

Philip Slawther,  
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Co-ordinator

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28 November 2019

To: All Members of the Corporate Committee

Dear Member,

Corporate Committee - Monday, 2nd December, 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:

**9. STATEMENT OF ACCOUNTS UPDATE (PAGES 1 - 14)**

- Annual Audit Letter Year Ending 31 March 2019.

Yours sincerely

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

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# LATE BUSINESS SHEET

**Report Title:** Statement of Accounts Update

**Committee/Sub etc. Corporate Committee**

**Item 9**

**Date: 2 December 2019**

## **Reason for lateness and reason for urgent consideration**

This Addendum is considered urgent pursuant to section 100B (4) (b) of the Local Government Act 1972. That provision states *“An item of business may not be considered at a meeting of a principal council unless... by reason of special circumstances, which shall be specified in the minutes, the chairman of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency”*.

The Council’s constitution states that the Corporate Committee has responsibility for receiving the Annual Audit Letter from the external auditor and making recommendations on it. (Part Three, Section B Responsibility for functions: Full Council & Non-Executive Bodies, Section 2, part 1. d (vi)).

The audit completion report was published as part of the Corporate Committee agenda as an appendix to Item 9, the statement of accounts update, however the annual audit letter was not available for publication until 27 November. This is now submitted as a late item to the Corporate Committee, for their consideration alongside the audit completion report.

Concurrence of the Acting Democratic and Scrutiny Services Manager to the submission of this late item of business in accordance with Part 5 Section D – Protocol for Decision-Making - Paragraph 1.4.

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# LONDON BOROUGH OF HARINGEY

Annual Audit Letter  
Year ended 31 March 2019

# EXECUTIVE SUMMARY

## Purpose of the Annual Audit 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 2019.

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.

## 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). Under the Code, we are required to report:

- Our opinion on the Council's and Pension Fund's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

**BDO LLP**

25 November 2019

## Audit conclusions

Audit area	Conclusion
Financial statements Council	Unmodified true and fair opinion
Financial statements Pension Fund	Unmodified true and fair opinion
Use of resources	Unmodified conclusion
Objections and auditors powers	We have provided an update on objections in this report
Audit certificate	We are unable to issue our audit certificate until we have completed our review of the Whole of Government Accounts return and objections in previous years

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.

# FINANCIAL STATEMENTS

## Council

### Audit opinion on the Council's and Group's financial statements

We issued an unmodified audit opinion on the Council's and Group's financial statements on 22 November 2019. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

### Materiality

Financial statements materiality was determined based on 1.5% of gross expenditure at £15.8 million for the Council and £16 million for the Group.

### Corrected misstatements

We identified the following material misstatements that have been corrected by management:

- Increase in school valuations arising from using updated land and buildings areas data recognised 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;
- £24.6 million in the Group accounts due to the double counting of refurbishment and improvements works on Alexandra Palace; and
- £62.4 million inclusion of income and expenditure that did not relate to the Council.

These, along with other corrected misstatements, have increased the deficit on the provision of services by £13.8 million in the amended financial statements.

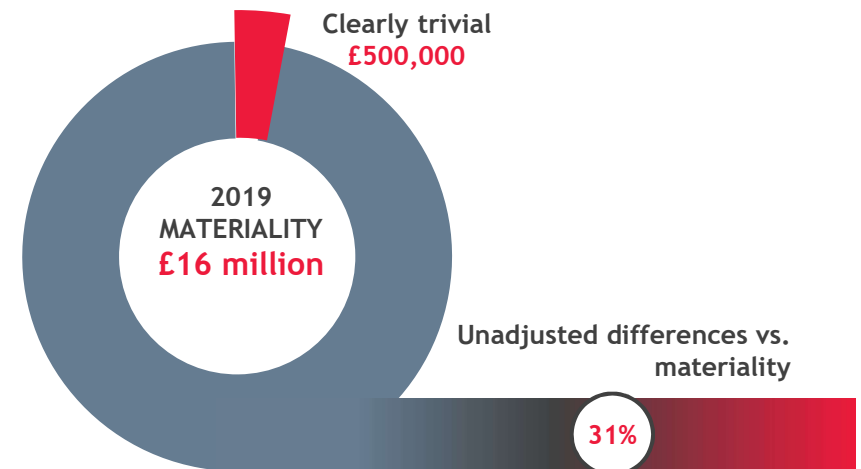
### Unadjusted audit differences

We identified further audit adjustments that, if posted, would increase the deficit on the provision of services for the Group by £4.916 million (Council by £4.115 million) and reduce net assets by £2.129 million (Council £1.328 million).

These audit differences relate to excess depreciation calculated by the Asset Register (£1.0 million), additional GMP liabilities for pension obligations (-£5.9 million) and valuation errors on Plant, Property and Equipment valuations (+£2.8 million)

However, as these adjustments relate to items that are reversed from the General Fund and HRA reserve under statutory provisions, these adjustments would not impact the Council's General Fund or HRA balances.

Management has not corrected the financial statements for these misstatements.



# FINANCIAL STATEMENTS

## Pension Fund

### Audit opinion on the pension fund financial statements

We issued an unmodified audit opinion on the pension fund financial statements on 22 November 2019. This means that we consider that the financial statements:

- Give a true and fair view of financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

### Materiality

Materiality for the pension fund financial statements as a whole was calculated at £13.8 million based on a benchmark of 1% of the value of the fund's investment assets.

Specific materiality for the fund account of £2.2 million was based on 5% of contributions.

### Corrected misstatements

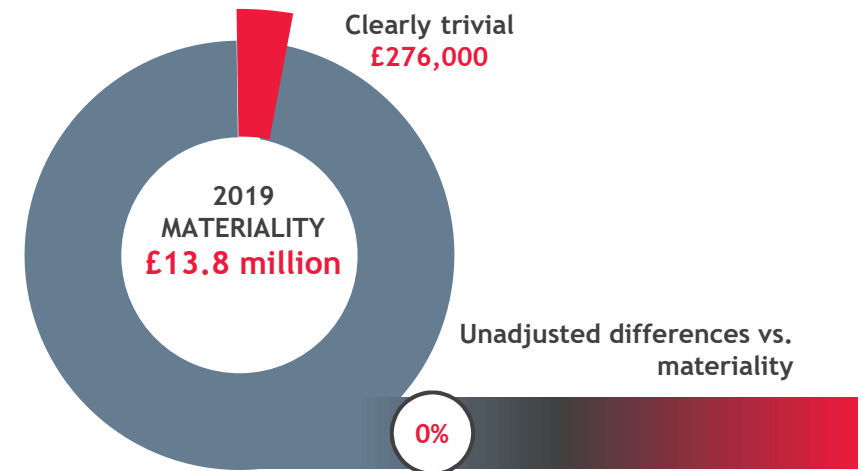
We did not identify any material misstatements.

Management updated the disclosure for the actuarial estimate of liabilities to pay future pensions to include the whole fund impact of McCloud of £8.0 million.

### Unadjusted audit differences

There were no unadjusted audit differences.

However, the pension fund has not updated the disclosure for the actuarial estimate of liabilities to pay future pensions to include the whole fund impact of GMP of £6.2 million.





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# FINANCIAL STATEMENTS

## Audit Risks

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.

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Risk description	How the risk was addressed by our audit	Results
Management override of controls	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>• 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</li><li>• 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.</li></ul>	<p>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.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>Whilst the total value of uncorrected audit differences in the Council's and Group's financial statements remains high, these relate to the net pension liability and valuations of Property, Plant and Equipment that do not impact on the General Fund or HRA revenue balances and therefore are not indicative of management bias or deliberate misstatement of the financial statements.</p>

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# FINANCIAL STATEMENTS

## Audit Risks

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Risk description	How the risk was addressed by our audit	Results
Revenue and expenditure recognition	<p>We carried out the following planned audit procedures in response to the fraudulent revenue and expenditure recognition risk:</p> <ul style="list-style-type: none"><li>• Tested a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and</li><li>• 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.</li></ul>	<p>Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.</p> <p>Our audit work to confirm expenditure has been recorded in the correct period did not identify any issues.</p>

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# FINANCIAL STATEMENTS

## Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of land, dwellings, buildings and investment property	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>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;</li><li>Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;</li><li>Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes; and</li><li>Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual.</li></ul>	<p>Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We confirmed basis of valuation for assets valued in year is appropriate and in line with Code.</p> <p>In response to previous audit recommendations, the Council and the valuer undertook additional work to verify the accuracy of the data used in the valuations. This identified that schools' land and buildings had been under valued based on their size by £198 million. The Council initially recorded this as an adjustment in 2018/19 but has now correctly recorded as a correction in prior periods. This review also found that 541 dwellings were not in the correct Beacons and this resulted in an increase valuation of £0.2 million.</p> <p>Our testing of the updated valuations found further errors where one school has used the data from another similar named school resulting in an error of £9.7 million and other data errors of £2.8 million. We also found two assets that had been double counted resulting in an overstatement of £2 million and double counting of capital spend incurred by the Alexandra Park and Palace Trust of £24.6 million.</p> <p>We were satisfied that the valuation assumptions used were reasonable including the use of housing price indices supported by checking a sample of sales of Beacon properties, RCIS rebuild costs for assets valued at depreciated replacement costs, recent sales data for assets held at current market and yields applied to investment properties.</p> <p>We noted that dwellings had been valued at 31 January 2019 and that there had been a 1% fall in values based on regional sales indices in the two months to 31 March that had not been adjusted for. However, we were satisfied that the valuations fall within a tolerable range.</p>

# FINANCIAL STATEMENTS

## Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liabilities	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>• Reviewed the controls for providing accurate membership data to the actuary;</li><li>• Checked whether any significant changes in membership data have been communicated to the actuary; and</li><li>• Reviewed the reasonableness of the assumptions used in the calculation against other actuaries and other observable data.</li></ul>	<p>We were 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.</p> <p>We confirmed with the Council that no significant changes in membership took place in the year.</p> <p>We compared the key financial and demographic assumptions used by the actuary to an acceptable range provided by a consulting actuary commissioned for local public auditors by the National Audit Office.</p> <p>The assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range. Female mortality is lower than bottom end of the range as 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.</p> <p>The Council obtained an updated valuation of the liability to take account of the McCloud age discrimination ruling and corrected the financial statements to increased the liability by £7.0 million. The impact on the pension fund including all employers was estimates at £8.0 million.</p> <p>The actuary confirmed that the liabilities made no allowance for GMP equalisation costs. We have estimated that this could increase liabilities by £5.9 million but this has not been corrected (pension fund liability £6.2 million).</p> <p>We identified that the estimated return on scheme assets in the pension fund had been understated and the share of scheme assets was corrected to increase scheme assets by £3.6 million.</p>

# USE OF RESOURCES

## Audit Risks

### Audit conclusion on use of resources

We issued an unmodified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> <li>Reviewed the assumptions used in the Medium Term Financial Strategy and reasonableness of the cost pressures and the amount of Government grant reductions;</li> <li>Monitored the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and</li> <li>Review the strategies to close the budget gap after 2019/20.</li> </ul>	<p>The Council overspent its revenue budget by £7.9 million in 2018/19 with overspends largely in Children’s Services and Adults. The MTFs covering 2019/20 to 2023/24 identified a funding gap of £19 million in 2019/20 which will be closed through £5.5 million drawdown of reserves and £13.7 million of planned savings. The MTFs also incorporates increased funding for Adults (£7 million) and Children (£7.6 million). The assumptions over cost pressures, reductions in Government funding and income growth appear reasonable.</p> <p>Management has established a Budget Resilience Reserve which can be used as a one-off measure to offset non-delivery / delay in planned savings. The reserve of £7.3 million will mainly be funded from unutilised use of general fund reserves built into the budgets. The General Fund reserve minimum balance has been set at £15 million.</p> <p>The Council delivered 84% (after writing off £9.8 million of savings which were deemed unachievable) of the planned saving in 2018/19 compared to 56% in the prior year.</p> <p>There has been improvements in managing resources and sustainable finances although more still needs to be done especially around delivery of savings schemes.</p> <p>The Council has adequate arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.</p>

# OBJECTIONS AND OTHER AUDITORS POWERS

## Progress on objections

Objection	Audit progress	Results
Lender Option Borrower Option loans	Work completed and final Statement of Reasons was issued to objectors on 14 November 2019.	We concluded that the LOBO loans were not an unlawful type of borrowing and the Council had not acted unlawfully in taking these loans.
Schools PFI	Work is still on going.  Although the Council terminated the service element of the arrangement and replaced this with a finance lease obligation to repay the capital expenditure incurred by the lessor, we still need to investigate the lawfulness of entering into the contract.	Review to be completed.
Haringey Development Vehicle joint venture	Draft report issued for legal clearance.  Although the Council did not proceed with this scheme, we are still required to conclude on the lawfulness of the initial decision. We have been asked to conclude on whether the failure to consult could have made the decision unlawful. The report by Mr Justice Ousley dismissed the judicial review as this was 'out of time' but did not conclude on the impact of the failure to consult.	Review to be completed.
Late payment of council tax penalties	Work completed and a draft Statement of Reasons to be completed.	Review to be completed.
Property maintenance	Work completed and a draft Statement of Reasons to be completed.	Review to be completed.

We received questions and other information from members of the public that were not accepted as valid objections either as the issue did not fall within our responsibilities or were not received during the statutory period for objecting to items of account:

- Peacock industrial estate relocation of tenants
- Misconduct in public office in respect of the Coroners Office.

# REPORTS ISSUED AND FEES

## Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
<b>Audit fee</b>			
• Council and Group	(1) 206,986	158,986	(2) 226,559
• Pension Fund	16,170	16,170	21,000
<b>Total audit fees</b>	<b>223,156</b>	<b>175,156</b>	<b>247,559</b>
<b>Closed objections</b>			
• LOBOs	(3) 15,000	N/A	0
<b>Non-audit assurance services:</b>	<b>15,000</b>	<b>N/A</b>	<b>0</b>
<b>Fees for reporting on government grants:</b>			
• Housing benefits subsidy claim	In progress	46,223	38,223
• Pooling of housing capital receipts return	In progress	3,500	(4) 9,000
• Teachers' pensions return	In progress	3,500	(5) 7,000
<b>Fees for other non-audit services</b>	<b>TBC</b>	<b>53,223</b>	<b>54,223</b>

## Communication

Reports	Addressed to Corporate Committee	Addressed to Pension Committee
Audit plan	26 March 2019	14 March 2019
Audit completion report	Initial 18 July 2019 Final 21 November 2019	Initial 8 July 2019 Final 24 October 2019

(1) Additional costs have been incurred in the Council and Group audit due to issues with land and buildings valuations, pension liabilities and resolving presentational issues in the financial statements. PSAA had proposed a reduction in planned scale fees of 23% for 2018/19 but we have incurred overruns of £48,000 in 2018/19. Final outturn fees have reduced from £227,115 in 2016/17, £226,559 in 2017/18 and £206,986 in 2018/19.

(2) The planned Code audit fee for 2017/18 was £206,475 for the Council. Additional fees of £20,084 were agreed with management to resolve audit issues in that year.

(3) Fees for completion of the LOBOs objections have been estimated at £15,000.

(4) Additional work was required to resolve the delay in use of 1-4-1 receipts passed to other organisation to build new social housing. We have estimated that the final fees will be £9,000.

(5) Additional work required to clear issues over payroll returns provided by schools using their own payroll service.



FOR MORE INFORMATION:

Leigh Lloyd-Thomas  
e: [leigh.Lloyd-thomas@bdo.co.uk](mailto:leigh.Lloyd-thomas@bdo.co.uk)

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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