LONDON BOROUGH OF HARINGEY COUNCIL AND PENSION FUND

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

15 August 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at London Borough of Haringey Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

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

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinions on the Council (and Group) and Pension Fund's financial statements on 31 July 2018.

Management has corrected the Council's financial statements for audit differences that have resulted in an increase in the deficit on the provision of services of £14.6 million to £91.4 million and reduced net assets by £16.1 million to £1,165.6 million.

The remaining unadjusted audit differences would decrease the deficit on the provision of services for the year by £3.7 million and increase net assets by £7.6 million. Management consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources on 31 July 2018.

The Council's delivered on its approved General Fund revenue budget for the year of £255.8 million. Savings of £11.5 million were delivered against the efficiency plan £20.7 million and the 2018/19 budget requires further savings of £16 million. Funding gaps have been identified from 2019/20 to 2022/23 that require additional savings of £7 million each year. 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.

EXERCISE OF STATUTORY POWERS

Work in on going in relation to objections received although we were satisfied from our review to date that this does not have a material effect on the financial statements or on our value for money conclusion.

FINANCIAL STATEMENTS

OPINIONS	We issued our unmodified opinions on the Council (and Group) and Pension Fund's financial statements on 31 July 2018. This means we consider: • The financial statements give a true and fair view of the financial position and its income and expenditure for the year • Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council (and Group) and Pension Fund's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The materiality for the Council's financial statements was set at £16.7 million (£16.8 million for the Group). This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for assessing financial performance.

The materiality for the Pension Fund's financial statements was set at £13.6 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing financial performance. We set a lower materiality level £2.2 million for the transactions included in the Fund Account of the Pension Fund.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council (and Group) and Pension Fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements. We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business or appeared to be unusual.	No issues were identified by our audit work from our review of journals and review accounting estimates for management bias. We found no significant transactions that were outside the normal course of business or otherwise appear unusual. We noted that the SAP general ledger system does not enforce segregation on posting of journal entries over £50,000 as required by Council policy and a control is now in place to investigate journals posted over £50,000 that have not been authorised by two different individuals. However, have recommended that management enquire through SAP whether this enforced segregation can be put in place.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue recognition	Under auditing standards there is a presumption that income recognition presents a fraud risk. We responded to this risk by testing an increased sample of fees and charges income to underlying documentation to confirm the existence and accuracy of transactions throughout the year. We tested a sample of grants subject to performance conditions to confirm that conditions of the grant had been met before the income is recognised. We also tested a sample of fees and charges receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been.	Our testing confirmed that income was valid and agreed to underlying documentation, that grants were recognised only when performance conditions had been met, and income had been recorded in the correct period. Management corrected the Grant Income disclosure note in the financial statements where there were discrepancies between the amounts disclosed and amounts included as income in the Comprehensive Income and Expenditure Statement for the year.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Completeness and accuracy of the fixed asset register	In previous audits we identified a number of errors in relation to the completeness and accuracy of the fixed assets register including duplicate assets, omissions and incorrect treatment of some transactions. We responded to this risk by agreeing the fixed assets register to the valuer's report and following up discrepancies. We also tested an increased sample of additions, disposals and revaluations to ensure these were correctly reflected in the fixed asset register.	We again found a number of errors in the fixed assets register that required correction to the financial statements. These misstatements included: • additions to assets that did not add value where the capitalised expenditure had not been written out • amounts included in assets under construction that had not been transferred to the correct assets upon completion of the work and amounts were therefore included in both the revalued assets and in assets under construction • Duplicate entries in investment properties • Inclusion of a school building not owned by the Council. • Misclassification of assets between investment properties and land and buildings. Management corrected the financial statements to reduce the carrying value of assets by £6.6 million although a further £3.3 million has not been corrected and management intend to review these again in 2018/19. We have recommended that management improve the controls over recording capital expenditure in the fixed asset register and strengthen the year end processes to ensure that all amounts are correctly recorded for each asset.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings, dwellings and investment property	Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end. We responded to this risk by: • Reviewing the instructions provided to the valuer and assessing their expertise. • Checking the basis of valuation for assets valued in year as appropriate and agreeing data used by the valuer to support the valuations. • Assessing whether there had been any indication of impairment of assets. • Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and followed up valuation movements that appeared unusual against indices. • Estimated the potential movement on classes of assets that were not revalued in year to assess whether there is the potential for material movements since the last valuation.	The Council engaged an external valuer to value the majority of property assets at 31 March 2018. This included valuations on £49 million of land and buildings held as existing use valuations, £537 million of specialist buildings held as depreciated replacement valuations, £1,295 million dwellings on a beacon basis, and £66 million of investment properties. From our review of the instructions provided to the valuer and the valuer's reports we are satisfied that we can rely on the management expert. We confirmed that the basis of valuation for assets valued in year is appropriate based on the nature and use of the assets. We were able to agree source data used by the valuer for the majority of valuations tested although we found discrepancies for floor areas and land plot size for some assets. We estimated a potential net understatement of asset values of £2.6 million. We have recommended that management undertakes a detailed review of the supporting information provided to the valuer to ensure the accuracy of this data used in the valuations. We discussed with management the issues with the Broadwater Farm properties that were found to have structural defects and management reduced the valuation of these buildings to reflect the required investment to make good or demolish these buildings. Assumptions used and valuation movements were found to be reasonable. However, we noted that the valuer applies an overall aggregate movement for all dwellings across the borough and we believe it may be more appropriate to reflect a more granular price movement for each Beacon taking into account relative movements by dwelling architype and location. We also note that the split of dwelling valuations was amended to 40% land and 60% buildings following our concerns raised in the previous year where this allocation had been changed to 55% land and 45% buildings.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability. This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability. We responded to this risk by: • Agreeing the information provided to the actuary for contributions and investment returns for the year. • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. • Reviewing the controls for providing accurate membership data to the actuary. • Checking whether any significant changes in membership data have been communicated to the actuary.	The Council's net pension liabilities decreased by £11.1 million to £577.3 million (Group liability £588.3 million) compared to the previous year. The majority of assumptions remained consistent between the years other than an increase in the discount rate (this reduced the liability). The movements mainly comprised an increase from current service costs that (along with interest costs) exceeded contributions paid by the Council, which was offset by a reduction in liabilities from the change to the discount rate and higher than expected return on scheme investments. We agreed the information provided to the actuary for contributions paid to the pension fund and investment returns for the year. We noted differences in the final investment returns and fund valuation than had been estimated by the actuary and the Council's share of the fund assets was potentially understated by £10 million (Group £11.6 million). Our review of assumptions used to estimate the value the pension liability were found to be reasonable. We note that the life expectancy for current and retired members tended towards the lower end of the benchmark range and the actuary confirmed that this reflected local circumstances. We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions. We reviewed the controls over membership data and for providing accurate information to the actuary for the 2016 triennial valuation. There were no significant changes to staff numbers that would require additional communication with the actuary and potential amendment to the roll-forward data to the 2016 triennial valuation.

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.
	This means we consider that the Council has proper arrangements to: • Ensure it took properly informed decisions • Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	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. We reviewed the assumptions used in the MTFS and assessed the reasonableness of the cost pressures and estimated reductions in Government funding. We also reviewed the current savings and the budgeted savings together with their plans to assess their reasonability.	The Council's delivered on its approved General Fund revenue budget for the year of £255.8 million. There were overspends of £3.5 million for Priority 1 services (Children's) and £1.1 million priority 2 service (adults) offset by underspends in Priority X (Enabling). The assumptions over cost pressures, reductions in Government funding and income growth appear reasonable. Savings of £11.5 million were delivered against the efficiency plan £20.7 million and the 2018/19 budget requires further savings of £16 million. Funding gaps have been identified from 2019/20 to 2022/23 that require additional savings of £7 million each year. Management are proposing establishing a Budget Resilience Reserve which can be used as a one-off measure to offset non-delivery or delays in planned savings. The reserve will mainly be funded from unapplied funding built into the budget (whilst maintaining a General Fund Reserve balance of £15 million throughout the period of the MFTS). Management also propose to augment the financing reserve which can be used to manage the impact of financial plans from one year to another and will make use of the application of flexible capital receipts to help fund its on-going programme of service transformation. 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 recognises the 2019/20 impact of the planned 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.

EXERCISE OF STAUTORY POWERS

QUESTIONS AND OBJECTIONS RECEIVED FROM LOCAL ELECTORS

We received the following questions and objections from local taxpayers

ISSUE	FINDINGS
Use of monies from the Special Parking Account	We received a question on the use of monies from the Special Parking Account and whether this had been used to fund spending on pavements. The Council confirmed that no monies had been spent from this ring fenced account on pavement improvements.
Failure to take into account health and wellbeing in setting budgets	We received an objection to the Council's budget setting process alleging that it did not make an assessment of the impact of its finances on the health and wellbeing of the borough's tenants and leaseholders living in the Council estates. We have taken advice on whether this allegation falls within the jurisdiction of the auditor to investigate and concluded that as it is a matter of policy for the Council to set its budget, and since there is no evidence presented that the Council has not taken this decision properly, we have not accepted this as a valid objection.
Proper maintenance of dwellings in accordance with the Council's duty as landlord	We received an objection alleging that the Council had failed to comply with its duty as landlord to properly maintain dwellings and in its duties to tenants and leaseholders. We have taken advice and have accepted that this meets the requirements for a valid objection. Work is on going although we were satisfied from our review to date that this does not have a material effect on the financial statements or on our value for money conclusion.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan Pension Fund 2017/18	12 February 2018
Grant claims and certification 2016/17	28 February 2018
Audit plan Council (and Group) 2017/18	8 March 2018
Audit completion report Pension Fund 2017/18	20 July 2018
Audit completion report Council (and Group) 2017/18	31 July 2018

FEES

We are currently in discussion with management regarding final fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council (and Group) audit - PSAA scale fee	(1) 206,475	206,475
Pension Fund audit - PSAA scale fee	21,000	21,000
Housing benefits subsidy certification fee	(2) 38,223	38,223
Fees relating to objections	(3) TBC	N/A
Total audit fees	**265,698**	**265,698**
Pooled housing receipts certification	(2) 3,500	3,500
Teachers pension return certification	(2) 3,500	3,500
Total audit related services fees	**7,000**	**7,000**
Other non-audit services	0	0
Total assurance services fees	**272,698**	**272,698**

(1) Additional work required this year as a result of the misstatements noted above arising from errors in the fixed asset register and in the information provided to the valuer for floor areas and plot sizes.

(2) Work is in progress on the housing benefits subsidy and other certification returns work will commence shortly.

(3) Fees for investigating objections will be chargeable upon completion of this work.

FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS
Engagement lead

T: +44 (0)20 7893 2616
E: leigh.lloyd-thomas@bdo.co.uk

SIMISO NGIDI
Manager

T: +44 (0)14732 320 861
E: simiso.ngidi@bdo.co.uk

www.bdo.co.uk