LONDON BOROUGH OF HARINGEY

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

20 July 2018

CONTENTS

WELCOME

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.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, 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 audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Corporate Committee meeting on 24 July 2018, and to receiving your input.

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

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

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.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us now if this is not appropriate.

OVERVIEW

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 consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

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.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan dated 8 March 2018.
Materiality	Our final materiality is £16.7 million for the Council and £16.8 million for the Group financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
Group audit	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). This objective has been achieved. To summarise our audit coverage: • Total expenditure: 99% full audit and 1% Group level procedures • Total assets: 95% full audit and 5% Group level procedures.
KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified no material misstatement.
Unadjusted audit differences	We are required to bring to your attention audit differences that we have identified along with other presentation and disclosure misstatements, but you are not proposing to adjust. A full list of misstatements is included in appendix I. If corrected, these would increase the deficit on the provision of services for the year by £3.293 million and decrease net assets by £3.293 million. These errors do not impact on the General Fund or HRA balances due to statutory adjustments.
Control environment	We have identified one significant deficiency in the Council's internal controls. SAP the general ledger system does not enforce segregation within the system on posting of journal entries over £50,000 by per Council's policy. The segregation is however done through paper trail. We selected a sample of journals to test and our work is still in progress.

OVERVIEW

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable resource deployment	Funding gaps have been identified from 2019/20 to 2022/23 (£6.9 million, £ 7.3 million, £7.8 million and £7.8million respectively). Management are proposing establishing a Budget Resilience Reserve which can be used as a one-off measure to offset non-delivery /delay in planned savings. The reserve will mainly be funded from unutilised use of general fund reserves built into the budgets (whilst maintaining a General Fund Reserve balance of £15 million throughout the period of the MFTS). The 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.
AUDIT OPINION	
Financial statements	We anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE CORPORATE COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT) after we have completed our audit of the financial statements. We intend to issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 statutory deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

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

1	Clearance of outstanding issues on the audit queries tracker currently with management.
2	Receipt of bank and investment confirmations from: JP Morgan, Dexia, Invesco, Blackrock, Insight, Debt management office, West Midlands Pension Fund, Cambridgeshire and Peterborough, and NatWest.
3	Completion of our testing of the sections below: • Property, plant and equipment including: confirming the journals for the Broadwater Farm impairment, obtaining explanation for the revaluation of individual assets that fall outside of our expected range, verification of the depreciation charge, and verification of valuation inputs such as floor area for a sample of assets and the treatment of gains/loss in CIES/MIRS . • Journals – waiting for evidence to support the journals for a sample to be tested • Pension- checking the information sent to the actuary for both the 2016 triennial valuation and the current year roll forward data
4	Manager, Engagement Partner and Quality Control review of audit evidence and key judgements
5	Final review and approval by you of the Statement of Accounts incorporating changes from our Technical review
6	Subsequent events review to the date of the opinion
7	Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: • Tested a sample of the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	We have used data analytics software, BDO Advantage, to review the Council's general ledger, in order to focus our testing of journals on higher risk areas. Our detailed testing of a sample of journals is in progress and work to date has not identified any significant issues.
			• Reviewed significant accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.	We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.
			• Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	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.

KEY AUDIT AND ACCOUNTING MATTERS

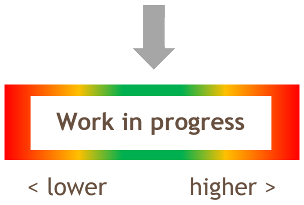
	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Revenue recognition**	Under auditing Standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.	We have: • Tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES. • Tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	Our audit testing has not identified any issues in respect of the recognition of grant income. Grants amounting to £2.6 million where double counted under Housing benefit subsidy and flexible housing grant. Management has adjusted for this in the second version of the accounts. Our audit testing has not identified any issues in respect of the recognition fees and charges income in the correct period.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Land, buildings, dwellings and investment property valuations**	Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties are not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date. The Council engage with Wilks Head and Eve (WHE) to carry out an annual valuation. In 2017/18, the valuation will be performed at 31 January 2018 and will be updated at the end of the year for any significant movements. There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not been provided for a class of assets at year-end.	We have: • Reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on the management expert.	We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.
			• Reviewed the basis of valuation for a sample of assets valued in year was appropriate based on their usage.	We reviewed the valuation methodology applied and confirmed the basis of valuation for assets valued in year as appropriate.
			• Discussed with management and the valuer the impact of the structural defects identified on a number of Broadwater Farm blocks and the potential impact on their valuations.	The commissioned condition surveys set out the serious level of the structural defects and also the associated requirement to replace the current provision of gas to most of the estate. This clearly impacts on the carrying value of the buildings as significant capital expenditure will be required to address the safety issues. We requested that management reduce the valuation of these buildings to reflect the required investment. Management has agreed to impair (reduce) the valuation of these blocks by £12.8m in the financial statement
			• Reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appear unusual against indices.	Our work is still in progress (see next page).

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
		• Checked that Beacon valuations have been applied correctly to all dwellings. A Beacon is a representative dwelling for a group of dwellings with similar characteristics.	For a sample of dwellings we confirmed that these were allocated to an appropriate Beacon by reference to location, architype and number of bedrooms. In addition, we compared the number of properties grouped to each Beacon at the start of the year and at the end and reconciled all significant movements to additions, disposals and transfers during the year. No issues were identified.

SIGNIFICANT ESTIMATE		IMPACT
Land and buildings are valued by reference to existing use market values	**Other land and buildings - Existing use basis of valuation in an active market** The valuer undertook valuations at 31 January 2018 on all assets (£49 million by value) valued on an existing use basis where there is an active market. The valuer has obtained recent sales for similar asset and made adjustments to reflect the location, size and price movements since the sale. We have reviewed a sample of valuations to data used by the valuer with the aim of confirming that appropriate similar recent sales had been used and that adjustments made by the valuer to reflect the valuation of the asset were appropriate. We compared the percentage movement of revalued assets to general market movements using information provided by Gerald Eve LLP and challenged the valuer for any valuations that were outside of an acceptable range. Our work is still ongoing.	

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE		IMPACT
Some specialist buildings are valued at depreciated replacement cost by reference to building indices	**Other land and buildings - Specialist properties depreciated replacement cost (DRC)** The valuer undertook valuations at 31 January 2018 on all assets (£537 million by value) valued on a DRC basis including schools, care homes and libraries. DRC valuations are based on rebuild costs using up to date tender pricing information with an age / obsolescence adjustment to reflect its current condition and remaining economic life. The valuer has used tender rebuild prices provided by RICS with appropriate Haringey location cost adjustments, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an aging adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic live, with aging only coming into effect after the first 10 years of its live as little aging in the building is expected in these initial years. For a sample of properties we are working to confirm that the size (square meters) agrees to estates records and that the tender price used agrees to the RICS tender prices. We compared the percentage movement of revalued assets to general market from the BCIS tender price index with local pricing adjustments using information provided by Gerald Eve LLP and RICS, and challenged the valuer for any valuations that were outside of an acceptable range. Our work is still ongoing.	Work in progress < lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE | **IMPACT**

Dwellings are valued by reference to open market value less a social housing discount

Council dwellings

Price movements

The valuer has applied a 5% increase on their previous valuation (undertaken at 1 April 2016) to reflect the movement for the 22 months to 31 January 2018. The valuer had previously applied an indexation uplift to the 1 April 2016 valuations of 8.7% to reflect his estimate of general house prices to 31 March 2017. Therefore, there has been a 3.7% decrease to the carrying value of dwellings for the valuation at 31 January 2018 since the start of the year.

We compared the overall movement to information on general market movements for Haringey using Land Registry and Nationwide. We consider the valuation uplift applied to be reasonable.

The valuer has undertaken a review of 20% of all Beacons to calculation the overall 5% uplift since 1 April 2016 and a reduction in year of 3.7%. The valuer obtained recent sales for similar properties for these Beacons and considered factors such as location, size and price movements since the sale.

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.

However, the methodology described by the valuer in their report to the council is that 20% of Beacons have been subject to a full revaluation. Our view is that this has not been undertaken, as we would expect it to have resulted in estimates for individual Beacons that were not a simple 5% increase on the previous valuation.

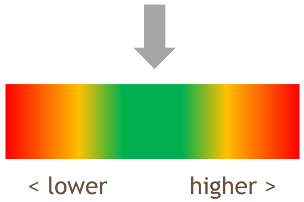
In our view, a revaluation should be determined and applied by the valuer for those Beacons reviewed in the year. Only those Beacons not subject to valuation in year should apply the overall aggregate increase in order to prevent ‘drift’ from actual values for each Beacon. We have noted a control deficiency in relation to this point.

Land and buildings split assumptions

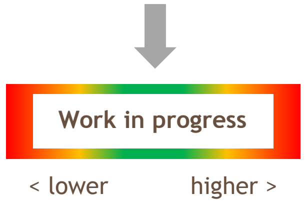
The valuer has split the overall valuation for dwellings as 40% land and 60% buildings. This affects the calculation of the annual depreciation charge since the buildings element is subject to depreciation and freehold land is not depreciated. This apportionment is based on an average of estimated rebuild costs and land values.

We reported in the previous year that the valuer had changed the split from 30% land / 70% buildings in 2015/16 to 55% land / 45% buildings in 2016/17. We reported that this appeared to be a more aggressive split than other local authorities use and resulted in a lower depreciation charge since the proportion of the valuation allocated to the building was lower. We recommended that further work be undertaken to support the change in the previous year. We note that the split in 2017/18 at 40% land / 60% buildings is more in line with other authorities.

We have reviewed the detail to support this split and consider this to be reasonable. We note that the impact of this change in estimation has not had a material impact on the depreciation charge in the current or previous year.



KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE		IMPACT
Investment properties are valued by reference to highest and best use market value	**Investment properties** The valuer undertook valuations at 31 January 2018 on all assets (£66 million by value) using rental amounts for the property and market yields of 7% to 9% to value the asset. We have reviewed a sample valuations to data used by the valuer with the aim of confirming that rental amounts agree to rental agreements, and the market yield applied was appropriate. We compared the percentage movement of revalued assets to general market movements using information provided by Gerald Eve LLP and challenged the valuer for any valuations that were outside of an acceptable range. Our work is still ongoing.	

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Completeness and accuracy of the fixed asset register**	During the 2016/17 audit we identified a number of errors in relation to the completeness and accuracy of the fixed assets register. The errors included duplications, omissions and incorrect treatment of some transactions.	We have: • Compared the fixed assets register to the valuers' report and obtain reasons for discrepancies and tested an increased sample of additions, disposals and revaluations.	Similar to prior year we found a number of errors in the completeness and accuracy of the fixed asset register: • £2.2 million capital expenditure deemed not to have added value to existing assets should have been written out. Management has adjusted for £1.5 million but there is a remaining overstatement of assets of £0.734 million. • Some items reviewed within assets under construction were found to relate to additions that should have been previously written off as they did not add value to existing assets. Management adjusted for £2.1 million. We have not been provided with evidence to support a further £2.6 million and consider this to potentially be an overstatement of assets. Continued

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
			• Duplicate entries were found in the Council's register of investment properties to the value of £1.566 million have now been adjusted. • One asset valued at £2.663 million classified as an investment property should be classified as Other Land and Buildings. The total potential error based on extrapolation of the population we sample tested is £5.9 million. If this asset was revalued on a depreciated replacement cost basis, we do not consider that it would result in a significant movement to the carrying value. • £1.4 million was spent in 2017/18 on purchasing a property but the purchase was not actually completed until 2018/19. A prepayment should have been recognised but this was treated as REFCUS expenditure. Management has adjusted for this error. • Prior year additions of £1.3 million were incorrectly recorded as assets under construction whereas they were actually enhancements to existing Other Land and Building assets. This has been resolved in 2017/18 by a transfer between asset classes in Note 11. The amounts not corrected above have been included as unadjusted errors on appendix 1.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Pension liability assumptions	The net pension liability comprises the Council's and Homes for Haringey Limited's share of the market value of assets held in the London Borough of Haringey Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the 2016 triennial membership data held by the pension fund, rolled forward, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation at 31 March 2018 when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We have: • As the auditors of the pension fund, reviewed the controls for providing accurate membership data to the actuary.	We did not identify any issues regarding the accuracy and completeness of data provided by the pension fund from the Pension Membership system to the actuary for the 2016 triennial data.
			• Checked whether there were any notifiable events that may require the actuary to update the roll-forward data for the valuation.	Our work is in progress.
			• Checked the contributions paid and the overall investment returns in the fund to the data provided to the actuary and used in the updated valuation.	Our work is in progress.
			• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

The net pension liability to pay future pensions has decreased by £11.074 million (to £577.267 million) for the Council and £12.605 million (to £575.341 million) for the Group. This is mainly due to reducing the discount rate from 2.5% to 2.6%.

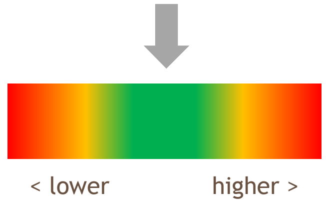
We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary.

	Actual	Acceptable range	Comments
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	3.0%	--	Reasonable (derived from RPI assumptions)
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.6%	2.6-2.7%	Reasonable
Mortality:			
- Male current	23.8 years	23.7-24.4	Acceptable
- Female current	26.0 years	26.2-26.9	Lower than bottom end of range
- Male retired	21.8 years	21.5-22.8	Acceptable
- Female retired	24.1 years	24.1-25.1	Acceptable
Commutation:			
- Pre 2008	50%	25% - 75%	Reasonable
- Post 2008	75%	25% - 75%	Reasonable

Female mortality is lower than bottom end of the range. The actuary uses an analysis done by a third party 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. We accept this to be more reflective of the fund members.

We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

IMPACT

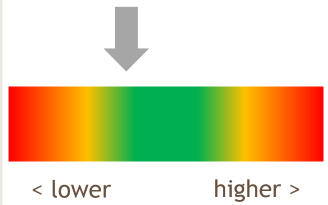


KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Transfer of assets from HRA to General Fund	Management intends to transfer HRA assets of approximately £26 million to the General Fund. The assets to be transferred consist largely of retail outlets on council owned housing developments. Management's view is that the historic classification as HRA was appropriate as the housing developments used to be occupied 100% by council tenants and the assets were purely for services provided to tenants. However, with the increased rates of private ownership of former council dwellings the assets are no longer required for housing purposes.	We have: • Checked that the transfer is appropriate based on the use of the assets and the valuations provided by the valuer are appropriate. • Checked that adjustments have been made to the Capital Financing Requirement / debt allocation between the General Fund and the HRA to compensate the HRA for this transfer.	Our work is still in progress. Our work is still in progress.
7	Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.	We have discussed with management and reviewed councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed.	Our testing did not identify any issues.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Allowance for non-collection of receivables	The Council's bad and doubtful debt impairment provision on aged debt is determined for each income stream using available collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rent arrears and parking PCNs. There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates for that income stream.	We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	We did not identify any material issues regarding the recoverability of receivables. Our review of the reasonableness of management's calculations is noted in the following page.

SIGNIFICANT ESTIMATE		IMPACT
Estimate of future write-offs of uncollectable debt	**Council tax arrears** The total impairment allowance for the Collection Fund at 31 March 2018 is £21.7 million, a decrease of £200,000 from the prior year. Arrears in the prior year was £26.6 million. The Council has an 81.63% share in these balances in the collection fund. The impairment calculation is based on the expected collection rates for Council Tax arrears, with the provision increasing in line with the age of the debt. 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 £2.5 million. 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.	

KEY AUDIT AND ACCOUNTING MATTERS

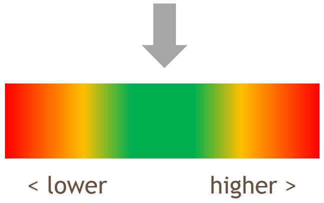
SIGNIFICANT ESTIMATE	IMPACT

PCNs arrears

The impairment allowance at 31 March 2018 is £18 million, a decrease of £3.5 million from the prior year, against total arrears of £19.8 million (prior year £21.8 million).

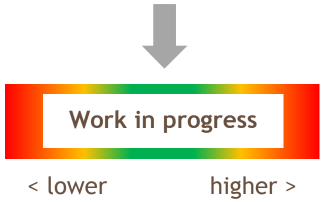
The bad debt provision was calculated based on collection history.

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



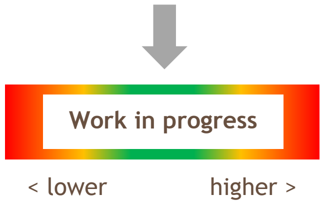
Housing benefit overpayments

Our work is still in progress.



Other sundry debt

Our work is still in progress.



KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	The remapping of prior year CIES	The Code requires the CIES is consistent with the internal reporting within the Council. During the year the main headings used for reporting expenditure internally have changed. The headings used on the CIES will therefore need to change and the 2016/17 figures will need to be restated. There is a risk that these presentational changes in 2016/17 may not be correctly applied in the financial statements.	We have: • Checked that the analysis by service line in the CIES is consistent with the internal reporting within the Council. • Reviewed the restatement of the comparative 2016/17 information to ensure that this is presented consistently with the current year basis.	Our testing did not identify any issues. Our testing of the remapping of the CIES did not identify any issues.

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
10	Other disclosures	We identified a number of other disclosure issues within the draft financial statements as follows: • Schools bank and cash balances are as at 15 March when the schools were closed. When compared to the 31st of March balances this gave rise to a variance of £1.2 million. An unadjusted error has been raised on Appendix I. • We consider the amount of the PFI assets included in property, plant and equipment as disclosed in Note 11 to be overstated as it includes full carrying value of the land and buildings that have PFI contracts in place rather than disclosing the value of the portion of the building funded under PFI. Management have agreed to consider reviewing this for the 2018/19 Statement of Accounts • The draft accounts show a new line in Note 11 ‘Accumulated Impairment WO to GCA’ that is not on the Code template. This should be merged with two other lines. Management have agreed to correct this disclosure issue in the final set of accounts. • In Note 11, errors were found totalling £55.4 million in writing off the prior year impairments between the revaluation reserve and the amount charged to services. This is only a disclosure error, which does not affect the carrying amount of the assets. Management have agreed to adjust this in the final set of accounts. This error partly relates to a systemic problem in the software the council uses. We have made a recommendation that management consult with their fixed asset register software provider to ensure that when brought forward impairments and depreciation are written off, it is split correctly between the revaluation reserve and services expenditure.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS	
11	Minimum revenue provision charge to the General Fund	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 2017/18 of £2.793m million compared to the £13.211 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 that 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 the tax payer 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 2017/18, 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.	 < lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
12	Fraud	Whilst the Director of Finance and members 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 those charged with governance on whether you are aware of any known, suspected or alleged frauds.
13	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 have not been made aware of any fraud at a component level.

OTHER REPORTING MATTERS

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

	MATTER	COMMENT
1	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 Statement of Accounts is consistent with the financial statements and our knowledge.
2	We are required to report by exception if the Annual Governance is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report.

CONTROL ENVIRONMENT

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 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.

We note that the Council’s internal audit function has issued a number of observations and recommendations on the Council’s control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

SIGNIFICANT DEFICIENCIES

We have identified two significant deficiencies in the Council’s internal controls in 2017/18:

Approval of journals

SAP the general ledger system does not enforce segregation within the system on posting of journal entries over £50,000 by per Council’s policy.

We recognise that controls around the posting of journals have been improved as a control is now in place to investigate journals posted over £50,000 that have not been authorised by two different individuals. However, we will again make a recommendation that the accounting system should enforce segregation on posting all journal.

PREVIOUS YEAR SIGNIFICANT DEFICIENCIES

In the previous year we reported a significant deficiency in the authorisation of non-purchase order payments where we identified two instances where the invoice was coded and approved by the same person. We consider the coding of invoices and their subsequent approval as incompatible duties which should be segregated. There is a risk that an individual can commit the Council to an expenditure which he will approve on himself. Management has since engaged an expert who fixed the weakness in the system.

OTHER DEFICIENCIES

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	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 Authority for use by the Department of 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 14 June 2018. The Council met this deadline. Our review of the Council's WGA Data Collection Tool (DCT) is in progress. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 statutory deadline.

USE OF RESOURCES

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:

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

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	**Sustainable resource deployment**	The refreshed Medium Term Financial Strategy (MTFS) covers a five-year period from 2018/19 to 2022/23. This shows a reduction in the funding shortfall from £54.4 million to £30.1 million over the period from the previous MTFS. This is due to improved baseline funding announced in the provisional finance settlement, the full impact of the MRP savings and a reduction in the estimated cost of levies. Identifying the required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and alternative delivery models. (Continued)	The Council's approved General Fund revenue budget for the year was £255.762 million and the final outturn of £255.781 million, which represents a small net overspend. Within this net figure there are overspends of £3.5 million for priority 1 services (Childrens) and £1.1million priority 2 service (adults). These have been netted off by underspends in priority x (Enabling) £3.5million.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable resource deployment	We have:	
		• Review 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.	The MTFS has taken into account a council tax freeze from 2018/19 plus a 3% increase in the council tax precept to contribute to adult social care funding. The increase in the precept is expected to raise £2.7 million. The MTFS also incorporates increased revenue as a result of the London Business Rate Pilot (likely to benefit by £3 million annually by 2020/21), as well as a 2% increase in pay inflation and 1% rent reduction for General Needs Homes for council tenants. The assumptions over cost pressures, reductions in Government funding and income growth appear reasonable.
		• Monitored the delivery of the budgeted savings in 2017/18 and the plans to reduce services costs and increase income from 2018/19.	Savings of £11.5 million were delivered against the efficiency plan £20.7 million Currently, the Council has balanced the 2018/19 budget by identifying £16 million of savings in six priority areas (Children's, Adults, Safe & Sustainable Places, Growth & Employment, Home & Communities and Enabling). Funding gaps have been identified from 2019/20 to 2022/23 (£6.9 million, £ 7.3 million, £7.8 million and £7.8million respectively). These gaps will increase if required savings in 2018/19 are not met. The MTFS also recognises the 19/20+ impact of the £3.7m pay award.
		• Reviewed the strategies to close the budget gap in the coming years.	Management are proposing establishing a Budget Resilience Reserve which can be used as a one-off measure to offset non-delivery /delay in planned savings. The reserve will mainly be funded from unutilised use of general fund reserves built into the budgets (whilst maintaining a General Fund Reserve balance of £15 million throughout the period of the MFTS). Management are proposing a financing reserve through its on-going programme of service transformation funded partly by the application of the flexible use of capital receipts.
			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. In addition to this, the Council need to recognise the 2019/20 plans impact of pay award of about £3.7 million. 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.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Corporate Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

Management has corrected the financial statements for audit differences that have resulted in the deficit on the provision of services increasing by £16.140 million, and this has increased the General Fund balance by £1.883 million and decreased the HRA balance by £0.016 million.

UNADJUSTED AUDIT DIFFERENCES

The unadjusted audit differences identified by our audit work (listed on the following pages) would increase the deficit on the provision of services for the year by £3.293 million and decrease net assets by £3.293 million.

You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		STATEMEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
(Surplus) / deficit on provision of services before adjustments	91,369				
DR Other land and buildings				5,900	
CR Investment properties					5,900
(1) Other land and buildings misclassified as investment property- Extrapolated error					
DR Impairment loss	734	734			
CR PPE					734
(2) Additions not adding value to be written off					
DR impairment loss	2,559	2,559			
CR PPE					2,559
(3) Assets under construction which could not be substantiated					
DR Bank				1,200	
CR Debtors					1,200
(4) Being schools bank and cash balances understated due to the fact that 15 March Balances were used instead of the 31st of March					
TOTAL UNADJUSTED AUDIT DIFFERENCES	3,293	3,293		7,100	10,393
(Surplus) / deficit on provision of services if adjustments accounted for	94,662				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £000s	HRA BALANCE £000s
Balances before adjustments	85,494	38,192
Adjustments to CIES above	(3,293)	-
Adjustments via movement in Reserves Statement:	3,293	
Balances after adjustments	**85,494**	**38,192**

UNADJUSTED DISCLOSURE MATTERS
The following unadjusted disclosure matters were noted: In Note 11, we consider the amount of the PFI assets included in property, plant and equipment to be overstated as it includes full carrying value of the land and buildings that have PFI contracts in place rather than disclosing the value of the portion of the building funded under PFI.

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
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).			
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.			
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.			

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
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.			
Fixed asset register software	In Note 11, errors were found totalling £55.359m in writing off the prior year impairments between the revaluation reserve and the amount charged to services. Management have agreed to adjust this in the final set of accounts. This error partly relates to a systemic problem in the software the council uses and could lead to incorrect amounts being charged to reserves.	We recommend that management consult with their fixed asset register software provider to ensure that when brought forward impairments and depreciation are written off, it is split correctly between the revaluation reserve and services expenditure.			

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
Aproval of non-purchase order invoices in SAP	We identified two instances where non purchase order invoices were coded and approved by the same person. This means that one person can commit the Council to expenditure and approve the invoice subsequently. We consider the coding of invoices and their subsequent approval as incompatible duties which should be segregated.	We recommend that SAP be segregated to ensure that one person cannot code and approve an invoice	Agreed	SAP Application Specialist	Complete - management has engaged an expert who fixed the weakness in the system
Approval of journals	We identified instances where journals with values above £50,000 were being raised and authorised by the same person despite the Council having a policy that journals with amounts above £50,000 should be authorised by a different person. This control failure was partly due to individuals not adhering to the Council's policy and also that the accounting system does not provide the required segregation.	We recommend that the raising and approval of journals be segregated within the accounting system (SAP).	Agreed. We will review journal control procedures and ensure those controls and segregation are automated in SAP as far as possible.	Chief Accountant	Ongoing - A control is now in place to investigate journals posted over £50,000 that have not been authorised by two different individuals. However, we will again make a recommendation that the accounting system should enforce segregation on posting all journals.
Unrecorded assets	Some assets owned by the Council for several years had not previously been recorded in the fixed assets register or recognised in in the accounts. These were recognised for the first time in 2016/17 as a revaluation gain.	We recommend that management should carry out an exercise to identify all the Council's assets and update the fixed asset register.	Agreed - action incorporated as part of closure of accounts plan	Chief Accountant	

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
Valuation report errors	We noted numerous errors in the valuation report including: New River Leisure Centre, investment assets had duplicated assets caused by a revaluation upload error and Tottenham Green Leisure Centre was undervalued in 2015/16 as a result of the WHE stating an incorrect amount.	We recommend that management review the valuer's report to identify errors and understand significant movements.	Agreed - action incorporated as part of closure of accounts plan	Chief Accountant	Ongoing - Similar issues were noted this year as detailed above.
Signed employment contracts (prior year recommendation)	Of the 37 employees tested as part of our sample, signed employment contracts were not available for three Council employees.	We recommend that management undertake a review of all staff (including schools personnel) to ensure that there is a signed contract in place.	Agreed	Head of HR	
HRA component depreciation	HRA assets were not componentised on depreciating. This resulted in a potential error of £3.9 million based on the valuer's split. Although this potential error is not material, there is a risk that it could become material in future years, and will become more important next year when depreciation will become a proper charge that will impact on rents.	We recommend that the Council componentise HRA assets for the calculation of depreciation.	Agreed	Chief Accountant	Complete - The depreciation charge for HRA assets is now calculated using a weighted average useful economic life to reflect the different useful economic lives of different components.
PFI assets included in property and equipment	We consider the amount of the PFI assets included in property, plant and equipment as disclosed in Note 11 to be overstated due to the fact that it includes full carrying value of the land and buildings that have PFI contracts in place rather than disclosing the value of the portion of the building funded under PFI.	We recommend that management takes out the value of land and calculates the portion of the building that is not funded under PFI and takes it out of the disclosure.	Agreed	Chief Accountant	Ongoing

APPENDIX III: MATERIALITY

MATERIALITY - COUNCIL

	FINAL	PLANNING
Materiality	£16,700,000	£16,100,000
Clearly trivial threshold	£500,000	£500,000

Planning materiality of £16,100,000 was based on 1.5% of gross expenditure, using the average of the prior two years accounts.

We had no reason to revise our final materiality level.

MATERIALITY - GROUP

	FINAL	PLANNING
Materiality	£16,800,000	£16,400,000
Clearly trivial threshold	£500,000	£500,000

Planning materiality of £16,400,000 was based on 1.5% of gross expenditure, using the average of the prior two years accounts.

We had no reason to revise our final materiality level.

APPENDIX IV: 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 leads 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 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report 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 Council'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 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.

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	206,475	206,475	206,475	N/A
Additional fees for HDV and MRP work			20,640	
Fee for reporting on the housing benefits subsidy claim	38,223	38,223	38,223	N/A
TOTAL AUDIT AND CERTIFICATION FEES	244,698	244,698	265,338	
Fees for reporting on other government grants:				
• Pooling of housing capital receipts return	3,500	3,500	3,500	N/A
• Teachers' pension return	3,500	3,500	3,500	N/A
• Additional fees for work carried out in 2016/17 for teachers pensions £3,500 and capital receipts £3,500			7,000	
NON-AUDIT ASSURANCE SERVICES	7,000	7,000	14,000	
TOTAL ASSURANCE SERVICES	251,698	251,698	279,338	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

31 July 2018

Dear Sirs

Financial statements of London Borough of Haringey and the Group for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 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 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 all management and other meetings have been made available to you.

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.

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.

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 identified no significant risks.

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.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. 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.

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.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

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): 2.4%
- Rate of increase in salaries: 3%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.6%
- 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.

We consider that 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.

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

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. The Chief Finance Officer and each member has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Jon Warlow
Interim Chief Finance Officer
[Date]

Councillor Isidoros Diakides
Corporate Committee Chair
Signed on behalf of the Corporate Committee
[Date]

APPENDIX VII: AUDIT QUALITY

BDO is totally committed to audit quality

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

BDO welcomes feedback from external bodies and is committed to implementing all 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 a 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

FOR MORE INFORMATION:

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