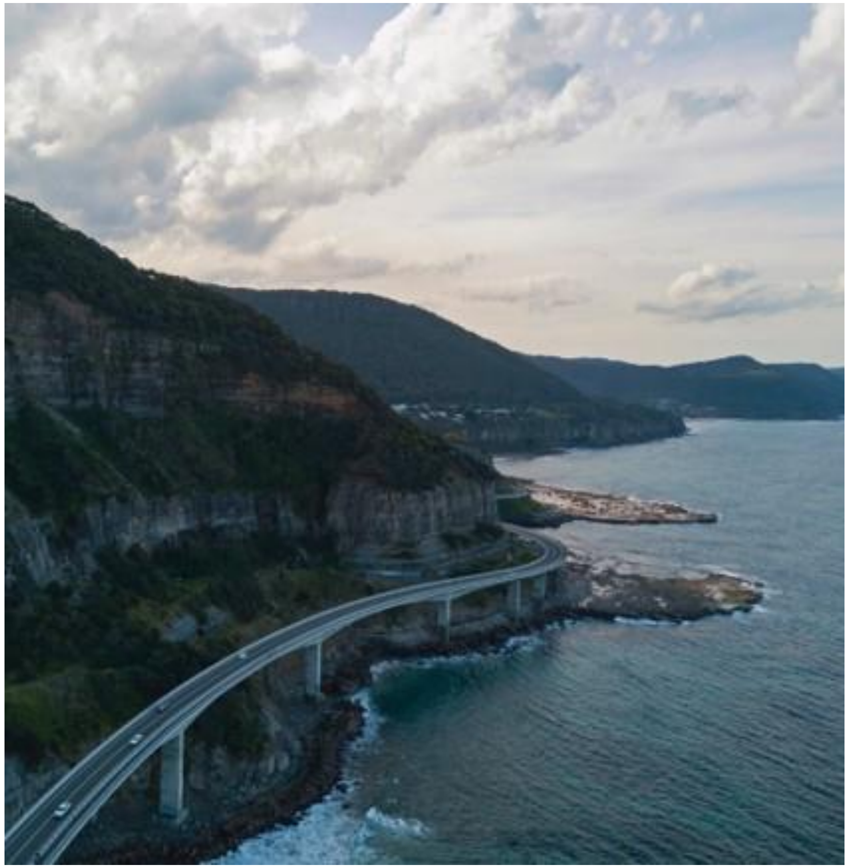
We reviewed the audit work of the Council’s internal audit function to assist our risk scoping at the planning stage.

## Group matters

We have not yet received the audit pack from the two auditors to support the transactions and balances included in the Group accounts.

# UNADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year



**We are required to bring to your attention unadjusted differences and we request that you correct them.**

There are remaining unadjusted audit adjustments that, if posted, would increase the deficit on the provision of services for the Group by £12.542 million and the Council by £10.083 million.

However, as a number of the adjustments relate to items that are reversed from the General Fund under statutory provisions, these would have no impact on the Council’s General Fund.

You consider the differences to be immaterial in the context of the financial statements as a whole.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

| | Council | | | | | Group | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Income and expenditure | | | Balance sheet | | Income and expenditure | | | Balance sheet | |
| Unadjusted audit differences | CIES £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 | CIES £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Deficit on the provision of services before unadjusted audit differences / net assets | 28,967 | | | 1,285,137 | | 33,654 | | | 1,295,581 | |
| 1: Catch-up depreciation not adjusted for on PPE | - | | | | | - | | | | |
| DR Accumulated Depreciation | | | | 1,018 | | | | | 1,018 | |
| CR Depreciation | (1,018) | | (1,018) | | | (1,018) | | (1,018) | | |
| 2: Impact and the McCloud judgement and GMP on pension liabilities | | | | | | | | | | |
| DR Past service costs | 11,101 | | | 11,101 | | 13,542 | | | 13,542 | |
| CR Pension liability | | | | | (11,101) | | | | | (13,542) |
| **Impact of adjustments** | 10,083 | | | (10,083) | | 12,524 | | | (12,524) | |
| Deficit on the provision of services before after unadjusted audit differences / net assets | 32,051 | | | 1,275,054 | | 46,178 | | | 1,283,057 | |

# UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the Corporate Committee is required to consider.**

The following unadjusted disclosure matters were noted:

- Analysis of debtors and creditors by nature of balance rather than by counter party
- Analysis of reconciliation of financial liabilities
- Inaccurate cash flow statement

# ADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year

There were audit differences identified by our audit work that were adjusted by management. This increased the draft deficit on the provision of services and increased net assets by £7 million.

There was no impact on the general fund balance.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

| | Council | | | | | Group | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Income and expenditure | | | Balance sheet | | Income and expenditure | | | Balance sheet | |
| Adjusted audit differences | CIES £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 | CIES £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Deficit on the provision of services before unadjusted audit differences | 21,968 | | | | | 25,161 | | | | |
| 1: REFCUS incorrectly recorded as AUC | | | | | | | | | | |
| DR REFCUS | 6,500 | 6,500 | | | | 6,500 | 6,500 | | | |
| CR PPE (AUC) | | | | | 6,500 | | | | | 6,500 |
| 2: Adjustment of PPA being recognised in the current year | | | | | | | | | | |
| DR Revaluation Reserve | | | | 198,442 | | | | | | |
| CR PPE | | | | | 198,442 | | | | | |
| 3: Adjustment of assets that should've been removed from the FAR | | | | | | | | | | |
| DR Impairment | 499 | 499 | | | | 499 | 499 | | | |
| DR Revaluation Reserve | | | | 1,204 | | | | | 1,204 | |
| CR PPE | | | | | 1,703 | | | | | 1,703 |
| 4: Adjustment for non-Haringey income and expenditure included on the accounts | | | | | | | | | | |
| DR Income | 62,376 | 62,376 | | | | 62,376 | 62,376 | | | |
| CR Expenditure | (62,376) | | 62,376 | | | (62,376) | | 62,376 | | |
| Total adjusted audit differences | 6,999 | | | | | 6,999 | | | | |
| Adjusted surplus on the provision of services | 28,967 | | | | | 32,160 | | | | |

# REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

| Matter | Comment |
|---|---|
| We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit. | Our review of the Narrative Report is still in progress and we will update the Committee in our final completion report. |
| We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council. | We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge. |

# WHOLE OF GOVERNMENT ACCOUNTS

| Matter | Comment |
|---|---|
| For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies. | Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council asked for an extension to 5 July 2019 and met this deadline.<br>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.<br>We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's 13 September 2019 deadline. |

# AUDIT RISKS OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is 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.*

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

| Audit Risk | Criterion | Risk Rating | Issues identified that impact on conclusion |
|---|---|---|---|
| Sustainable finances | Sustainable resource deployment | Significant | None |

# SUSTAINABLE FINANCES

**The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.**

| | |
|---|---|
| **Significant risk** | ■ |
| **Normal risk** | |
| **Sustainable resource deployment** | ■ |
| **Informed decision making** | |
| **Working with partners and other third parties** | |
| **Significant control findings** | |

## Risk description

In February 2019, the Council set a Medium Term Financial Strategy (MTFS) covering the period 2019 to 2024 that identified a cumulative funding shortfall of £50 million. The MTFS includes a savings requirement of £5.9 million (after write-off of £9.8 million savings) in 2018/19 to deliver a balanced budget. The Council has identified savings plans for 2019/20 and a programme of savings to address the budget gaps from 2020/21 to 2023/24. Any shortfall in the delivery of the savings will have an impact on future projected deficits. The savings targets are significant and achievement of these inherently challenging.

At month 9 (December 2018) the Council is projecting a full year deficit of £9.1m. This is mainly attributed to the non-achievement of savings (£10.8m) and significant pressures on Adults (£4.7m) and Children (£6.4m).

The current MTFS covering 2019/20 to 2023/24 identified a funding gap of £19.2m for 2019/20 which will be closed through drawdown of reserves (£5.5m) and savings (£13.7m)

## Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied; and
- Monitored the delivery of the budgeted savings in 2018/19, plans to reduce services costs and increase income from 2019/20, and reviewed the strategies to close the budget gap after 2019/20.

# SUSTAINABLE FINANCES 2

## Continued

### Results

The Council overspent its revenue budget by £7.9 million in 2018/19, with total expenditure at £258 million.  The main area of overspends are £7.1 million in Children's services and £4.2 million in Adults. The Council delivered 84% of the planned saving in 2018/19 compared to 56% in the prior year, after writing off £9.8 million of savings which were deemed unachievable.  The current MTFS covering 2019/20 to 2023/24 identified a funding gap of £19.2 million in 2019/20 which will be closed through £5.5 million drawdown of reserves and £13.7 million of planned.

The MTFS has taken into account a proposed council tax increase of 2.99%, that is anticipated to increase funds by £3 million (after taking into account the approved 100% Council Tax Reduction Scheme). The MTFS also incorporates increased funding for Adults (£7 million) and Children (£7.6 million). There is also a 1% rent reduction for General Needs Homes for council tenants. The assumptions over cost pressures, reductions in Government funding and income growth appear reasonable.

Management are proposing establishing a Budget Resilience Reserve which can be used as a one-off measure to offset non-delivery /delay in planned savings. The reserve will mainly be funded from unutilised use of general fund reserves built into the budgets (whilst maintaining a General Fund Reserve balance of £15 million throughout the period of the MFTS). The reserve is at £7.3 million and the Council is hoping to maintain it at £7.2 million.

There is pressure in achieving savings by the Council as this has been an area where they have not really achieved in the past and any non-achievement of savings puts more pressures. The Council's Budget resilience reserve will offset and non-delivery of savings in the future and this will help the Council in being sustainable in the MTFS period.

The Council need 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.

### Conclusion

The Council has adequate arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.

# SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Corporate Committee.

As the purpose of the audit is for us to express an opinion on the Group and the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

| Area | Observation & implication | Recommendation | Management response |
|---|---|---|---|
| Property, plant and equipment | We identified numerous changes to the building sizes and land sizes during the audit of land and buildings. Most of the changes to size areas were not supported by documentation and appears that changes made by the valuer were not checked and agreed by the Council. | Management should review changes made by the valuers to supporting information to confirm they are valid and accurate. | [xx] |

# FOLLOW UP OF PRIOR YEAR DEFICIENCIES

| Area | Issue and impact | Original recommendation | Management response | Progress |
|---|---|---|---|---|
| Approval of Journals | We identified that the SAP doesn't enforce the implementation of journal entries over £50,000 by two different people as required the Council's policy. | We recommend that the raising and approval of journals be segregated within the accounting system (SAP). | We have implemented a control to check where >£50k journals are not parked and posted by 2 separate individuals. We will discuss a system driven segregation of duties with our SAP support provider. | [xx] |
| HRA Revaluation | We do not consider the valuation of HRA dwellings to be taking place in the manner it is described in the official report received from the valuer. We have gained sufficient assurance that the value of HRA assets is appropriately stated in the Statement of Accounts. However, we consider there to be a risk that the method used to value HRA properties could lead to a material misstatement in the future. | We recommend that careful consideration is given to the method used to value HRA properties. | Agreed | [xx] |
| Review of asset addition | We identified a number of errors in the accounting of recent additions to the fixed assets register. This could have led to misstatement in the Council's financial reporting and potentially to less effective management of the Council's assets. Our view is that these errors are largely due to property, plant and equipment additions only being recorded on the fixed assets register as part of the year-end accounts preparation process. | We recommend additions are reviewed by the Chief Accounting team and added to the fixed assets register through-out the year. Particular attention should be given to whether additions to existing assets add value, whether additions have been split appropriately down to the underlying assets and whether additions need to be revalued. | Agreed. We will review our internal processes & controls around changes to the fixed asset register | [xx] |

# FOLLOW UP OF PRIOR YEAR DEFICIENCIES 2

| Area | Issue and impact | Original recommendation | Management response | Progress |
|---|---|---|---|---|
| Valuation input data | A number of differences were found between the values used in revaluation calculations and the values in supporting evidence. This included internal floor areas, land areas and rent received by existing tenants. This has resulted in a non-material revaluation error that management have chosen not to correct. There is potential for these difference to result in a material error in the future. | We recommend that management and the valuers perform a thorough review of the input data used in the valuations. Evidence supporting the figures used should be retained on file. | Agreed | [xx] |
| Classification of assets | We found a number of errors in the accounting treatment of existing assets, particularly relating to investment properties and assets under construction. This could have led to misstatement in the Council's financial reporting and potentially to less effective management of the Council's assets. | We recommend management perform a review of all assets within these two categories to ensure they are appropriately classified. | Agreed | [xx] |

# OVERVIEW

## Opinion on financial statements

The uncorrected misstatements at £12.542 million are above our acceptable threshold based on the audit strategy we have adopted.

These misstatements represent 78% of our agreed materiality level and there remains an unacceptable audit risk based on testing to date that there may be further undetected misstatements that, in aggregate, could result in material misstatement of the financial statements.

Should management be unwilling to correct these misstatements, we will need to perform additional procedures and additional sample testing of transactions and balances to confirm that the Group and Council financial statement remain free from material misstatement.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

## Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

## Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council’s or Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

## Other information

We have not identified any material misstatements that would need to be referred to in our report.

## Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

# INDEPENDENCE

**Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Corporate Committee in advance in accordance with the Group's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

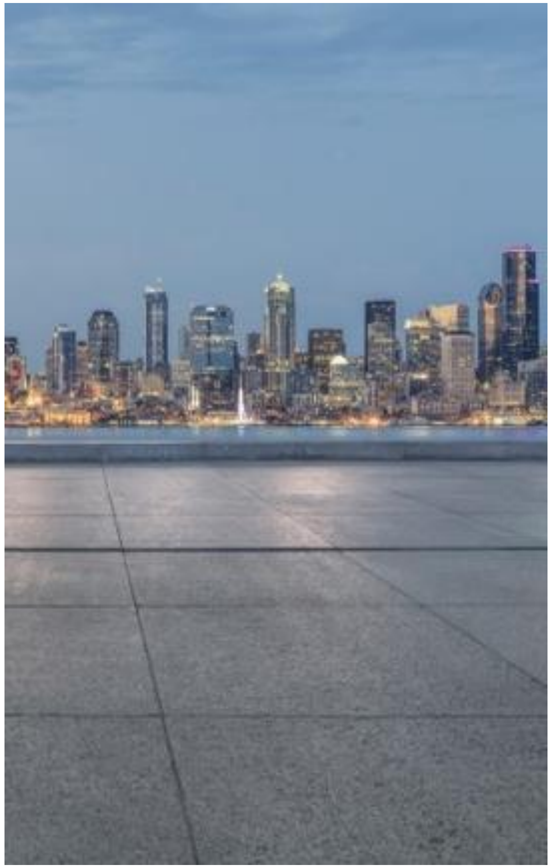
We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# FEES

| Fees summary | 2018/19<br>Actual<br>£ | 2018/19<br>Planned<br>£ | 2017/18<br>Actual<br>£ |
|---|---|---|---|
| Audit fee | | | |
| - Code audit fee | TBC | [1] 158,986 | [2] 226,559 |
| Non-audit assurance services | TBC | 158,986 | 226,559 |
| Fees for reporting on government grants: | | | |
| - Housing benefits subsidy claim | In progress | 38,223 | 38,223 |
| - Pooling of housing capital receipts return | Not started | 3,500 | Not complete |
| - Teachers’ pensions return | Not started | 3,500 | Not complete |
| **Total fees** | **TBC** | **204,209** | **265,782** |



[1] PSAA has set the 2018/19 fee scale on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms’ costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

[2] The planned Code audit fee for 2017/18 was £206,475. Due to additional work in response to additional audit risks we have agreed with management and PSAA to raise a supplementary invoice for £20,084, for a final audit fee of £226,559.

# APPENDICES CONTENTS

# RESPONSIBILITIES AND REPORTING

## Responsibilities and reporting

### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Corporate Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

| | Issue | Comments |
|---|---|---|
| **1** | Significant difficulties encountered during the audit. | No exceptions to note. |
| **2** | Written representations which we seek. | We enclose a copy of our draft representation letter. |
| **3** | Any fraud or suspected fraud issues. | No exceptions to note. |
| **4** | Any suspected non-compliance with laws or regulations. | No exceptions to note. |
| **5** | Significant matters in connection with related parties. | No exceptions to note. |

# COMMUNICATION AND REPORTS ISSUED

## Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Corporate Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

| Communication | Date (to be) communicated | To whom |
|---|---|---|
| Audit Plan | 26 March 2019 | Corporate Committee |
| Initial Audit Completion Report | 18 July 2019 | Corporate Committee |
| Final Audit Completion Report | (31 July 2019) | Corporate Committee |
| Annual Audit Letter | (31 August) | Corporate Committee |

# OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

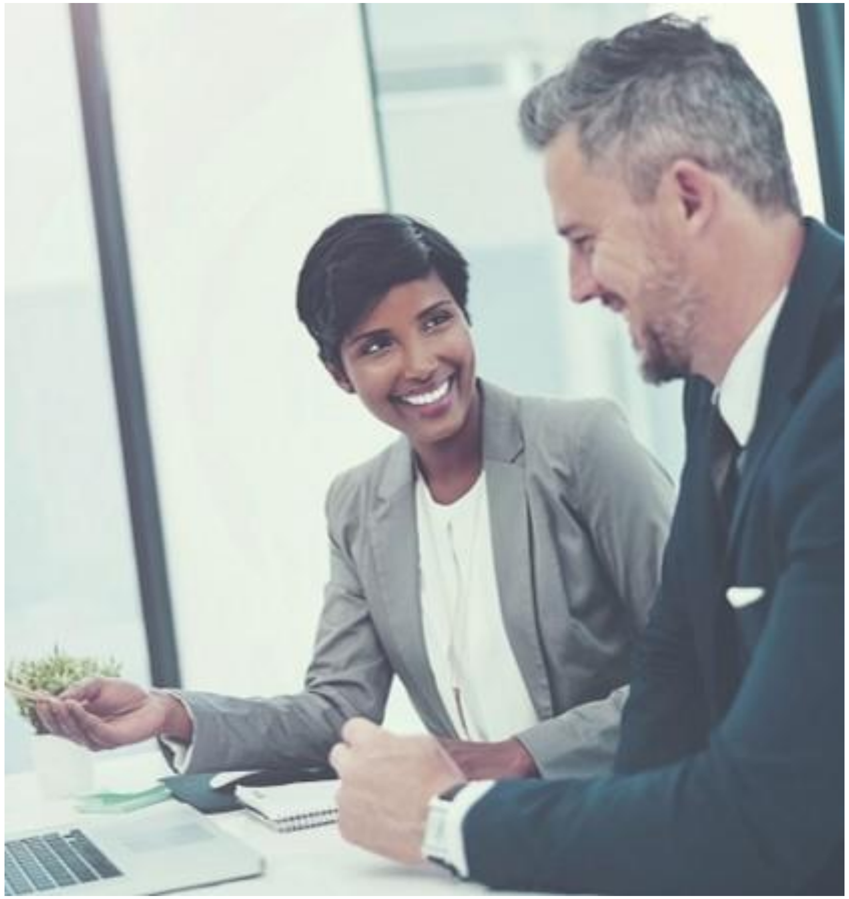
The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Corporate Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
   - Remaining evidence for sample of journals
   - Remaining evidence for sample of PPE
   - Valuations queries
   - Prior period adjustment
2. Manager, Partner and Quality Control review, and clearance of review points
3. Final review and approval by you of the Statement of Accounts
4. Technical clearance
5. Subsequent events review
6. Management letter of representation to be approved and signed

# AUDIT REPORT

## To follow

# AUDIT QUALITY



**BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

**Financial statements of London Borough of Haringey for the year ended 31 March 2019**

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Director of Finance has fulfilled his responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

**Going concern**

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

**Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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**Fraud and error**

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

**Misstatements**

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

**Related party transactions**

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 30 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

**Carrying value and classification of assets and liabilities**

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

**Accounting estimates**

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

**a) Pension fund assumptions**

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

| | |
|---|---|
| Rate of inflation (CPI): | 2.5% |
| Rate of increase in salaries: | 3.1% |
| Rate of increase in pensions: | 2.5% |
| Rate of discounting scheme liabilities: | 2.4% |
| LGPS commutation take up option: | |
| Pre-April 2008 | 50% |
| Post-April 2008 | 75% |

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

**b) Valuation of housing stock, other land and buildings and investment properties**

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

**c) Allowance for non-collection of receivables**

We are satisfied that the impairment allowances for council tax arrears, NDR arrears, housing benefit overpayments, housing rent arrears and parking charges are reasonable, based on collection rate data.

**Litigation and claims**

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

**Confirmation**

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Jon Warlow

Director of Finance

[date]

Councillor Isidoros Diakides

Chair of the Corporate Committee

[date]

FOR MORE INFORMATION:

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