NOTICE OF MEETING

CORPORATE COMMITTEE

Monday, 2nd December, 2019, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Isidoros Diakides (Chair), Mike Hakata (Vice-Chair), Peray Ahmet, Dawn Barnes, Patrick Berryman, Barbara Blake, Mahir Demir, Makbule Gunes, Liz Morris, Alessandra Rossetti, Daniel Stone and Noah Tucker

Quorum: 3

1. FILMING AT MEETINGS

Please note that this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on.

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The chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual or may lead to the breach of a legal obligation by the Council.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

3. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. (late items will be considered under the agenda items where they appear. New items will be dealt with at item)

4. DECLARATIONS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

To consider any requests received in accordance with Part 4, section B, Paragraph 29 of the Council's Constitution.

6. MINUTES (PAGES 1 - 8)

To consider and agree the minutes of the meeting held on 9th September.

7. HOUSING BENEFIT SUBSIDY UPDATE (PAGES 9 - 14)

8. TREASURY MANAGEMENT UPDATE REPORT (PAGES 15 - 32)

9. STATEMENT OF ACCOUNTS UPDATE (PAGES 33 - 100)

10. INTERNAL AUDIT PROGRESS REPORT 2019/20 - QUARTER 2 (PAGES 101 - 112)

11. COUNTER FRAUD UPDATE REPORT 2019/20 QUARTER 2 (PAGES 113 - 118)

12. CORPORATE COMMITTEE TRAINING NEEDS

Verbal update

13. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

14. DATE AND TIME OF NEXT MEETING

Philip Slawther, Principal Committee Co-ordinator
Tel – 020 8489 2957

Fax – 020 8881 5218
Email: philip.slawther2@haringey.gov.uk

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Friday, 22 November 2019

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MINUTES OF THE MEETING OF THE CORPORATE Committee HELD ON MONDAY, 9TH SEPTEMBER, 2019, 7.00 - 8.50 pm

PRESENT:

Councillors: Isidoros Diakides (Chair), Mike Hakata (Vice-Chair), Peray Ahmet, Dawn Barnes, Patrick Berryman, Barbara Blake, Mahir Demir, Noah Tucker and Nick da Costa

101. FILMING AT MEETINGS

The Chair referred Members present to agenda Item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

102. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Cllr Morris, Cllr Rossetti and Cllr Stone.

Cllr Nick Da Costa was in attendance as a substitute.

103. URGENT BUSINESS

There were no items of Urgent Business.

104. DECLARATIONS OF INTEREST

There were no Declarations of Interest.

105. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

None.

106. MINUTES

The Committee sought assurances around the comment that Haringey was in-line with other authorities when it came to parking ticket income and questioned whether this was good enough. In response, officers advised that the comment specifically related to the Council’s debt position in relation to parking ticket income and that, in the audit report, BDO had categorised Haringey as being within the medium range. The Committee requested officers provide a short one page briefing on this. **(Action: Thomas Skeen).**

The Chair advised that he would pick up the previous action around speaking to the Chair of Pensions and OSC.

RESOLVED

That the minutes of the meeting held on 25th July be agreed as a correct record.

107. TREASURY MANAGEMENT UPDATE

The Committee received a Treasury Management update report which provided an update to the Committee on the Council's treasury management activities and performance in the three months to 30th June 2019. The report was introduced by Thomas Skeen, Head of Pensions, Treasury and Chief Accountant as set out in the agenda pack at pages 19-32. The following was noted in discussion of the report:

a. The Committee noted that over the period, long term borrowing had increased by £40m and short term borrowing had reduced by £23m.
b. In relation to questions around the Council's borrowing headroom and capital financing requirement, officers acknowledged that there was still significant existing borrowing head room available but cautioned that any additional borrowing needed to be within the budget framework. Officers set out that the capital financing requirement was £634.8m and the total of external loan amounts used was £388m. The difference in the two was explained by the Council using cash to finance capital programmes to avoid external borrowing.
c. In response to a question around the nature of internal borrowing, officers advised that this was the done through the use of cash that arose from reserves, capital receipts, debtors, creditors or payments in advance. These cash balances were used to finance programmes rather than raising a loan through an external organisation.
d. The Committee enquired why, in light of circa £300m leeway in borrowing headroom, the Cabinet was not utilising this to offset some of the demand-led pressures in adult social care, for example. In response, the Chair suggested that there were plans in place to increase spending on housing investment and homelessness etcetera, but cautioned that this was ultimately Cabinet's decision. A member of the Committee suggested that the Council could borrow money to make an investment as long as the repayments and costs of servicing that debt could be met from revenue budgets. This would require a business case to be developed.
e. The Committee asked the Chair to speak to the Cabinet Member for Finance to get an explanation as to why the Council were not utilising more of its borrowing headroom through the capital programme to plug the gaps in services. In this context, should the Cabinet re-examine the capital strategy, particularly in light of record low borrowing costs? **(Action: Chair).**
f. In response to a question, officers confirmed that the figures did include HRA borrowing but only reflected current in-year levels not all of the scheduled increases to come.
g. The Committee requested information around PFI. In response, officers advised that the Council held some PFI contracts in relation to schools and that there was around seven to ten years left on these contracts which were part of the Council's balance sheet. The Committee noted that the Council did not hold any service PFI contracts and that a fixed amount was paid each month. The Council also received a government grant to help pay the PFI

costs. The Committee requested a written update on PFI from officers. **(Action: Thomas Skeen).**

h. In response to a question around bail-in risk, officers advised that this related to the percentage of investment that was invested through counter parties who would be exposed to bail-in risk (i.e. the Council's money market fund investments). The 22% of Haringey investments open to bail-in risk was around half the rate of the average for local authorities.
i. The Committee noted with concern that there was significant underspend in the capital programme. In response officers advised that the delivery percentage had improved over the last two years and that the reasons for slippage were usually specific to that individual programme. Officers advised that there was an all-Member briefing session taking place next week on the capital programme.
j. In response to further discussion of the capital programme, a Committee member suggested that it was more important to ensure that money was being spent well rather than it just being spent. The Committee noted that for some of the areas identified in the capital programme, the Council was just an intermediary and had very little influence over the process. This was the case for compulsory purchase orders, for example. The Committee queried whether future briefings on the capital programme could make the distinction between slippage to programmes that were the responsibility of the Council and then those that were reliant on others. Officers advised that Cabinet received a scheme by scheme breakdown, which it was due to consider at its next meeting.
k. In response to a question around implications from the recent government spending review on the budget, officers advised that it was not yet clear how this additional funding would be allocated and whether, for instance, it was just existing funding repackaged. The Council was awaiting clarification on the funding source and had not yet seen a detailed breakdown.
l. The Chair reiterated that he would request clarification from the Cabinet Member about the capital programme and request assurance that the Council was actively reviewing its capital programme to make sure that any opportunities that existed within the capital budget, that would help with the revenue pressures that the Council was facing, were being utilised. **(Action: Chair).**

RESOLVED

I. That Members note the Treasury Management activity undertaken during the three months to 30th June 2019 and the performance achieved.

II. That Members note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

108. ANNUAL SCHOOLS REPORT - 2018/19

The Committee received a report which advised on the outcome of the Schools Audit Programme and the follow up audits carried out by the Council's internal auditors, Mazars. The report was introduced by Minesh Jani, Head of Audit and Risk Management. The following was noted in response to the discussion of the report:

a. The Chair raised concerns about some of the issues identified in the report around school audits and reiterated a request for the Committee to receive a 6 monthly update on this issue. **(Action: Minesh).**
b. The Committee raised concerns with the level of engagement from schools around training and requested further information on training. In response, officers advised that turnout for training from governors and other school reps was usually reasonable, with around 40 people attending each training session and a total of 12 schools audited this year. In response to an assertion that the quality of engagement was as important as the number of people attending, officers acknowledged this and suggested that attendees tended to ask good questions and be fairly well engaged with the sessions. Officers suggested that schools tended to get involved in the training process when they encountered problems with auditing. Minesh agreed to provide some further analysis around training i.e. the number of people invited, number who attended and outcomes. **(Action: Minesh Jani).**
c. The Committee sought assurances around the implications of the report highlighting the effectiveness of controls as red or amber for a number of the school audits undertaken this year. In response, officers advised that this reflected the fact that schools were correctly identifying actions to mitigate risks identified in the audit, but were failing to implement them effectively.
d. In response to a question, officers acknowledged that part of the reason for a decrease in audit scores was down to a reduction of funding for schools. Officers suggested that there was also a clear link between the size of the school and the number of staff available to engage with the audit process and to implement corrective actions.
e. In response to a question, officers confirmed that a schools finance officer was being recruited (subject to final funding confirmation from schools forum) to provide strategic finance support to schools' strategic leadership teams.
f. The Committee requested that the Cabinet Member for Schools and Families as well as the relevant AD attend a future meeting to discuss the schools audits further. It was suggested that this could be the February meeting. **(Action: Minesh/Clerk).**

RESOLVED

That Corporate Committee noted the report.

109. INTERNAL AUDIT PROGRESS REPORT 2019/20 - QUARTER 1

The Committee received a report which set out the work undertaken by Internal Audit in the quarter ending 30 June 2019, which focused on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).The report was introduced by Minesh Jani, Head of Audit and Risk Management as set out in the agenda pack. The following was noted in discussion on the report:

a. The Committee noted that the Audit Plan had 733 days in it and 15% was completed by the end of June. This was slightly behind schedule, with 40% due to be completed by the end of September.

b. In response to a question, the Committee was advised that the SAP contract received limited assurance due to problems with identifying systems of control. The Committee also noted that a decision to renew the contract was due to be taken by Cabinet in October and in response queried whether lessons had been learned and requested further information around the process that had been followed. Officers advised that the Cabinet paper was an options appraisal setting out the pros and cons of each option being considered.
c. In response to a question about the internal audit of the SAP system, officers advised that this had already been completed and a more detailed report was provide to Committee members in July.
d. The Committee reiterated the need to ensure that clear lines of communication existed between audit and other council departments and to ensure that audit reports were being fed to Cabinet Members and relevant Committee chairs as appropriate. **(Action: Minesh Jani).**
e. The Chair requested that the Head of Audit and Risk Management give some further thought into having a broader discussion at a future meeting around IT systems and ensuring procurement processes were effective. **(Action: Minesh Jani).**

RESOLVED

That Corporate Committee noted the audit coverage and follow up work completed.

110. COUNTER FRAUD UPDATE REPORT 2019/20 QUARTER 1

The Committee received a report which detailed the work undertaken by the Counter Fraud Team for the quarter ending 30 June 2019 and focused on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities undertaken by the in-house Fraud Team. The report was introduced by Minesh Jani, Head of Audit and Risk Management as set out in the agenda pack. The following was noted in discussion of the report:

a. The Committee noted that instances of Right to Buy Fraud significantly increased after 2012, as the level of discount available rose to £75k and then £100k.
b. In response to a question around Right to Buy fraud and whether the Council had the power to retrieve properties after they had been sold, officers advised that there was well established case law on this issue and that it was possible. The Committee was advised that no such cases had occurred during the period in which the Head of Audit and Risk Management had worked in Haringey.
c. In response to a question around the fraud case statistics and whether a score of 50% meant that one in two applications was fraudulent, officers advised that this was not necessarily the case. It was noted that fraud officers were concerned with outcomes; i.e. ensuring that the Council's under-pressure housing stock was not further undermined by fraudulent applications, rather than a target based approach.
d. In response to a question around monitoring fraud cases in relation to the single person discount, officers advised that technology played a big role in this and the National Fraud Initiative had provided a lot of data matches for officers to cross reference.

e. In response to cases of NRPF fraud, the Head of Audit and Risk Management advised that his officers became involved if there were inconsistencies in the information provided in the application form and then they would undertake some data matching exercises, for instance. The Committee cautioned that the Council needed to ensure that it did not discriminate or penalise those who had insecure or fluctuating incomes. Officers acknowledged these concerns and assured the Committee that this was the case and that their primary concern was to ensure that the money was acquired legitimately.

RESOLVED

The Corporate Committee noted the counter-fraud work completed in the quarter up to 30 June 2019.

111. NEW ITEMS OF URGENT BUSINESS

N/A

112. UPDATE ON THE ESTABLISHMENT OF A SUB-GROUP ON THE FUTURE OF HOUSING MANAGEMENT

This report was withdrawn.

The Chair advised that the support of Cabinet colleagues for establishing the sub-group appeared to have waned and that he had been advised that the staffing resources required to support this were not available. The Chair advised that he would speak to the Leader and provide a further update to Members. **(Action: Chair).**

113. ANY OTHER BUSINESS

None.

114. DATE AND TIME OF NEXT MEETING

The date of the next meeting was noted as 2nd December

CHAIR: Councillor Isidoros Diakides

Signed by Chair ………………………………..

Date …………………………………

Corporate Committee
Action Tracker

Mtg. Date	Action	Response	Who by	Completed
9th Sept	The Committee requested officers provide an update on Haringey's relative position in relation to parking income debt.		Thomas Skeen	Completed.
9th Sept	The Chair agreed to speak to the Cabinet Member for Finance about the capital programme, and to request assurance that the Council was making use of any opportunities that existed within the capital budget to help alleviate pressure on the revenue budget.		Chair	
9th Sept	The Committee requested a written update on PFI contracts held by the Council.		Thomas Skeen	Completed
9th Sept	The Committee requested a 6 monthly update around school audits.		Minesh Jani	Completed
9th Sept	The Committee requested some further analysis around training for school audits – including the number of people invited, number who attended and outcomes.		Minesh Jani	
9th Sept	Cabinet Member for Schools and Families as well as the relevant AD to attend a future meeting to discuss the schools audits – suggested February.		Minesh Jani/Clerk	Completed
9th Sept	Clear lines of communication were requested between audit and other council departments and to ensure that audit reports were being fed to Cabinet Members and relevant Committee chairs as appropriate.		Minesh Jani	Completed
9th Sept	The Head of Audit and Risk Management to give some further thought into having a broader discussion at a future meeting around IT systems and ensuring that procurement processes were effective.	This will be captured as part of the 2020/21 internal audit plan.	Minesh Jani	Completed
9th Sept	Chair to provide an update to the Committee on the establishment of a sub-group to examine the future of housing and the ALMO.			
25th July	Officers advised that they would bring an update	Report will come back to Committee in	Thomas Skeen	Scheduled

	report on the Final Statement of Accounts to the Committee meeting in September.	December.		to a future meeting.
25th July	The Head of Audit and Risk Management agreed to bring a paper back to the Committee that set out the NRPF process and provides an assurance that the approach is reasonable and balanced.	Internal audit will review arrangements for NRPF as part of the 20/21 internal audit plan.	Minesh Jani	Completed
25th July	The Committee requested that the relevant Cabinet Member and the Cabinet Member with responsibility for insourcing be sent a copy of the audit report as a matter of course		Minesh Jani	Completed
25th July	The Head of Audit and Risk Management agreed to bring an updated AGS back to the December meeting and to include a note on its implementation to date.	A follow up will be reported to the committee in March 2020.	Minesh Jani	Scheduled for March meeting
17th June	The Committee also requested that an independent assessment be undertaken into reviews of suitability to ensure that HfH were on top of this issue and that the service continued to monitor these cases going forward.	Completed, and part of the internal audit report.	Sean McLaughlin	Completed
17th June	The Chair requested that a follow up report come back to the Committee. The Chair asked for Internal Audit to work with HfH to review the organisational issues and put in place an audit process and action plan for monitoring the issue. The Head of Audit and Risk Management to speak to the MD HfH about putting this in place and bringing a follow-up report back to Corporate Committee - suggested that this would likely be in 6 months' time	Completed	Minesh Jani/Sean McLaughlin	Completed
5th February	The Committee requested a follow up report, at the halfway point in next year's collection process, to provide an update on efforts to reduce the backlog of overpayments as well as some further benchmarking.	Agreed – follow up report to come back in December 2019.	Amelia Hadjimichael	Scheduled to December.

Agenda Item 7

Report for: Corporate Committee – 2nd December 2019

Title: Housing Benefit Subsidy Update

Report authorised by: Andy Briggs, AD for Customers, Transformation and Resources

Lead Officer: Amelia Hadjimichael, Head of Benefits
Amelia.hadjimichael@haringey.gov.uk

Ward(s) affected: All

Report for Key/ Non Key Decision: Not Applicable

1. Describe the issue under consideration

1.1 Haringey Council administers Housing Benefits and Council Tax Reduction for approximately 27,000 and 25,000 claimants respectively. We make the payments on behalf of the DWP who then transfer the amounts back to us via a subsidy claim.

1.2 External auditors (BDO) verify the subsidy claim and conduct sample reviews to ascertain whether errors have been made in the claim processing that have led to overpayments and whether these errors are Local Authority errors or caused by administrative delays. Overpayments that fall into these categories can lead to subsidy being withheld.

1.3 The Housing Benefit subsidy process provides an allowance to enable Local Authorities to recover overpayments resulting from Local Authority error. The allowance is capped on a sliding scale;

- Full subsidy can be paid if the overpayment does not exceed 0.48% of the total benefit
- 40% can be paid if the overpayment does not exceed 0.54% of the total benefit
- No subsidy can be paid if the overpayment exceeds 0.54% of the total benefit.

1.4 In 2017/18 the Housing Benefit Service put a lot of effort and resources into significantly reducing a backlog of work and as a result a number of errors were identified. Initial indications from BDO showed that approximately £458k of subsidy could be withheld.

1.5 Following the concerns raised by BDO further sample checks were carried out and this resulted in the DWP reducing the subsidy loss for 2017/18 from the original £458k estimated down to £61k.

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1.6 Each year the DWP provides an additional grant to those Authorities who do not breach the subsidy threshold, i.e. their overall error rate is less than 0.54% of their benefit caseload. In 2017/18 although our penalty reduced significantly, we still had an error level of £61k so could not make a claim for this grant. Indications from BDO at the time estimated this grant to be £1.4m.

1.7 Although the subsidy loss was significantly reduced, it was agreed that a follow-up report be brought to Corporate Committee in December 2019 to report on performance and expectations for 2018/19.

2 Background Information

2.1 The external auditors BDO presented a report to Corporate Committee on 5th February 2019 following the audit of the Housing benefit Grant Claim and certification for the financial year ended 31 March 2018.

2.2 The auditors highlighted that as a result of clearing a large part of the backlog in 2017/18, the Council created a higher than usual number and value of overpayments arising from local authority errors and administrative delays. As a result, they estimated that the impact of the errors could result in the DWP withholding approximately £458k of subsidy.

2.3 Following on from BDO's report, additional sample checks were carried out which highlighted that the initial percentages quoted were high, the DWP then agreed to amend the financial loss figures.

2.4 A formal response was received by the DWP on 13th June 2019 stating that the subsidy loss for 2017/18 would reduce from £458k to £61k.

3 Context

3.1 During 2017/18, Haringey Council administered Housing Benefit and Council Tax Reduction for approximately 27,000 and 25,000 claimants respectively. Our changes in circumstances average 3-4 changes per annum per case therefore our incoming work is significantly high and reflects the transient nature of our Borough.

3.2 Errors within the calculation of customers earned income has been an issue for both 2017/18 and prior years. Claimants' payslips are sometimes difficult to interpret as a result of zero hours contracts, and seasonal/term timework. This has added to the complexities of fluctuating self-employed and earned income cases.

3.3 Although the further sample checks conducted by the Service resulted in a significant reduction in the original estimated subsidy loss, the Benefits Service took the BDO findings on board and made a number of changes as a result in order mitigate against the possibility of future subsidy losses.

3.4 These include:

- A more cohesive approach to Quality Assurance to include subsidy requirements and immediate identification and correction of any errors. This is closely monitored by managers and addressed in performance

management meetings. There are two officers on regular percentage checking and two officers on targeted checking the high-risk areas.
- Comprehensive guidance notes on earned income have been written, distributed and delivered through workshops, and are now available as a source of reference to all staff.
- Team Leaders exclusively check the daily classification of overpayments created as this is an area that was identified as high financial risk.
- Formal processes have been established to target and analyse error trends and feedback to officers.

4 Benefit Performance Update

4.1 The service has been working on a reduction plan and have reduced the amount of outstanding work significantly in the last year. As part of a concerted focus on work reduction all officers now work on a distinct patch of claims, thereby promoting ownership and pride in work.

4.2 This has led to a reduction in days taken to process new claims from 23.64 days in 17/18 to 18 days in 19/20 and a reduction in days taken to process changes of circumstances from 17.12 days in 17/18 to 7.74 days in 19/20. The following table breaks this down further.

	2017/18	2018/19	2019/20 (to date)
New Claims Processed in Days (Target – 20 days)	23.64	22.51	18
Change in Circumstances Processed in Days (Target – 12 days)	17.12	13.78	7.74

4.3 We are confident that this performance trend will continue as a result of the changes and interventions and are satisfied that the 2018/19 subsidy claim will reflect the hard work and improvements made.

5 Financial Year 2018/19

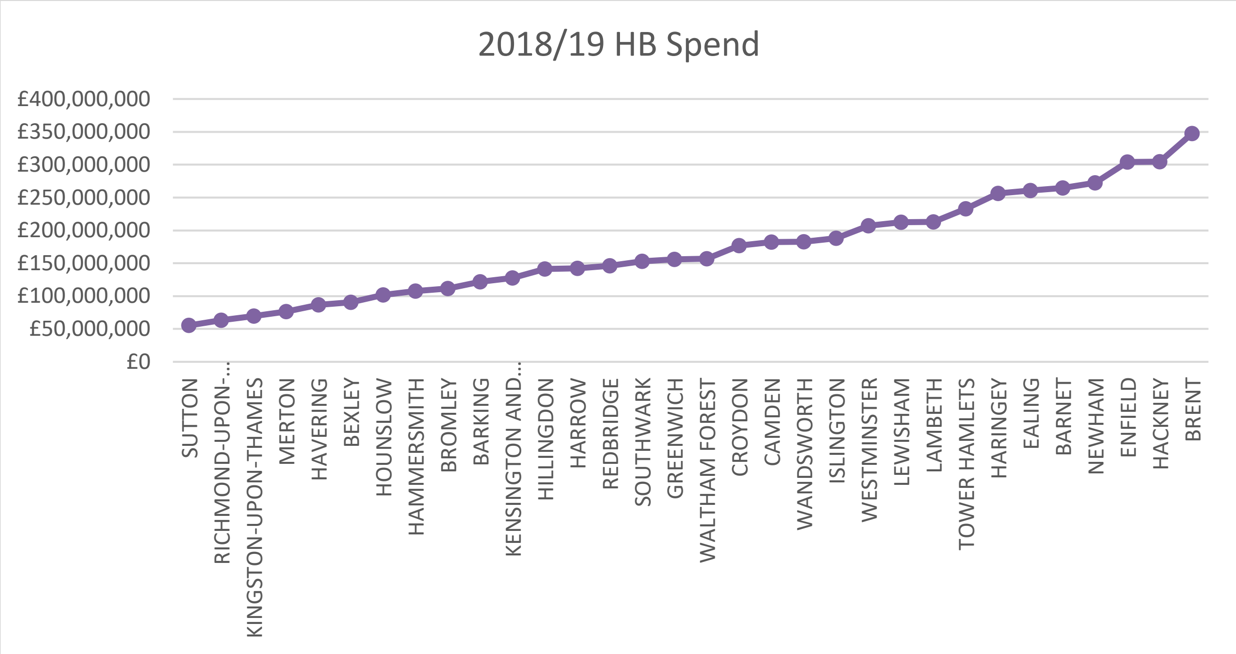
5.1 The external audit for 2018-19 is underway. The audit consists of initial testing and then specific testing based on errors found within previous years. The auditors have selected the samples and the team is currently working through them.

5.2 The testing we undertake is subject to re-performance checks by the auditors. Once the auditors have undertaken these checks, they will draft a qualification letter to the DWP detailing their findings and the potential impact of errors found.

5.3 We anticipate the final picture in terms of any subsidy loss and any impact to grant income for 2018/19 to be known by March 2020.

6 Comparison with Other Authorities

6.1 When comparing the total Housing Benefit spend across all London Local Authorities Haringey had the 7th highest spend in 2018/19 as shown in the following graph.



6.2 Across England, Local Authority overpayments average approximately 3.1% of Housing Benefit expenditure, this rises to 3.4% for London Local Authorities. Haringey's overpayments for 2018/19 were 3.9%, a reduction of 1.4% from 2017/18.

6.3 Haringey is part of a London wide benchmarking group where best practice is discussed and learning is shared.

7 Productivity Improvements

7.1 As part of the FOBO Transformation Programme we introduced Risk Based Verification (RBV) to assist either the processing of Housing Benefit and Council Tax Reduction claims on 01.11.19.

7.2 RBV relates to the level of checks that are undertaken on a claim before benefit is awarded. Its primary purpose is to target resources to where fraud and error are more likely to occur and thus help minimise fraud and error.

7.3 Each claim is given a risk category, Low, medium or High. This risk determines the likelihood of fraud and error occurring on the claim.

7.4 Over a third of our claims will require less evidence with RBV than was previously requested (low risk).

7.5 In the last financial year, we received 4471 new claims and 145,819 changes of circumstances for customers. We sent out 21,049 letters to customers requesting further information. It takes on average 10 minutes extra processing time for each letter we send out for additional information, and adds on average, 2 weeks onto the processing time for each customer.

7.6 The remaining two thirds (medium and high-risk claims) would remain broadly the same. However, the verification approach to these claims would be more structured, consistent and based on statistical evidence.

7.7 Targeting our resources to those claims which provide a higher risk of fraud and error will help reduce fraud, error and overpayments. The RBV software company has confirmed that those claims that carry the very highest risk rating in the high-risk group have a 40% chance of error.

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Report for: Corporate Committee 2 December 2019

Item number: 8

Title: Treasury Management Update Report

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. This report updates the Committee on the Council's treasury management activities and performance in the three months to 30th September 2019 in accordance with the CIPFA Treasury Management Code of Practice.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That members note the Treasury Management activity undertaken during the three months to 30th September 2019 and the performance achieved.

3.2. That members note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

3.3. That members note the contents of the briefing note at Appendix 2 regarding the recent increase in the Public Works Loan Board (PWLB) rate.

4. Reason for Decision

4.1. None.

5. Other options considered

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5.1. None.

6. Background information

6.1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6.2. The Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives reports quarterly.

6.3. However, overall responsibility for treasury management remains with full Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2018/19 on 26 February 2018. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 2nd quarterly monitoring report for 2018/19.

6.4. Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. Finance comments are contained within the body of the report.

Legal

8.2. The contents and recommendation of this report are in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

Appendix 1 – Q1 2019/20 Treasury Update Report
Appendix 2 – Briefing regarding Council Borrowing Following PWLB Rate increase

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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Treasury Management Update Report Q2 2019/20

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2019/20 was approved at a meeting of full Council on 25 February 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 25 February 2019.

External Context (provided by the Council's treasury management advisor, Arlingclose)

Economic background: UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and committed to leaving the EU on 31st October regardless of whether a deal was reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal is in place by 19th October. The move was successful and, having been approved by the House of Lords, was passed into law. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession.

Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

Financial markets: After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Local Context

On 31st March 2019, the Authority had borrowing of £388.8m, and investments of £30.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m
General Fund CFR	383.9
HRA CFR	249.8
Total CFR	**633.7**
Less: *Other debt liabilities	-31.8
Borrowing CFR - comprised of:	**601.9**
- External borrowing	388.8
- Internal borrowing	213.1

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th September 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.19 Balance £m	Movement £m	30.09.19 Balance £m	30.09.19 Rate %
Long-term borrowing	365.8	50.0	415.8	3.88
Short-term borrowing	23.0	-23.0	0.0	0.00
Total borrowing	**388.8**	**27.0**	**415.8**	**3.88**
Long-term investments	0.0	0.0	0.0	0.00
Short-term investments	15.0	-5.0	10.0	1.07
Cash and cash equivalents	15.6	43.4	59.0	0.64
Total investments	**30.6**	**38.4**	**69.0**	**0.70**
Net borrowing	**358.1**		**346.7**	

Borrowing Strategy during the period

At 30th September 2019 the Authority held £415.8m of loans, an increase of £27.0m from 31st March 2019, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.19 Balance £m	Net Movement £m	30.09.19 Balance £m	30.09.19 Weighted Average Rate %	30.09.19 Weighted Average Maturity (years)
Public Works Loan Board	240.8	50.0	290.8	3.52	28.16
Banks (LOBO)	125.0	0.0	125.0	4.72	41.19
Banks (fixed-term)	0.0	0.0	0.0	0.00	0
Local authorities (long-term)	0.0	0.0	0.0	0.00	0
Local authorities (short-term)	23.0	-23.0	0.0	0.00	0
Total borrowing	**388.8**	**27.0**	**415.8**	**3.88**	**32.08**

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

As the Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement, the raised £50m of long term fixed rate loans from the PWLB in the first two quarters of 2019/20, at an average rate of 1.94% which will provide longer-term certainty and stability to the debt portfolio. This borrowing was taken to fund the Council's growing underlying need to borrow from the capital programme, in conjunction with considerations around interest rates.

Going forwards into future years, the Council has a significant capital programme, and a large proportion of this will be financed by borrowing, which the Council will have to undertake in coming years. The Council's treasury advisor, Arlingclose undertakes weekly 'cost of carry' analysis to inform the Council about whether it is financially beneficial to undertake borrowing now or to delay this for set time periods: given PWLB interest rate forecasts. Any borrowing which is taken to prior to capital expenditure taking place, and reducing the extent of the Council's internal borrowing, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing, creating an immediate cost for revenue budgets. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing is maintained.

LOBO loans: The Authority continues to hold £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

Treasury Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £24.9 and £82.3 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.19 Balance £m	Net Movement £m	30.09.19 Balance £m	30.09.19 Rate of Return %	30.09.19 Weighted Average Maturity days
Banks & building societies (unsecured)	0.0	0.0	0.0	0.00	0.0
Money Market Funds	0.0	11.8	11.8	0.69	1.0
UK Government:					
- Local Authorities	15.0	-5.0	10.0	1.07	329.0
- Debt Management Office	15.6	31.6	47.2	0.63	7.0
Total investments	**30.6**	**38.4**	**69.0**	**0.70**	**52.6**

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The table below shows counterparty credit quality as measured by credit ratings on the final day of each quarter during the year. The table also shows the percentage of the in-house investment portfolio exposed to bail-in risk. Bail-in is the response to the government bail-outs in the global financial crisis, when a number of banks failed and received government bail-outs in 2008. Under bail-in, unsecured deposits made with certain financial institutions would be at risk, should the institution fail, and investors would lose a portion of their invested funds. The below table shows a snapshot at a point in time, and movements in the figures do not reflect changes in policy or strategy, but are indicative of the Council's cashflows on that particular date.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2019	3.37	AA	0%	122	0.77
30.09.2019	3.36	AA	17%	26	0.70
Similar LAs	**4.46**	**AA-**	**72%**	**92**	**1.14**
All LAs	**4.28**	**AA-**	**62%**	**28**	**1.22**

Readiness for Brexit: The scheduled leave date for the UK has been delayed from 31st October 2019 and there remains little political clarity as to when this will now occur with the upcoming general election. When a new leave date approaches the Authority will ensure that sufficient funds are invested with the Debt Management Account Deposit Facility (DMADF) in order to have liquid investments to be able to access cash on a daily basis.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. Further details of the Authority's non-treasury investments are given in the Council's Statement of Accounts and Treasury Management Strategy Statement.

Treasury Performance

Treasury Investments generated an average rate of return of 0.73% in the first two quarters of the year. The Council's treasury investment income for the year is forecast at was £338k against a budget of £136.5k.

Borrowing costs for 2019/20 are forecast in line with budget at Q2, at £15.3m (£10.6m HRA, £4.7m General Fund). In prior years these budgets have underspent due to a number of factors, including: the current lower interest rate environment reducing interest costs for the Council, and delays in the capital programme's delivery. Should slippage in the Council's capital programme occur, it will reduce the borrowing requirement, and reduce this forecast.

Compliance

The Director of Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

The council's total borrowing limits are set out in the table below. The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Indicator separately identifies borrowing from other long term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level.

The authorised limit and operational boundary do not therefore, set out absolute limits of what the Council expects to borrow in the year.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	Q1 Maximum	30.9.19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied? Yes/No
Borrowing	415.8m	415.8m	702.4m	752.4m	Yes
PFI and Finance Leases	31.8	31.8m	36.3m	39.9m	Yes
Total debt	**447.6m**	**447.6m**	**738.7m**	**792.3m**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure, however, Haringey's debt remained well below this limit at all points in the quarter.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.19 Actual	2019/20 Target	Complied?
Portfolio average credit	3.36 (AA)	7.00 (A-)	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	30.9.19 Actual	2019/20 Target	Complied?
Total cash available within 3 months	£59.0m	£10.0m	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.9.19 Actual	2019/20 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	0.3m	£1m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	-0.3m	£1m	Yes

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity structure of borrowing	Lower Limit	Upper Limit	30.9.19
under 12 months	0	50%	14.1%
12 months & within 2 years	0	40%	7.6%
2 years & within 5 years	0	40%	19.2%
5 years & within 10 years	0	40%	0.5%
10 yrs & within 20 yrs	0	40%	13.7%
20 yrs & within 30 yrs	0	40%	10.8%
30 yrs & within 40 yrs	0	50%	17.3%
40 yrs & within 50 yrs	0	50%	16.8%
50 yrs & above	0	40%	0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Total short term borrowing: the Council has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to the lower interest rates, and corresponding revenue savings. Short term borrowing exposes the Council to refinancing risk: the risk that interest rates rise quickly over a short period of time, and are at significantly higher rates when loans mature and new borrowing has to be raised. With this in mind, the Authority has set a limit on the total amount of short term local authority borrowing, as a proportion of all borrowing.

Short term borrowing	**Limit**	**30.09.19 Actual**	**Complied?**
Upper limit on short term borrowing from other local authorities as a percentage of total borrowing	30%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	**2020/21**	**2021/22**
Actual principal invested beyond year end	0.0m	0.0m	0.0m
Limit on principal invested beyond year end	£10.0m	£10.0m	£10.0m
Complied?	Yes	Yes	Yes

Outlook for the remainder of 2019/20

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020.

Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

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Post PWLB Rate Change Borrowing Strategy

1. Background

1.1. On 9 October, the Public Works Loan Board (PWLB) increased the cost of borrowing for local authorities by 1% for any new borrowing bringing the total borrowing rate to gilts +1.8%. This increase has made the cost of servicing the debt associated with the Council's capital programme more expensive, creating an additional budget requirement for interest costs which has been factored in the MTFS. This has also impacted on capital schemes which are 'self funding' (i.e. those that generate income or savings which offset capital financing costs), by meaning such schemes have a higher bar they must meet before being financially viable.

1.2. The Council's borrowing strategy previously had been to source the majority (approximately 70%) of new borrowing from the PWLB, with the remainder coming from borrowing from other Local Authorities. This must now be reviewed in line with the change.

2. Alternatives to PWLB

2.1. The Council's treasury management strategy permits borrowing from a number of sources: however it was not anticipated that any alternatives to PWLB would be utilised given the low cost of PWLB funding previously. One other key attraction of PWLB was the low administration cost associated with raising funding, which was done by a simple phone call from officers when new borrowing was arranged.

2.2. Alternatives to PWLB will bring with them a significantly elevated resourcing requirement for Haringey officers, and will be far more costly administratively.

2.3. The alternatives to PWLB and borrowing from other local authorities could include:

- UK registered banks and building societies
- Pension Fund investors (both private and public sector)
- Other bond investors
- The Municipal Bonds Agency PLC (yet to issue any bonds)

2.4. Discussions with high street banks suggest that the Council would only be able to raise borrowing for up to 7 years in duration at rates which compare favourably to PWLB. This is too short a duration for this to form a major component of Haringey's revised borrowing strategy, where the majority of funds borrowed will be in excess of 20 years. However, this will likely be reviewed by the sector generally, as banks may see local authority lending as an opportunity following the announcements.

2.5. Initial discussions, have suggested that the Council may be able to borrow from institutional investors at rates of around gilts +1.2-1.8% or lower for periods of over 20 years, via Private Placement Agreement (PPA). Such arrangements will be subject to negotiations with the lenders, who will need to do due diligence on the Councils borrowing funds. The process of entering into such agreements will be administratively complex, and such agreements would typically be around £50m in size (i.e. the Council would need to do multiple deals to fulfil its borrowing requirement, potentially several per year). Councils who have stronger balance sheets and larger levels of reserves will be able to negotiate better rates. Lenders will prefer to lend funds on variable interest rates, as pension funds prefer investments with inflation linked yields to match their inflation linked liabilities.

2.6. A bond release would first require the Council to become credit rated by one (or more) of the major ratings agencies, which is an involved, lengthy and costly process. A handful of authorities have gone down this route, some not having completed the process, having found that they would have been unable to access funds at a lower rate than the previous PWLB rate of gilts + 0.8%. It is thought likely that investors will lend to local authorities at rates less than the new PWLB rates of gilts +1.8%, and, potentially at rates lower than those available via PPAs. However the precise rate offered will be dependent on the specifics of the financial strength of the authority. Some Councils who have released bonds recently have done so at a variable rate linked to inflation, which is not anticipated to be appropriate to fund most, if not all, of Haringey's capital programme. Councils who have large reserves, and a history of underspending on revenue budgets will be able secure the best rates. Bond releases typically require a minimum size of at least £200m.

2.7. Currently, the market which provides alternative funding to the PWLB for local authorities is not well developed. Only a handful of authorities have raised funds via alternative routes, as PWLB rates have previously been at levels that competitors could not offer. This is now likely to change, and the market is likely to reassess the possibility of lending to Councils. The Council's borrowing strategy will therefore have to be agile in coming years, as developments that present opportunities for the Council may well present themselves, and the borrowing strategy will be designed to allow for this.

2.8. Whereas previously the 'benchmark' was gilts + 0.8% which competitors had to beat to be attractive to Councils, the 'benchmark' has now moved upwards to gilts + 1.8%. There is a risk that the market will increase pricing for funding to just below this new benchmark, for example, a lender who had previously been willing to lend to Councils at gilts +1.2% could now increase their offer to gilts +1.7%: just below the new PWLB rate. This pricing risk will prevail until it becomes clear that the market for alternatives to PWLB is so developed that lenders have to offer significant discounts to the PWLB benchmark rate in an attempt to compete with one another. It is unclear at this stage whether this level of competition will ever materialise, and it is likely to take some time to do so.

2.9. What is clear is that alternatives to the PWLB will require far more involved due diligence processes, borrowing will likely have to be done in large tranches, rather than taking small amounts incrementally, as was common practice from the PWLB, and rates offered will differ depending on the financial position of individual authorities.

3. Considerations going forwards

3.1. Officers will continue to explore alternatives to the PWLB, working with the Council's treasury advisor, Arlingclose. PWLB rates will also be kept under regular and active review, as future drops in gilt rates may provide advantageous borrowing rates for the council (even with the additional PWLB margin applied).

3.2. There is also a possibility that the PWLB will renege on the increased rate that has been put in place, or indeed offer lower rates for projects such as house building for example. Should this occur, the borrowing strategy will require further revision/review.

3.3. The Council's immediate borrowing needs can be fulfilled by borrowing from other Local Authorities in the short term, this is consistent with the Council's approved treasury management strategy.

3.4. Officers will report back regularly to the corporate committee on this topic to keep them updated on developments.

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Agenda Item 9

Report for: Corporate Committee 2 December 2019

Item number: 9

Title: Statement of Accounts Update

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. To present an update to the Corporate Committee on the audit of the Statement of Accounts for 2018/19, and on progress with objections to the accounts relating to prior years.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee consider the contents of this report and any further oral updates given at the meeting by Council officers or the Council's external auditor BDO.

3.2. Notes the contents of the external auditor's final audit completion report at Appendix 1, including the agreed management responses to the recommended actions contained in Appendix 1.

4. Reason for Decision

4.1. Making arrangements for proper administration of financial affairs under section 51 Local Government Act 1972 & Approving statements under The Accounts and Audit Regulations 2015 and any amendment or re-enactment of the Regulations and considering the external auditor's report on issues arising from the audit of the accounts or any other concerns relating to accounting policies are the responsibility of the Corporate Committee.

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5. Other options considered

5.1. None.

6. Background information

6.1. At its meeting of 25 July 2019, the Corporate Committee was presented the Council's draft statement of accounts for approval. In this meeting, Council officers and the Council's auditor reported to the committee that the audit of the Council's accounts was unlikely to be concluded by the new 31 July deadline, due to ongoing audit work, primarily around the testing the auditors were undertaking on the Council's assets (commonly referred to as property plant and equipment, or PPE).

6.2. The Council published an unaudited version of its accounts on 31 July, to fulfil its statutory reporting requirements, with a notice to explain why the audit had not concluded.

6.3. In the July meeting Officers agreed to report back to the Corporate Committee on the progress with the audit in the September 2019 meeting, however as agreed with the Chair of the Committee as work had not concluded in September, the update has been brought to this meeting instead.

6.4. Following the completion of the audit, the final accounts were signed off on 22 November and published on the Council's website: https://www.haringey.gov.uk/local-democracy/performance-and-finance/statement-accounts

<u>Background to 2018/19 Audits Nationally:</u>

6.5. The audit system within local government is widely recognised to be under significant pressure, with senior commentators referring to the system as 'broken'. Local government audit previously operated on a timeline that was 50% longer, with draft statements produced on 30 June each year, and final audited accounts produced on 30 September. The first year of shortened deadlines was 2017/18 (the prior year), and Haringey and BDO met this deadline in the first year of it being in operation.

6.6. The timescales for the audit of NHS and local government bodies now largely overlap, all having to take place in the period April-July each year, squeezing resource into a short time period, creating resourcing issues for audit firms.

6.7. Audit fees are set by a central body on behalf of all Councils, and this year, Haringey's core audit fee has been reduced by 23% compared to the previous year. This results in a saving of approximately £40k to the council. The current audit appointment period is for the audit of the financial years 2018/19-2022/23 (five years).

6.8. Public Sector Audit Appointments Ltd, the central body that appoints local government auditors, published a notice on their website on 12 August which stated that more than 40% of audits for the sector as a whole were not concluded by 31 July. A link to this publication is below.

https://www.psaa.co.uk/wp-content/uploads/2019/08/PSAA-press-release-2018-19-audited-accounts-1.pdf

6.9. Council officers understand that of the London Boroughs between 14-20 (out of 33) were not completed by 31 July, (not all boroughs responded to a survey detailing this). Of those Boroughs audited by BDO, officers are only aware of 1 which was completed by 31 July.

6.10. This year's audit has coincided with a year that has been challenging for the external audit industry generally. There have been a number of reported external audit failures which have resulted in additional scrutiny of the sector, and enhanced requirements for the assurance required from audited bodies. This has means that auditors have to complete work such as testing and challenging management assumptions which takes longer to complete.

Haringey's Audit of the 2018/19 accounts, and issues identified:

6.11. Other than the issues highlighted on pensions and PPE (further below), the audit report presented to the Corporate Committee on 25 July was largely a positive report, which showed improvement from the previous year. The audit report did not suggest any changes that would impact on the Council's outturn position, or usable reserves figures, and the ongoing PPE testing, should not impact on this.

Audit Team resourcing and audit progress:

6.12. The audit team experienced resourcing pressures, which is understandable, given that audit fees have been reduced. However, dealing with less experienced auditors working on site over a longer time period has generated additional pressures for the Council due to the officer time taken up during the audit. The net saving on audit fees for 2018/19 was approximately £40k, however it is reasonable to anticipate that a sum in excess of this has been expended in terms of the time Council officers across the organisation during this year's audit.

6.13. The audit team met with Council Officers on a weekly basis during the months of June and July. These are standard practice during audits, and are held to escalate points of concern for the auditors with Officers in order for action to be taken. No significant causes for concern were escalated in these meetings.

Pension Issues

6.14. There was a degree of uncertainty in the production of the accounts due to two ongoing pensions legal challenges which were taking place during the summer:

- **The McCloud case** is one of these, which has the potential to increase the Council's pension liabilities by around 0.3%, or £6m in total (£7m for the group accounts). This case relates to a protection granted to some (but not all) members of public sector pension schemes when the schemes changed from final salary to career average in 2014/2015. On 27 June a court ruling on this case took place, meaning that it was more likely that these liabilities would emerge. Due to the timing and uncertainty around this case, Council Officers had initially agreed with BDO that this would not be incorporated into the Council's accounts, to avoid having to correct the statements following publication. However, after further review from BDO, they advised that the Council's accounts would have to be updated to incorporate the potential additional liabilities (which was then done).
- **GMP Equalisation** is a case that affects all UK Pension Schemes (i.e. not just the public sector). The courts found that Guaranteed Minimum Pensions (GMP) must be equalised, and there is not clarity on whether this be funded by the Government or pension funds going forwards. BDO have estimated that this could increase overall liabilities by £5m for the Council, and £6m for the group accounts (a 0.3% increase). The Council Pension Fund's actuary had initially advised that the potential liabilities arising from this would not be included in the fund's valuation in the Council's accounts, however, BDO have confirmed that they did not agree with this treatment. Officers have requested that the actuary include this new potential liability from 2019/20 going forwards. BDO has reported this as an uncorrected misstatement.

Audit of Property Plant and Equipment (PPE)

6.15. A number of issues regarding the audit of PPE came to light late in the audit process in the last two weeks in July, and in early August. BDO had to complete additional rounds of testing, to gain the assurance before they were able to sign off the accounts. A number of samples took place of different subsets of assets, the majority of which were satisfactory and provided the required assurance to BDO, however some discrepancies were identified on the floor areas (known as Gross Internal Areas/GIA) for one subset of assets, which consists mainly of Council schools.

6.16. Due to the discrepancies in GIAs identified, BDO advised that they had to undertake further testing on all assets within this subset that had significant values: this isolated the issue to a group of 26 assets. The Council worked with BDO and the Council's valuers to provide the necessary information, which involved the Council's valuers carrying out inspections of some of these assets, which took time to complete, particularly as this work partially took place in August when many schools were closed. This piece of work was completed satisfactorily in mid September, and concluded that the Council's PPE was understated by £2.8m, which will be corrected in the next set of accounts produced.

Concluding the audit:

6.17. Council officers had requested that BDO work towards a sign off deadline of 30 September. The final audit file was submitted by BDO to their internal review teams prior to this deadline, however the review found that the audit team had not completed sufficient testing for several areas of the Council's transactions and balances, and that further work would need to be completed by the auditors before they could sign off the accounts.

6.18. A number of new audit queries were raised post the end of July on a variety of different areas of the Council's accounts. A small number of these request have resulted in additional changes required to the Council's accounts, which presented in the audit report at Appendix 1.

Steps going forwards

6.19. The current accelerated national timeline for local government audits is arguably unworkable and does not provide value to the sector and its stakeholders. The Council will make representations on this point via organisations such as CIPFA, London Councils, and the LGA, to the relevant national organisations.

6.20. The Pensions issues which arose were largely out of the both of the Council's and BDO's hands. The McCloud judgment is not anticipated to have a remedy determined by the courts until at least 2021, and GMP Equalisation is also not anticipated to be clarified within the next year. The Council and BDO have agreed on a treatment for both matters moving forwards that take a 'most prudent' approach, however there is uncertainty which will pertain for some time.

6.21. The areas of PPE which required the further work which took place in August and September are 'Other Land and Buildings' which are valued using a methodology called 'Depreciated Replacement Cost' (DRC), and total approx £774m in the Council's accounts. DRC undertakes a valuation of assets using a complex set of factors, one of which is the floor areas of assets, with which the auditors identified some discrepancies in their work. This issue identified was isolated to a group of assets, and all of those which had significant values (26 assets), were tested as part of the audit work, identifying the £2.8m understatement which will be corrected going forwards.

6.22. The year has clearly been a challenge for the Council's auditors. Council Officers will continue to work closely with them to ensure that this can be turned around so they can meet the Council's timescale requirements in future years.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. As this report details a financial subject matter, finance comments are made throughout the content of this report.

Legal

8.2. The Statement of Accounts has to be produced in accordance with the Accounts and Audit (England) Regulations 2015 and the Chartered Institute of Public Finance (CIPFA) Code of Practice, industry best practice principles. The Council has failed to comply with the 31 July deadline for complying with the statutory requirements for publication. Accordingly the Council must:
(a) publish (which must include publication on the Council's website) as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this; and
(b) comply with the publication requirement as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

Appendix 1 – Audit Completion Report

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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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

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We have pleasure in presenting our 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.

This report updates the Committee of the findings and conclusion from the remaining issues from the audit that we brought to your attention in our report and presentation to you on 25 July 2019.

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.

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
21 November 2019

Leigh Lloyd-Thomas
Engagement Partner
t: 020 7983 2616
e: leigh.lloyd-thomas@bdo.co.uk

Simiso Ngidi
Audit Manager
t: 01473 320861
e: simiso.ngidi@bdo.co.uk

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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 complete and 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 following the proposed approval by the Council of the amended Statement of Accounts.

We were unable to conclude the audit by the 31 July deadline due to issues over valuations of land and buildings, adjustments required to the pension liabilities and capacity of the senior members of the audit team to clear these issues.

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

We are proposing to issue an unmodified audit opinion on the Council and consolidated Group financial statements.

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

THE NUMBERS

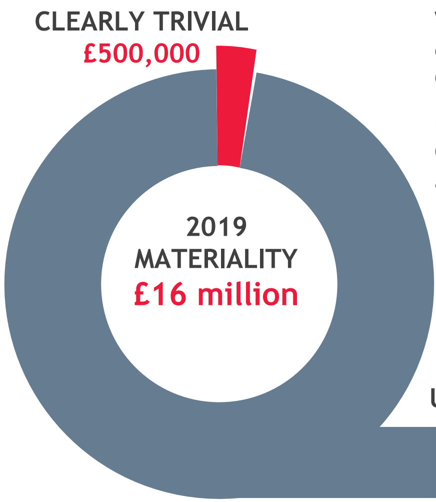
Executive summary

Contents

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 the following material misstatements that have been corrected:

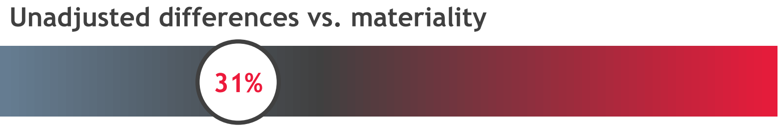
- Increase in school valuations arising from using updated land and buildings areas data recognised in the current year but as this related to the correction of an error in previous years, this has required a restatement of the prior period financial statements.
- £24.6 million in the Group accounts due to the double counting of refurbishment and improvements works on Alexandra Palace.

These, along with other corrected misstatements, have increased the deficit on the provision of services by £12.7 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 and the Council by £4.115 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.



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.

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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.

Other matters that require discussion or confirmation

- Discussion of issues identified by audit since 25 July Corporate Committee and final schedule of adjusted and unadjusted misstatements.
- 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.

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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	Yes	To note the adjustments on schools valuations from using corrected land and buildings data and Alexandra Palace valuation
Pension liability valuation	Significant	Yes	Yes	Yes	No	To note the adjustment for McCloud liability and impact of not adjusting for GMP liabilities
Completeness and accuracy of the fixed asset register	Normal	No	No	Yes	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

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MANAGEMENT OVERRIDE OF CONTROLS

Contents

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 did not identify any issues.

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

Contents

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 did not identify any issues.

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.

We identified errors with the accuracy of the data used for DRC valuations and we have reported this as part of our unadjusted audit differences.

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

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PPE AND INVESTMENT PROPERTIES 2

Significant estimate

Contents

Council dwellings at Open Market Value Social Housing (£1,320 million)

< lower valuation | > Higher valuation

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.

We requested this year that the Council and valuer undertake a review to compare property details from the housing asset register with the classification into relevant Beacons by location, bedroom numbers and property architype to ensure that the Beacon data remains accurate. This identified 541 misclassified dwellings that were corrected in this year's valuation. This resulted in a increase in valuations for reclassified dwellings of £232,000. As this is not material we accepted that this adjustment could be reflected in the current year without restatement of the misstatement in previous years.

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.

PPE AND INVESTMENT PROPERTIES 3

Significant estimate

Contents

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

< lower valuation | > Higher valuation

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 ageing 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 ageing only coming into effect after the first 10 years of its live as little ageing in the building is expected in these initial years.

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 £198 million (Ref Adjusted #2). 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 in previous years. Management has agreed to correct the financial statements to show the impact on the valuation increase in restated prior year financials statements.

Following the updating of land and property details noted above, we selected a sample of properties to confirm 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, we found some differences between the data used in the calculations for floor/land areas and the underlying property data records and other instances where we were unable to obtain evidence where there appears to have been a changes in the land sizes used this year.

Management subsequently undertook additional work to verify and confirm the GIA used in some valuations were incorrect. In one instance, we noted that the valuer had applied a valuation to schools with similar names resulting in an understatement of valuation on one of the schools of £9.773 million that has been corrected by management (Ref Adjusted #7). This also identified other GIA valuation errors resulting in an increase in valuation of £2.787 million (Ref Unadjusted #3). We have reported this as an unadjusted audit difference and included a recommendation on this report.

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.

We concluded that the valuations for other land and buildings based on depreciated replacement cost valuations are reasonable.

PPE AND INVESTMENT PROPERTIES 4

Significant estimate

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

< lower valuation > Higher valuation

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.

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.

The Council has classified the basis of valuation as fair value level 2 (using data that can be agreed to similar benchmark and observable data). At the adoption of IFRS 13 for fair value measurements, CIPFA did suggest that investment properties could be classified as level 2. However, the real estate sector has since agreed that investment properties should be disclosed as level 3 fair value measurements because there are inputs to the valuations that are often not identical to market and benchmark data, where the valuer is making certain estimate adjustments and judgements to the valuation (e.g. covenant strength of tenant, passing rent etc). Management is content that these should be level 2 and we do not consider this to materially affect the disclosures required or the valuation of the investment properties.

We concluded that the valuations for investment properties are reasonable.

Contents

PENSION LIABILITY VALUATION

Contents

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. We also identified a £1.9 million difference between the pensions benefit paid estimated by the actuary and the actual benefits paid. We obtained 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)

< lower valuation > Higher valuation

The Council's pension liability has increased from £1,657 million to £1,805 million and its share of the scheme assets increased from £1,079 million to £1,128 million. The net deficit increased by £100 million to £677 million. The increased liability includes £96 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 liability compared to using an 'all average' of assumptions used by others could result Hymans Robertson providing a slightly more prudent estimate of the liability (+3.1%).

Contents

PENSION LIABILITY VALUATION 3

Significant estimate

Contents

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 £1.029 million (Ref Adjusted #5). This is lower than forecast by GAD using a worse case scenario and reflects the older workforce of the Council and lower pay increases used in the main liability assumptions.

Management has corrected the financial statements to include this additional liability and we have reported this as corrected 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 £5.133 million for the Council and £5.934 million for the Group (Ref Unadjusted #2).

We have reported this as an uncorrected misstatement.

Estimated share of pension fund assets

The actuary's IAS 19 report used the pre-year end investment valuation and estimated the fund valuation to 31 March 2019, resulting in the Council's share of the assets at £1,124 million, which is £3.6 million different to the actual Council's share of investments at 31 March 2019 of £1,128 million. This means that the estimated growth on assets was underestimated. Management has adjusted the accounts for this (Ref Adjusted #6).

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.

Our audit identified two assets which were valued as part of other assets but were not removed from the asset register which resulted in an overstatement of PPE by £1.993 million. This was corrected by management (Ref Adjusted #3).

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.

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NON-COLLECTION OF RECEIVABLES 2

Significant estimate

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

< lower valuation > Higher valuation

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. 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. In light of the improved recoverability of the Council Tax arrears, management should review the provision percentages applied and consider the impact of the improved recoverability. 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)

< lower valuation > Higher valuation

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)

< lower valuation > Higher valuation

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 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 Housing Rent arrears provision, and understated the net recoverable amount. In light of the improved recoverability of the Housing Rent arrears, management should review the provision percentages applied and consider the impact of the improved recoverability. However, we are satisfied that the provision is within a acceptable range although does tend towards being prudent.

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NON-COLLECTION OF RECEIVABLES 3

Significant estimate

Housing benefits overpayment debt (£30.7 million)

< lower valuation | > Higher valuation

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. The Council has debtors amounting to £12.5 million with a “status unknown”, there is no evidence that the Council is actively pursuing these debtors and we would recommend the Council writes these off. We identified that the Council provides for all non-invoiced debts, we believe this is prudent and the Council should review it collection rates on non-invoiced debts.

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 of the related parties has not identified any issues.

Management has included additional disclosures to more clearly explain the position on the historic debt due from the Alexandra Park and Palace Trust and that the Council has agreed that it will only seek to recover this when the Trust is in a position to repay amounts due.

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CLASSIFICATION & MEASUREMENT OF FINANCIAL INSTRUMENTS

Contents

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 and measured under IFRS 9.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Contents

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 review of the revenue streams confirms that the recognition of revenue under IFRS 15 is not different to how revenue was recognised previously.

OTHER MATTERS

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

Contents

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. 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. We have reported this as a presentation misstatement.
Our audit work identified that there are very large and old unreconciled items on the bank general ledger that indicates that reconciling items on the bank are not cleared in a timely manner. A complete bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling item should relate to timing differences.	We have reported a significant control weakness in bank reconciliations.
The useful economic lives (UEL) used for some infrastructure assets such as highway lighting is unusually high. UEL is a matter of management judgement but we consider 50 years to be the highest reasonable value. Using a high UEL reduces the depreciation charged each year. We recommend that management should reconsider the UEL for infrastructure assets.	This is being reported to management

OTHER MATTERS 2

Issue	Comment
We consider the Minimum Revenue Provision (MRP) charge to be overly aggressive. The Council changed its calculation of MRP from 1 April 2016 and this resulted in a reduced charge for 2018/19 of £6.3 million compared to the £13.2 million charged in 2015/16 under the previous policy. We have some concerns over the use of the annuity curve method of charging MRP on post-2008 and PFI debt rather than using a straight line charge, as this will result in the proportion of MRP being charged in the early years being significantly lower than what will be charged in the latter years. Over the life of the debt, the Council will still put aside the same total amount, but this weights the profile towards future years that may not necessarily reflect the benefits consumed by the asset by the current service users compared to taxpayers in the future. We acknowledge that the CLG guidance does allow this method of charging MRP but this tends to be applied where the asset acquired through borrowing will earn rentals or income on a matching annuity curve (with upward rent reviews or income generation) rather than being consumed in providing services. The guidance also allows an annuity method MRP charge where you are seeking to reflect the future time value of money. For example, where inflation allows for greater amounts to be charged through general taxation (council tax) this would suggest putting aside higher amounts of MRP in the future. However, we have noted concerns that headroom available through future council tax increases may be severely restricted under current Government policy. While we are content that there is not a material understatement of an appropriate and prudent MRP charge for 2018/19, the existing MRP policy serves to defer repayment of debt charges from current service users to future tax payers that may not reflect the utility or benefits received from the assets funded from debt.	This is being reported to management.

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OTHER MATTERS 3

Issue	Comment
The Council's fixed asset system incorrectly calculated "catch-up depreciation" amounting to £3.059 million. This was confirmed with the system provider as a system error which required manual adjustments on the accounts, the Council only made adjustments to the HRA assets amounting to £2.041 million leaving an uncorrected misstatement of £1.018 million on the General Fund assets.	We have reported this as unadjusted error (Ref Unadjusted #1).
Our audit identified that the Council had recorded a deficit as a surplus on the cash flow statement, this resulted in the cash flow statement being inaccurate. As a result of this some items of the cash flow were not accurate and did not agree to the accounts.	This has been corrected by management.
We identified that the Council has not included in the senior officer remuneration note amounts paid to interim senior officer for Director of Finance.	We have reported this as an unadjusted disclosure note
Our audit identified that the Council had paid £6.5 million to a housing Association for the construction of social housing and this was recorded as additions to assets under construction. As this was towards an asset which is not owned by the Council it met the definition of 'revenue funded from capital under statute' (REFCUS) rather than an addition to Council's assets.	This has been corrected by management (Ref Adjusted #1).

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OTHER MATTERS 4

Issue	Comment
During the audit of the Group consolidation we found that the Council has added the transfer from assets under construction of £24.625 million to the valuation of the Palace provided by the valuers. This resulted in the valuation of the Palace being overstated by £24.625 million as the valuation had already taken into account the completed works.	This has been corrected by management (Ref Adjusted #8).
The Council had incorrectly included on the CIES an amount of £62.376 million in both income and expenditure which was for transactions on behalf of other organisations. This resulted in higher income and expenditure with no impact on the deficit on cost of services.	This has been corrected by management (Ref Adjusted #4).
The consolidation of fund reserves of £3.601 million in the Alexandra Park and Palace Trust had been incorrectly included in Unusable reserves of the Group but should have been includes in Usable reserves.	This has been corrected by management (Ref Adjusted #9).

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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

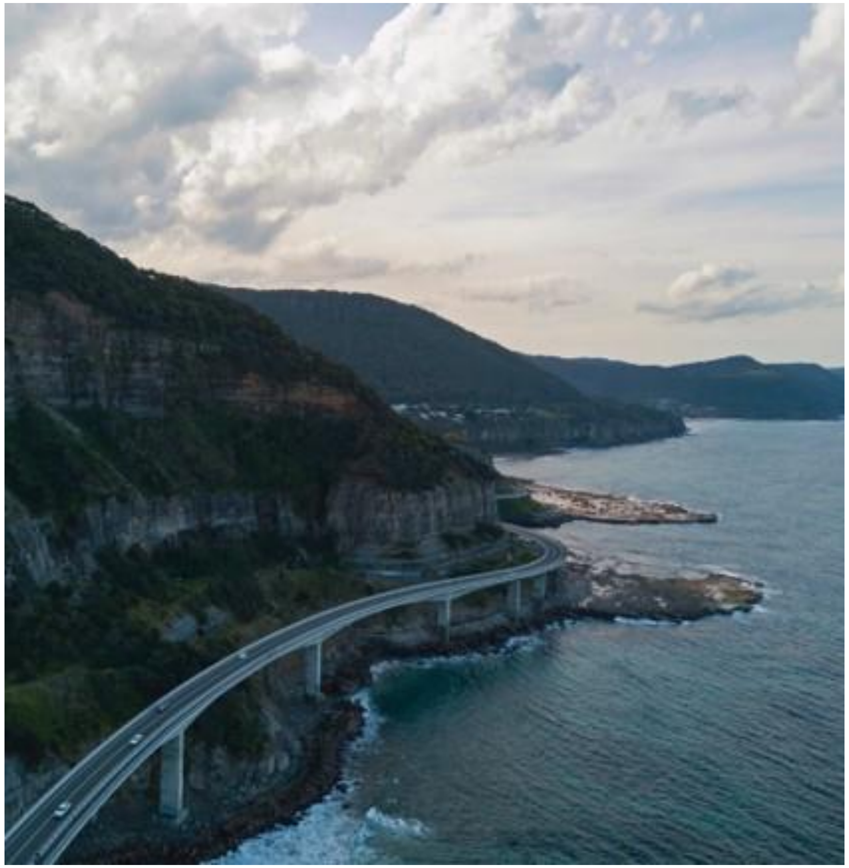
Following review of the component auditors' reporting we were satisfied with the quality of their work and can confirm:

- There were no limitations on the audit where information was restricted
- We did not identify any fraud at a component level.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



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 £4.916 million and the Council by £4.115 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.

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 / net assets before unadjusted audit differences	34,687			1,284,010		38,909			1,393,422	
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 of GMP on pension liabilities										
DR Past service costs	5,133	5,133				5,934	5,934			
CR Pension liability					(5,133)					(5,934)
3: Valuations based on inaccurate information GIA data										
DR PPE				2,787					2,787	
CR Revaluation Reserve					(2,787)					(2,787)
Impact of adjustments	4,115			(4,115)		4,916			(4,916)	
Deficit on the provision of services after unadjusted audit differences / net assets	38,802			1,279,895		43,825			1,388,506	

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UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

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
- Analysis of statutory debts past due not impaired.
- Two leases not disclosed in the lease commitment note
- Council has not included in the senior officer remuneration note amounts paid to interim senior officer for Director of Finance.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

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 decreased net assets by £12.719 million.

There was no impact on the General Fund or HRA balances.

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				198,328						
CR PPE					198,328					
3: Adjustment of assets that should've been removed from the FAR										
DR Impairment	498	498				498	498			
DR Revaluation Reserve				1,495					1,495	
CR PPE					1,993					1,993
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		
5: Adjustment for the McCloud judgement on pensions										
DR Past Service Costs	5,965	5,965				6,994	6,994			
DR Interest Costs	77	77				77	77			
CR Pension Liability					6,042					7,071

ADJUSTED AUDIT DIFFERENCES: DETAIL 2

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
6: Remeasurement of pension liability after the pension fund assets adjustment										
DR Pension Liability				3,635					3,635	
CR Pension Reserve					3,635					3,635
7: School measured with incorrect GIA										
DR PPE				9,773					9,773	
CR Revaluation gain (CIES)	(322)		322			(322)		322		
CR Revaluation Reserve					9,451					9,451
8: Adjustment for the double counting of AUC in valuation of the Palace										
DR Revaluation Reserve									24,625	
CR PPE										24,625
9: Reclassify the Trust’s reserves to Usable reserves from Unusable reserves in the Group										
DR Unusable reserves									3,601	
CR Usable reserves										3,601
Total adjusted audit differences	12,719					13,748				
Adjusted surplus on the provision of services	34,687					38,909				

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ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

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

The following adjusted disclosure matters were noted:

- Accuracy of amounts on the cash flow statement
- Improvements in the wording of the related parties disclosure note
- Amended receivables note to report net amounts receivables after impairment losses.

REPORTING ON OTHER INFORMATION

Contents

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.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge
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. We are planning to issue our opinion on the consistency of the DCT return upon completion of the audit of the financial statements.

AUDIT RISKS OVERVIEW

Contents

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

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SUSTAINABLE FINANCES

Contents

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 had projected a full year deficit of £9.1 million. This is mainly attributed to the non-achievement of savings (£10.8 million) and significant pressures on Adults (£4.7 million) and Children (£6.4 million).

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

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.

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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 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 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 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 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. It is evident that there has been improvements managing resources and sustainable finances. However, more still needs to be done.

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

Contents

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.	Noted, and agreed
Bank reconciliations (Schools and Council banks)	Our audit work identified that there are very large and old unreconciled items on the bank general ledger. This indicates that reconciling items on the bank are not cleared in a timely manner. A complete bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling item should relate to timing differences. The cash balance could be materially misstated if reconciling items are not appropriate timing difference.	Management should review processes for preparing cash and bank analyses and supporting bank reconciliations. Balances within clearing codes should be cleared down with equal and opposite entries and the total population of reconciling items should be identified, in order to appropriately prepare the bank reconciliations.	This primarily relates to schools who operate their own local banking arrangements separately from the Council's main bank accounts. The process of capturing data from the schools has been reviewed in year, and an online data collection portal is being developed to ensure that financial information is submitted by schools in a consistent manner. In addition to this, the schools finance team has been expanded to provide additional support to schools, and training manuals for schools staff have been revised.

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OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Debtors	On our audit we identified that the Council has long outstanding debtors which have been fully provided. There is no evidence that these old debtors are being actively pursued. This may lead to an overstatement of debtors and the related provision if debtors which have no possibility of recovery are not reviewed periodically and considered for write-off.	Management should review their debtors and identify those debtors which have no possibility of recovery and consider them for write-off.	Noted, these are regularly reviewed.

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.	This control has been implemented within the system now.
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	We have discussed this with our valuers.
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	This has been completed and the process is in operation

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FOLLOW UP OF PRIOR YEAR DEFICIENCIES 2

Contents

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	Thorough review completed as noted earlier in this report, which has resulted in prior period adjustments being disclosed in the accounts.
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	This was completed

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OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

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

Contents

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.

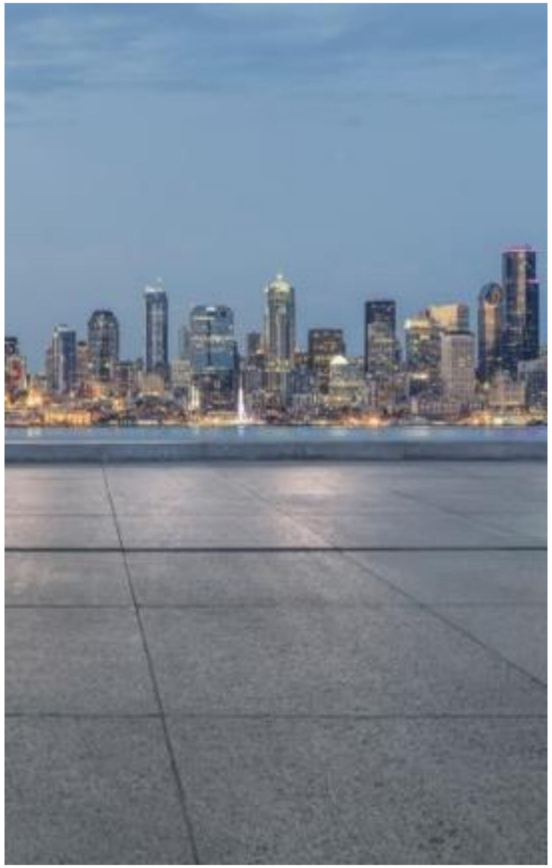
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

FEES

Contents

Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
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	In progress
• Teachers' pensions return	Not started	3,500	7,000
Total fees	**TBC**	**204,209**	**272,782**



(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.

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APPENDICES CONTENTS

Responsibilities and reporting

Contents

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.

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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

	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

Contents

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	21 November 2019	Corporate Committee
Annual Audit Letter	December 2019	Corporate Committee

AUDIT REPORT

Contents

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HARINGEY COUNCIL

Opinion on the financial statements

We have audited the financial statements of London Borough of Haringey ("the Council") and its subsidiaries ("the group") for the year ended 31 March 2019 which comprise the Council and group Comprehensive Income and Expenditure Statements, the Council and group Movement in Reserves Statements, the Council and group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and related numbered notes and the Expenditure and Funding Analysis note to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

AUDIT REPORT 2

Contents

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion on use of resources

We have undertaken our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2017, as to whether 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.

The National Audit Office has determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Based on our risk assessment, we undertook such work as we considered necessary. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

AUDIT REPORT 3

Contents

Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Responsibilities of the Chief Financial Officer and the Council

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's and group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations of the Council or group or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

AUDIT REPORT 4

Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack and completed the work necessary to conclude on objections to the accounts received from local government electors in previous years. We are satisfied that this work does not have a material effect on the Council and group financial statements or on our use of resources conclusion.

Use of our report

This report is made solely to the members of London Borough of Haringey, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

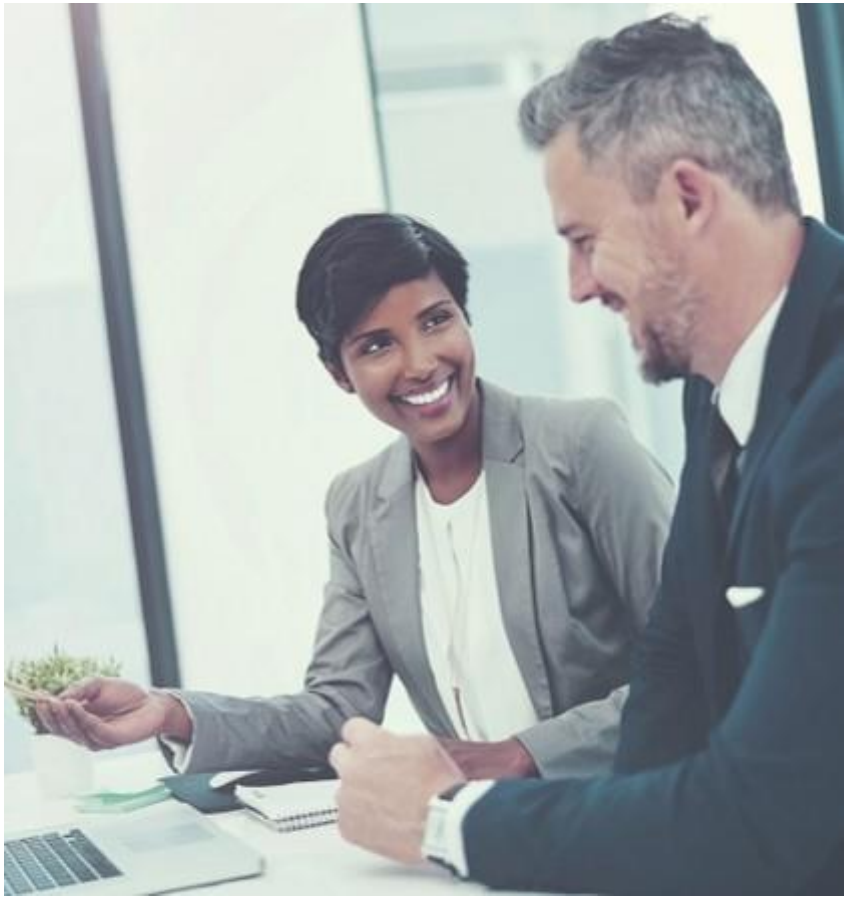
Leigh Lloyd-Thomas
For and on behalf of BDO LLP, Appointed Auditor
London, UK

xx December 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

AUDIT QUALITY

Contents



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

LETTER OF REPRESENTATION

[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.

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.

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:

Leigh Lloyd-Thomas

t: 020 7983 2616
e: 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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Agenda Item 10

Report for: Corporate Committee – 2 December 2019

Item number: 10

Title: Internal Audit Progress Report 2019/20 – Quarter 2

Report authorised by : Assistant Director of Corporate Governance

Lead Officer: Minesh Jani, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: minesh.jani@haringey.gov.uk

Ward(s) affected: N/A

Report for Key/
Non Key Decision: Information

1. Describe the issue under consideration

1.1 This report details the work undertaken by Internal Audit for the period ending 30 September 2019 and focuses on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and follow up work completed.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference.

4.2 In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the work undertaken by the Internal Audit Service in completing the annual audit plan. Where further action is required or recommended, this is highlighted with appropriate recommendations for the Corporate Committee.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been compiled from information held within Audit & Risk Management and from records held by Mazars.

7. Contribution to strategic outcomes

7.1 The internal audit work makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon to 31 March 2023, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and advises that there are no direct legal implications arising from the report.

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

As contracted providers of Haringey Council, the internal audit contractor is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010. Ensuring that the Council has effective internal audit and assurance arrangements in place will also assist the Council to use its available resources more effectively.

9. Use of Appendices

Appendix A – Mazars Progress report – Internal audit

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

11. Performance Management Information

11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1 – Performance Indicators

Ref.	Performance Indicator	2nd Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	45%	42%	95%
2	Priority 1 recommendations implemented at follow up	N/A	N/A	95%

12. Internal Audit work – Mazars

12.1 The activity of Mazars for the second quarter of 2019/20 is detailed at Appendix A. Mazars planned to deliver 319 days of the annual audit plan (710 days) during the quarter and delivered 296 days audit work during the quarter. This is broadly in line with the plan. The audit plan has been re-profiled for quarters 3 to 4 to allow for changes proposed to this year’s plan.

12.2 Members of the Corporate Committee receive detailed summaries of all projects for which a final report has been issued on a timely basis to allow for any concerns which members may have to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter. Detailed summaries of any reports with a limited assurance are included in Appendix A for information.

12.3 **Significant issues arising in Quarter 2**

All non-schools audits finalised in quarter 2 received adequate assurance. The key findings relating to the one school receiving “Limited” will be captured in the annual report.

Internal Audit
Quarter 2 Internal Audit Report 2019/20
London Borough of Haringey

November 2019

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Executive Summary

Introduction

This is our second report to the Corporate Committee for the 2019/20 financial year including details of all reports which have reached final stage since our last report of 2018/19. The report provides information on assurance opinions on areas we have reviewed and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. Full copies of our audit reports will be provided upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

As a reminder, our recommendations are prioritised according to the following categories:

Priority 1 - Fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.

Priority 2 - Significant control weaknesses, which expose the organisation to a moderate degree of unnecessary risk.

Priority 3 - Areas where we have highlighted opportunities to implement a good or better practice to improve efficiency or further reduce exposure to risk.

From 1st April 2019, we have review our assurance ratings so that the “Full” rating has been removed. “Substantial” now become the highest rating availble with a new rating of “Adequate” inserted between “Substantial” and “Limited”. This was because it was felt that “Full” assurance was too hard to attain and we now have greater leeway to reflect positive outcomes. A summary of the new framework is below:

Definitions of Assurance Levels	
Level	**Description**
Substantial Assurance:	Our audit finds no significant weaknesses and we feel that overall risks are being effectively managed. The issues raised tend to be minor issues or areas for improvement within an adequate control framework.
Adequate Assurance:	There is generally a sound control framework in place, but there are significant issues of compliance or efficiency or some specific gaps in the control framework which need to be addressed. Adequate assurance indicates that despite this, there is no indication that risks are crystallising at present.
Limited Assurance:	Weaknesses in the system and/or application of controls are such that the system objectives are put at risk. Significant improvements are required to the control environment.
Nil Assurance:	There is no framework of key controls in place to manage risks. This substantially increases the likelihood that the service will not achieve its objectives. Where key controls do exist, they are not applied.

Key Highlights/Summary of Quarter 2 2019/20:

2019/20 Internal Audit Reports finalised in the quarter:

- Commercial Property
- Contract Management – Refuse Contract

2019/20 Schools Audit Reports Finalised the quarter

- Coleridge Primary School
- Seven Sisters Primary School
- Belmont Infants School

2019/20 Draft Internal Audit Reports issued this quarter

- Brokerage
- Mopac Funding

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 2 of 2019/20 financial year and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

Audit Title	Date of Audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2019/20							
Management of Commercial Property Portfolio	Apl 19	Sept 19	Adequate	N/A	0	5	2
Temporary Accommodation	July 19	Sept 19	Adequate	N/A	0	2	1
Contract Management – Refuse Collection	Apl 19	Sept 19	Adequate	N/A	0	1	2

As part of the 2019/20 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 2 issued a final report.

School	Date of Audit	Date of Final Report	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
2019/20						
Coleridge Primary School	July 19	Sept 19	Adequate	0	5	4
Seven Sister Primary School	July 19	Sept 19	Adequate	0	5	6
Belmont Infant Schools	July 19	Sept 19	Limited	0	6	9

Statement of Responsibility

We take responsibility to the London Borough of Haringey for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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Mazars LLP
London
November 2019

Agenda Item 11

Report for: **Corporate Committee – 2 December 2019**

Item number: **11**

Title: **Counter Fraud Update Report 2019/20 Quarter 2 (July-Sept 2019)**

Report authorised by : **Assistant Director of Corporate Governance**

Lead Officer: Minesh Jani, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: minesh.jani@haringey.gov.uk

Ward(s) affected: **N/A**

Report for Key/ Non Key Decision: **Information**

1. Describe the issue under consideration

1.1 This report details the work undertaken by the Counter Fraud Team for the quarter ending 30 Sept 2019 and focuses on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house Fraud Team.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the counter-fraud work completed in the period to 30 September 2019.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the effectiveness of Council policies on Anti-Fraud and Corruption. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the responsive and pro-active fraud investigation work.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been compiled from information held within Audit & Risk Management.

7. Contribution to strategic outcomes

7.1 The counter-fraud team makes a significant contribution through its pro-active work in ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement
There are no direct financial implications arising from this report. The work completed by the Fraud Team is funded from within the Audit and Risk Management revenue budget. The maintenance of a strong proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal
The Council's Assistant Director of Corporate Governance has been consulted in the preparation of this report, and has no comments.

8.3 Equality
The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

The in-house counter-fraud team is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010 and this is built into the team's operational procedures. Ensuring that the Council has effective counter-fraud arrangements in place will assist the Council to use its available resources more effectively.

9. Local Government (Access to Information) Act 1985
Not applicable.

10. Performance Management Information
10.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key counter-fraud area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1 Performance measures – counter fraud activity

Ref.	Performance Indicator	Q2	YTD		Annual Target
12.2	Tenancy fraud – properties recovered secure tenancies	15	26	26	50
12.3	Tenancy fraud – properties recovered - Regeneration	0	0		
12.4	Right to Buy – fraudulent applications prevented	11	41	41	80

12. In-house Counter-Fraud Team: Fraud investigation/Pro-active work

12.1 Internal employee investigations

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees.

Quarter 1 investigations

Four (4) employee investigations under review in Q1 2019/20 were brought forward and within Quarter 2, two new cases relating to permanent employees were referred to the Fraud Team.

- Of the six (6) permanent employee investigations, two were concluded with no further action and one was subject to a formal disciplinary procedure. Three cases continued through Q3

The Fraud Team work closely with officers from HR and the service area involved to ensure that the investigation is completed as quickly as possible.

12.2 Tenancy Fraud – Council properties

In 2019/20, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

<u>**2019/20 – Referrals received**</u>		
Brought forward from 2018/19		148
Referrals received in 2019/20		98
Total referrals received for investigation		**246**
<u>**2019/20 Outcomes**</u>		
Properties Recovered	**26**	
No Fraud identified	82	
Total cases concluded		108
Ongoing Investigations		***138**

*See Note 1 below

Note 1: Of the 138 ongoing investigations; 59 of these cases (42.8%) are progressing towards tenancy recovery. Following a referral, the status of the tenancy has been investigated and the case is in Possession proceedings, most commonly for one of the following reasons:

. awaiting a Court Hearing
. the Particulars of Claim are with Legal Services
. an NTQ is awaiting expiry
. a succession application has been refused and the tenant is awaiting an offer

of smaller accommodation. Notice on Public Trustee
. the rent account is showing an "Unauthorised Occupant" on the Housing database, awaiting eviction.

Properties will be included in the 'recovered' data when the keys are returned and the property vacated.

The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH's responsibilities in the Management Agreement. HfH continue to fund a Tenancy Fraud Officer co-located within the Fraud Team.

The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. tenancy fraud, and right to buy fraud.

12.3 Pro-active counter-fraud projects

During 2019/10, the Fraud Team has continued with a number of pro-active counter-fraud projects in areas that have been identified as a high fraud risk. Progress reports on this work will be reported to the Corporate Committee during the year; the findings and outcomes are all shared with service managers as the projects are delivered.

12.3.1 Gas safety – execution of warrant visits

The Fraud Team accompany warrant officers on all executions of 'warrant of entry' visits where it is suspected that the named tenant is not in occupation

It has previously been reported to the Corporate Committee that in the financial year 2018/19 that the Fraud Team assisted with 107 gas safety warrants of execution, of which 20 contributed to the total of 52 secure tenancies recovered.

In 2019/20, the fraud team accompanied the HfH gas compliance team where twelve (12) of the properties are included in the 26 secure tenancies recovered. As at 30 June 2019 a further ten (10) properties are under continued investigation and the outcomes will be reported as properties are recovered.

12.3.2 Council Tax /Single Person Discount

Following the release of National Fraud Initiative (NFI) data in 2019, the Fraud Team are carrying out a pro-active exercise to identify households where household circumstances have changed, but not been notified to the Council. Council Tax records are being matched with other Council data: Where Council, records show a single person household and this is no longer the case, the CT account is adjusted, home-owners notified and there is an expectation that additional income will be generated for the Council. This shall be monitored and reported to Committee throughout the year. The team has reviewed over a 1,000 NFI matches and sent letters to 52 householders where it is suspected more than one person is living at the property. The householders can contact the internal audit team and present evidence to show entitlement should continue.

12.3.3 No Recourse to Public Funds (NRPF)

As at 30 September 2019, ten (10) referrals have been received and responded to by the Fraud Team through the financial year. The role of the Fraud Team has changed in that they now only provide a financial status position for the NRPF team to include in their overall Children and Family Assessment.

The average cost of NRPF support per family (accommodation and subsistence for a 2 child household) is around £20,000 pa.

12.4 Right-to-buy (RTB) applications

As at 30 September 2019 there were approximately 181 ongoing applications under investigation. The team reviews every RTB application to ensure that any property where potential tenancy, benefit or succession fraud is indicated can be investigated further. The numbers of tenants applying to purchase their properties under the Right to Buy legislation has been reducing and whilst the reasons are not known with certainty, two possibilities are perceived to be (i) as valuations continue to rise and (ii) growth in tenant awareness of Fraud Team investigations.

At Q2, forty one (41) RTB applications were withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or failing to complete money laundering processes.

12.5 Financial Values 2019/20

Tenancy Fraud – council stock and temporary accommodation:

The Audit Commission valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, relating to average Temporary Accommodation (TA) costs. No new national indicators have been produced; therefore although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit and Risk Management continue to use this figure of £18k per property for reporting purposes.

At Q2 twenty six (26) council stock properties have been recovered through the actions and investigations of the Fraud Team; therefore a total value of **£468,000** can be attributed to the recovery, or cessation, of fraudulent council and temporary accommodation tenancies, including those in the Regeneration areas**.**

Right to Buy Fraud:

Overall, the 41 RTB applications withdrawn or refused represent over **£4,592k** in potential RTB discounts; and means the properties are retained for social housing use.

Haringey LONDON

12.6 Whistleblowing Referrals
The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. four referrals were made in Quarter 2.

12.7 Prosecutions
As at 30 September 2019 (Q2) two (2) Tenancy Fraud cases have been prepared and are with Legal Services for a Court application.

A further two tenancy cases are being prepared for consideration by Legal services for prosecution.