



Haringey Council

Agenda Item

Audit Committee

On 28th October 2008

Report title: **Audit of Accounts 2007/08**

Report of: **Chief Financial Officer**

Ward(s) affected: All

Report for: Information

1. Purpose

1.1 To update the committee on the final outcome of the annual audit for 2007/08 and to agree the final action plan proposed by the Council's auditors following their audit of the accounts.

2. Recommendations

2.1 That the Committee agrees the management responses contained in the action plan.

Report authorised by: Gerald Almeroth – Chief Financial Officer

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3. Executive Summary

3.1 The statutory report of Grant Thornton following their audit of the Council's accounts 2007/08 was approved by the General Purposes Committee on 29th September 2008. It was agreed that following the close of the audit the proposed action plan arising from this audit would be approved and monitored by the Audit Committee. The actions proposed arising from the report are included within this report to the Committee.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Report of Chief Financial Officer to General Purposes Committee on 26 June 2008 – Statement of Accounts 2007/08

Report of Chief Financial Officer to General Purposes Committee on 29 September 2008 – Annual Governance Report

6. Background

- 6.1 At the General Purposes committee meeting of 29th September 2008, Grant Thornton presented to members the findings from their audit of the accounts for 2007/08, prior to signing off the audit by the statutory deadline of 30th September 2008.
- 6.2 It was agreed that following the closure of the annual audit any follow up actions that were required would be brought to the Audit Committee for approval and on-going monitoring.
- 6.3 The statutory deadline for the signing off of the accounts by the Authority's auditors was 30th September 2008 and the audit opinion was issued on that date.
- 6.4 The Auditors delivered an unqualified audit opinion and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The accounts are still open for a public inspection period and for raising objections to the auditors on the 2007/08 accounts. This period closes on the 18th November 2008.

7. Action Plan arising from Annual Governance Report 2007/08

- 7.1 The Annual Governance Report agreed by the General Purposes committee contained a draft action plan for improvements arising from the annual audit. This action plan is attached at Appendix A to this report with the management responses included.

8. Financial Implications

- 8.1 There are no direct financial implications arising from the recommendations in this report.

9. Recommendations

- 9.1 That the Committee agrees the management responses contained in the action plan.

10. Head of Legal Services comments

- 10.1 There are no specific legal implications.

Appendix A Action Plan

The following table presents a list of recommendations which require action on the part of the Council's management. These relate to weaknesses in the systems of financial control and other issues associated with the accounts process.

Finding	Recommendation	Management response	Implementation date
<p>Housing Rent write-offs</p> <p>Our testing on the Housing Rents system during the interim audit identified that the Chief Financial Officer had not authorised the write-off for the debt selected.</p> <p>We understand this was because the housing rents team were working from an incorrect version of the Constitution resulting in the proper procedures not being followed.</p> <p>The amount written off in year without authorisation was immaterial.</p>	<p>We recommend that the Council ensures the correct version of the Constitution is being applied to ensure compliance with proper procedures.</p>	<p>The correct procedures have been re-issued and training will be given if required. Any write-off will be monitored throughout the year to ensure proper procedures are followed.</p>	<p>Sept 08</p>

Finding	Recommendation	Management response	Implementation date
<p>Pension Fund cash The Council does not hold separate bank accounts in the name of the Pension Fund. The result of this is that separate reconciliations are required to ensure that monies in connection with the Pension Fund are ring fenced from that of the Council.</p>	<p>We recommend that the control environment would be enhanced if pension fund assets were maintained separately from the main Council accounts. The Council should review and consider opening a separate bank account for the Pension Fund.</p>	<p>The council will undertake a review of the pension fund banking arrangements with a view to considering the auditor's recommendation. The results of this review and any subsequent recommendation will be reported back to the pensions and audit committees.</p>	<p>Dec 08</p>
<p>Related Party Transactions During our testing of related party transactions we identified an instance whereby a Councillor included £11m for transactions between the Council and another body for whom the Councillor was a Non Executive Director. The amount that should have been included was the amount of remuneration received for this position. It was agreed with the Council that their arrangements could be improved in this area.</p>	<p>We recommend the Council reiterate the policy to Councillors that amounts disclosed on the related party declaration form should relate only to monies received by the individual, and not to the value of transactions between the Council and other organisations.</p>	<p>Revised guidance notes for the completion of related party transaction declarations will be issued with the returns for 2008/09. Improvements will be put in place regarding quality assurance checks on the RPT returns by officers.</p>	<p>March 09</p>

Finding	Recommendation	Management response	Implementation date
<p>Insurance Provision The insurance provision of £6.4m is not currently discounted to reflect the timing of the future cashflows.</p> <p>As per FRS12, where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.</p> <p>The last valuation of the provision was carried out in 2006/07 and there is a risk that the provision is misstated as it does not reflect accurately the Council's liabilities as at 31/3/2008. Our work suggests that while taking on board the overstatement implicit in not discounting, we are satisfied that there is no material misstatement of the provision.</p>	<p>We recommend that from 2008/09 onwards this provision be discounted as required and that valuations are kept up to date.</p>	<p>The insurance provision will be reviewed as part of the accounts closure for 2008/09. The council will ensure that this is calculated in line with the SORP and accounting standards.</p>	<p>March 2009</p>

Finding	Recommendation	Management response	Implementation date
<p>Tangible Fixed Asset Depreciation Our testing identified that the depreciation figures for 07/08 were calculated in Oct 2006, which was before the revaluation at 31/3/07. However, in October 2006 it would not have been possible to ascertain which assets the Council would have owned as at 31/3/08.</p> <p>We have ascertained that in 07/08 General Fund operational assets have been under-depreciated by approximately £870,000, and it is recommended the Council adjust the accounts for this amount. See Appendix B.</p>	<p>It is recommended that from 2008/09 onwards the Council depreciate on the revalued amount within the Balance Sheet at year end, in order to ensure compliance with FRS15.</p>	<p>For the accounts closure 2008/09 the depreciation will be recalculated as at 31st March to ensure a more accurate figure is presented in the accounts.</p>	<p>March 09</p>
<p>Fixed Asset Reclassifications Information provided by Corporate Property Services was not processed in time to be disclosed within Note 15, Fixed Assets. The Balance Sheet value of each class of asset is correct, but the Reclassification line within the Note does not show the various transfers that have occurred during the year. In order to be compliant with the SORP, the Council have agreed to amend the disclosure so that Note 15 reflects the reclassifications that have occurred.</p>	<p>We recommend that in future the Council ensure that the detail of fixed asset reclassifications in year is disclosed within the Fixed Asset note.</p>	<p>Additional controls will be put into place to ensure the disclosures within the accounts accurately reflect the position on fixed assets. In addition an Asset Accounting module of SAP is being implemented for March 2009 which will further improve controls.</p>	<p>March 09</p>

Finding	Recommendation	Management response	Implementation date
<p>Policies & Procedures During our audit we identified a lack of written procedure notes over the processes undertaken to identify impairments, although no actual errors were identified with regards to the treatment of impairments. We also identified a lack of procedure notes in place over the consolidation process required under FRS2 Accounting for Subsidiary Undertakings.</p>	<p>We recommend that the Council formally document all its key procedures to help ensure that the approach is consistent and in accordance with Council policy.</p>	<p>All procedures will be reviewed and updated or written where appropriate as part of the closure of accounts 2008/09 preparatory work.</p>	<p>March 09</p>
<p>Finance Lease - 48 Station Road Our testing identified that the interest element of the rental payments charged to the Income and Expenditure account had not been calculated in accordance with SSAP21. In addition, the asset in the Balance Sheet had not been depreciated since this came onto the Balance Sheet in 2003/04.</p>	<p>Although the amounts are not material, we recommend that the Council adjust its approach from 2008/09 to ensure compliance with the requirements of SSAP 21.</p>	<p>The accounting treatment of 48 Station Road will be reviewed and action put into place to ensure the accounting treatment follows that required by SSAP21.</p>	<p>March 09</p>

Finding	Recommendation	Management response	Implementation date
<p>Standards Fund Grant income and expenditure Our testing identified that the Council was double counting in gross terms Standards Fund grant income received by and spent by schools. This has resulted in a £17.633m adjustment to the accounts. There is no impact upon the bottom line for the income and expenditure account or for Council Tax.</p>	<p>We understand the Council intends to modify processes for the recording of the Standards Fund grant. We recommend that the Council submits to ourselves an outline of the modified process and controls in place to ensure that Standards Fund grant is properly accounted for going forward.</p>	<p>The Council is reviewing its accounting for grants to ensure double counting does not occur. A process for monitoring this will be agreed and put into place.</p>	<p>Dec 08</p>
<p>Revaluation Reserve It is a SORP requirement for balances within the Revaluation Reserve to be identifiable by individual asset. Although the Council was able to demonstrate that the revaluations were identifiable for the majority of assets, this level of detail was not available for HRA dwellings and the PFI assets brought onto the Balance Sheet.</p>	<p>We recommend that the Council introduces a more robust methodology of record-keeping to ensure that in future years all revaluation reserve balances can be traced to individual assets.</p>	<p>A new SAP module for asset accounting is being introduced in March 2009 which will improve the controls in place for meeting the revaluation reserve requirements, including the tracking of all individual L&B assets.</p>	<p>March 09</p>

Finding	Recommendation	Management response	Implementation date
<p>Pension Fund Accounts - late contributions During our review of contributions, it was noted for ten of the scheduled and admitted bodies, contributions were late for between four days and three months up to a maximum of twelve occasions each. The aggregate amount totalled £482,463. In the context of the Fund as a whole, the amount involved is not material. Regulations require, however, that contributions deducted from members' salaries are paid over to the fund by no later than the nineteenth day following the calendar month from which the contributions have been deducted. (ie March contributions to be paid to the Fund by 19 April).</p>	<p>It is recommended that the scheduled and admitted bodies be reminded of their legal responsibilities.</p>	<p>Scheduled and admitted bodies will be reminded of their contractual obligations. In addition monitoring will be put into place to ensure late payments are chased on a timely basis.</p>	<p>Dec 08</p>
<p>Pension Fund Accounts - timely settlement of benefit liabilities During our review of benefits paid, it was noted that in some cases, benefit payments were not being settled in a timely manner. For example, transfers out that had been agreed during the month were not included on the BACS run until the end of the month, resulting in a delay of up to fifteen days from date of agreement to final settlement.</p>	<p>It is recommended that once agreed, benefit liabilities are settled at the earliest opportunity.</p>	<p>The procedures for the settlement of liabilities will be reviewed to ensure that prompt settlement of these liabilities occurs.</p>	<p>Dec 08</p>