



Report to: **Audit Committee**

Report of: **Grant Thornton**

Report Title: **Update on Key audit issues**

Date of meeting: **22 July 2008**

Purpose

This document is an update on the accounting and business risks that we identified in our audit plan that was presented to the Audit Committee in July 2007, and updated in January 2008.

This document presents detail of the key issues that we are currently focussing on as part of our audit of the financial statements.

Recommendation

We ask that Members of the Audit Committee note and approve the contents.

Risk	Response
<p>1. From 2007/08 onwards the CIPFA/SOLACE Framework introduces new practice in relation to the preparation of an annual governance statement which will meet the requirement set out in Regulation 4(2) of the Accounts and Audit Regulations 2003 (as amended), for the production of a statement on internal control (SIC). Therefore the production of a separate SIC will no longer be required.</p>	<p>A draft Annual Governance Statement was provided to the Audit Committee for review and discussion on 12 May 2008.</p> <p>We will update our review to ensure that any events that may require revision to this statement are reflected in the final statements.</p>
<p>The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities, including those designed to ensure that:</p> <ul style="list-style-type: none"> • The Council's policies are implemented in practice. • High-quality services are delivered efficiently and effectively. • The Council's values and ethical standards are met. • Laws and regulations are complied with • Required processes are adhered to. • Financial statements and other published performance information are accurate and reliable. • Human, financial, environmental and other resources are managed efficiently and effectively. <p>It therefore covers all the areas previously covered by the SIC. However, it also covers performance issues – good governance is a precondition for delivering good services and poor service performance reflects a failure of governance.</p>	

Risk	Response
<p>2. The Council has a PFI contract with Haringey Schools Services Limited for the maintenance and operation of eight of the Council's secondary schools. The Council has received BSF funding that included some resources for investment in existing schools currently under the PFI contract. It was identified that there would be issues with the implementation of the BSF programme if this was run alongside the PFI programme, and as a result the PFI contract was suspended with the facilities management element being transferred back to the Council.</p> <p>There are several accounting entries that are required as a result of the decision, not least the requirement that as a result of the suspension the assets will come back onto the Council's balance sheet. Other factors that will need to be considered include ensuring that the residual interest has been accounted for correctly and also that prepayments made to reduce future unitary charges have been properly accounted for.</p>	<p>The Council commissioned consultants to advise on the accounting treatment and we have reviewed this advice and have provided feedback to the Council. We will consider in detail as part of the final audit.</p> <p>We will ensure that the accounting entries have been put through correctly within the financial statements as part of our audit work on the final accounts.</p>
<p>3. There has been an increase in the deficit of the Alexandra Park and Palace Trust as this has increased to £3.1m from £1.8m in the previous year.</p>	<p>We will review the Council's position at Alexandra Park and Palace Trust and include commentary on this as part of our ISA 260 report to the General Purposes Committee.</p>
<p>4. In 2006/07 the Council recorded a balance of £14.8m that was categorised as 'other' within the Statement of Recognised Gains and Losses (STRGL). The Council has undertaken an exercise to identify these balances and what they relate to and this has resulted in a number of changes to the 2006/07 comparative figures.</p>	<p>We have reviewed the entries that have been undertaken in respect of the 'other' balances figure within the STRGL and have discussed these with the finance team. We will ensure these are correctly put through within the 2007/08 financial statements as part of our audit work.</p>
<p>5. For 2007/08 local authorities will have to adopt the presentation and accounting requirements for financial instruments of FRS 25, 26 and 29. The presentation requirements are more onerous than in prior years, with more detail to be disclosed in the Statement of Accounts. The accounting requirements are complex and cover a wide range of entries in the financial statements, potentially all accounts balances except for leases (although if there are derivative instruments embedded in leases these are captured by these standards), pensions and interests in group entities.</p>	<p>We will review the Council's accounts disclosures against the CIPFA disclosure checklist to gain audit assurance over the completeness of the Council's disclosures.</p> <p>We will review accounts balances to ensure that the Council's processes for identifying financial instruments are adequate and that these have been accounted for in accordance with the SoRP.</p>

Risk	Response
6. 2007/08 is the first year in which a UK GAAP compliant revaluation reserve is to be incorporated into the accounts of local Councils. We further note that the opening balance needs to be nil to comply with CIPFA guidance.	We will review the entries in the revaluation reserve to ensure that the entries comply with the provisions of the 2007 local government SoRP.
7. Councils have been in receipt of local area agreement funding, and there is a risk that the Council will not account for this income, and other similar types of income appropriately, especially where the income is performance-related.	We will review income relating to the local area agreement and other similar schemes to ensure that this income is accounted for in accordance with the 2007 local government SoRP.
8. Following the settlement in 2005 of the North Cumbria Acute NHS Trust case, and the associated publicity, an increasing number of equal pay claims are now being made both within the NHS and local government.	We will review this matter with the Council's HR staff to identify whether or not any claims have been made in this area.
Local authorities face potential liabilities arising from the single status Implementation Agreement, which forms part of the 2004 Local Government Services Pay Agreement. We understand that the Council has made a provision in the financial statements to cover the ongoing costs in 2007/08.	We will review the provision made in the accounts for compliance against Financial Reporting Standard No.12.
9. There were several recommendations made in relation to the audit of the financial statements for 2006/07 by the previous auditors in the report issued in February 2008.	We will follow up these recommendations during our 2007/08 audit work and report on the progress of these within our ISA 260.