Appendix 4

Alexandra Park and Palace Charitable Trust

Report to the Board

On the 2008 Audit

December 2008

Final Report

Contents

Executive summary

This summary is not intended to be exhaustive but highlights the most significant matters that have come to our attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Item 1

Situation with Firoka

In 2007, following Charity Commission approval, Alexandra Park and Palace Charitable Trust ("APPCT") entered into a Master Agreement with The Firoka Group ("Firoka") to operate the palace under a 125-year lease. This decision was challenged by a member of the public, and a judicial review in October 2007 declared that the Charity Commission's Order to grant the lease was unlawful. Following an extended period of negotiations Firoka has notified APPCT that it is no longer interested in being involved with the palace.

At 31 March 2008 there was a potential net debtor owed by Firoka to APPCT. Management have determined that this is unlikely to be received without initiating legal action and, as a result, the criteria specified in the SORP for the recognition of income have not been met. We concur with management's conclusion.

At 31 March 2008 there was a net debtor of £90,000 (after doubtful debt provision of £33,000) owed to Alexandra Palace Trading Limited ("APTL"), representing the amount received from Firoka after the year end. We concur with the level of provision made by management.

The Trustees have been informed that Firoka intends to make a claim against the Trust. Management have considered the legal advice received and have concluded that this should be disclosed as a contingent liability.

Item 2

Defined benefit pension liability

APTL operates a defined benefit pension scheme. The assets of the scheme are administered by Haringey Council under the provisions of the Local Government Superannuation Act. In accordance with FRS 17 'Retirement Benefits', APTL is required to account for its share of the underlying assets and liabilities of the scheme. This standard has been adopted for the first time in the current year and as a result the prior year balances have been restated. The deficit on the scheme at 31 March 2008 was £92k (£302k at 31 March 2007).

We used our in-house actuaries to review the assumptions selected by management. The assumptions were within an acceptable range; however we wish to draw the Trustees' attention to the fact that two of the assumptions were at the upper end of this range. Due to the sensitivity of the assumptions, the impact of changing the assumptions used may have a material effect on the financial statements. We understand that the Trustees are satisfied that the assumptions selected are appropriate and we will seek written representations to confirm this. We are content with this approach.

Executive summary (continued)

Item 3

Provision	At 31 March 2008 the total provision for Haringey Council indemnification was £37.4 million (2007: £34.6 million). The increase on the prior year relates to the ongoing operational deficits of APPCT. Although Haringey Council have provided for this debt in full in their own financial statements, they have not discharged the debt and therefore retain their right to repayment. On this basis management have concluded that it remains appropriate to retain the provision. We have considered the provision recognition criteria of FRS 12 and concur with management's conclusion.

Item 4

Income recognition	International Standards on Auditing (UK and Ireland) require us to presume that there is an increased risk of misstatement in relation to income recognition. We identified that the risk in APPCT is in relation to the cut off of income. We performed detailed cut off testing on income recorded around the year end and identified a number of errors. An adjustment was proposed totalling £27,333; £8,093 of which remains unadjusted.

Item 5

Cost allocation	In undertaking any activity there may be support costs incurred that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. The SORP states that support cost should be allocated to the relevant activity cost category they support on a reliable basis. APPCT has allocated support costs on the basis of staff time and average area utilised by the activity. We have reviewed the calculations prepared by management to ensure that they are mechanically accurate and to ensure that the basis of cost allocation does not appear unreasonable. We did not identify any issues in relation to support cost allocation.

Introduction

We have pleasure in setting out in this document our report to the Board of Alexandra Park and Palace Charitable Trust ("APPCT") for the year ended 31 March 2008 for discussion at the meeting scheduled for 6 January 2009. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2008.

Key audit risks

In addition to further detail on those matters included in the Executive Summary we discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2008 accounts.

Identified misstatements

Audit materiality was £31,000. We have reported all unadjusted misstatements greater than £1,000.

Identified uncorrected misstatements for the charity-only accounts increase income before tax and net assets by £1,657 and for the consolidated accounts decrease income before tax and net assets by £2,816. Management has concluded that the total impact of the uncorrected misstatements, both individually and in aggregate, is not material in the context of the financial statements taken as a whole. Details of the audit adjustments are included in Appendix 1.

Accounting and internal control systems

We identified the following significant weaknesses in the financial reporting systems.

- A significant value of physical cash was held at the balance sheet date.
- There is no fixed asset register which can be reconciled to the figures recorded in the general ledger.

Detailed control observations noted are explained in section 2.

Current market conditions

On 17 December 2007, the Financial Reporting Council released a press notice advising preparers of accounts, members of audit committees and auditors of the need for additional diligence in light of the increased risks to confidence in corporate reporting and governance arising from current credit market conditions. An appendix was attached which sets out areas for consideration for audit committees. Subsequently, the Auditing Practices Board issued a bulletin setting out guidance to auditors on this subject. We confirm that to the extent considered necessary we have taken this into account in the planning and performance of our audit.

Audit status

We have substantially completed our audit subject to the satisfactory completion of the matter set out below:

- Receipt of signed representation letter; and
- Completion of post balance sheet events review.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Key audit risk	Background
Situation with Firoka	In 2007, following Charity Commission approval, APPCT entered into a Master Agreement with The Firoka Group ("Firoka") to operate the palace under a 125 year lease. This decision was challenged by a member of the public, and a judicial review in October 2007 declared that the Charity Commission's order to grant the lease was unlawful. Following an extended period of negotiations Firoka has now notified APPCT that it is no longer interested in being involved with the palace. On 9 May 2007, a short-term licence was agreed between APPCT and the Firoka Group in order to facilitate the efficient transfer of the business and staff to the Firoka Group. Following the outcome of the judicial review, this licence was terminated in January 2008. At 31 March 2008 there was a potential debtor owed to APPCT by Firoka relating to recharges for certain elements of the running costs of the palace to Firoka during the licence period. Management has considered the recoverability of this balance and, following extended negotiations with Firoka, has concluded that it would not be recoverable without the initiation of legal action. As a result, they have concluded that it would not be appropriate to recognise this income at this stage and so have removed it from the financial statements. In addition, there was a net debtor of £90,000 (after doubtful debt provision of £33,000) owed by Firoka in the Alexandra Palace Trading Ltd ("APTL") financial statements, reflecting the amount received from Firoka since the balance sheet date. The Trustees have been informed that Firoka intends to make a claim against APPCT. The Trustees have obtained legal opinion that a claim is more likely to fail than succeed and in any event, they intend to resist such claims as may be made. Management have reviewed the criteria of FRS 12 and have concluded that the potential claim should be disclosed as a contingent liability.

1. Key audit risks (continued)

Deloitte response

The SORP states that income should only be recognised when the following three conditions have been met:

(a) entitlement - normally arises when there is control over the rights or other access to the resource, enabling the charity to determine its future application;

(b) certainty - when it is virtually certain that the incoming resource will be received; and

(c) measurement - when the monetary value of the incoming resource can be measured with sufficient reliability.

We have reviewed the relevant documentation and agree with management that not all conditions have been met. Therefore we concur with management's view that no income should be recognised. We also concur with the level of provision made by management against the outstanding debtor balance in APTL.

We concur with management's conclusion that the potential claim from Firoka should be disclosed as a contingent liability.

1. Key audit risks (continued)

Key audit risk	Background
Defined benefit pension liability	APTL operates a defined benefit pension scheme for the benefit of 22 scheme members who transferred to the company from 22 November 1999. There are 7 scheme members still in the employment of APTL. The assets of the scheme are administered by Haringey Council under the provisions of the Local Government Superannuation Act. In accordance with FRS 17 'Retirement Benefits', APTL is required to account for its share of the underlying assets and liabilities of the scheme. This accounting standard has been adopted for the first time in the current year. We issued a qualified audit report on the financial statements in the prior year as APTL did not comply with FRS 17. At 31 March 2007 the scheme had a deficit of £302k. This deficit had reduced to £92k at 31 March 2008.
	Deloitte response
	We have utilised our own in-house actuaries to review the assumptions used in the calculation of the FRS 17 deficit to ensure that they are within a reasonable range and in line with those used by other entities. These assumptions have been selected by management based on advice from the scheme actuary, Hymans Robertson, appointed by Haringey Council. We have included a series of graphs in Appendix 3 which benchmark the assumptions used against a sample of our other clients as at both 31 March 2007 and 31 March 2008. The assumptions selected by APTL are broadly within the typical range of assumptions that are commonly used; however we wish to draw to the Trustees attention to the fact that two of the key assumptions are at the top end of the acceptable range. These are discount rate and mortality. Selecting appropriate assumptions is not an exact science; however it is important that the Trustees satisfy themselves that the assumptions used are reasonable and appropriate to the specific circumstances of the scheme. Due to the sensitivity of the assumptions, small changes can have a significant effect on the deficit. We have discussed this with management and they believe that it is appropriate to use assumptions that are consistent with those used by Haringey Council. We will request a specific representation from the Trustees that they have considered these assumptions and believe that they are appropriate.

1. Key audit risks (continued)

Key audit risk	
Provision	

Background

At 31 March 2008 the total provision for Haringey Council indemnification was £37.4 million (2007: £34.6 million).

	Accumulated balance	Interest	Total
Indemnification 1991/92 to 1994/95	5,005	9,881	14,886
Indemnification 1995/96 to 2007/08	14,228	4,854	19,082
Provision: 1988/99 to 1990/91	755	2,641	3,396
	19,988	17,376	37,364

The increase on the prior year relates to the ongoing operational deficits of APPCT. No interest charges were levied by Haringey Council in the current year. Although Haringey Council have provided for this debt in full in their own financial statements, they have not discharged the debt and therefore retain their right to repayment. On this basis management have concluded that it remains appropriate to retain the provision.

Deloitte response

FRS 12 'Provisions, Contingent liabilities and Contingent assets' sets out three criteria for the recognition of a provision. If these criteria are met, a provision must be made. The criteria are that:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that a transfer of economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

We have considered the accounting treatment against these criteria and concur that it is appropriate to retain the provision.

1. Key audit risks (continued)

Key audit risk

Income recognition

Background

International Standards on Auditing (UK and Ireland) require us to presume that there is an increased risk of misstatement in relation to income recognition. We identified that the risk in APPCT is in relation to the cut off of income, in particular rental income.

Deloitte response

We performed detailed cut off testing on income recorded around the year end. We identified a number of cut off errors in relation to the rental period 26 March to 24 June 2008. We proposed an adjustment to income totalling £27,333. It can be seen in Appendix 1 that management has adjusted for errors totalling £19,240, leaving unadjusted items totalling £8,093.

Key audit risk

Cost allocation

Background

In undertaking any activity there may be support costs incurred that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. The SORP states that support cost should be allocated to the relevant activity cost category they support on a reliable basis.

Deloitte response

APPCT has allocated support costs on the basis of staff time and average area utilised by the activity. These bases are judgemental, however the SORP does state that the charity should also consider the materiality of the amounts involved and the cost benefit advantages of the approach in that greater accuracy may on occasions only be achievable at a high incremental cost.

We have reviewed the calculations prepared by management to ensure that they are mechanically accurate and to ensure that the basis of cost allocation does not appear unreasonable. We did not identify any issues with the cost allocation.

2. Accounting and internal control systems

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

Control observations

Issue 1 – Cash banking procedures	We identified that APTL had cash at hand totalling £104,625 at the balance sheet date. Holding large amounts of physical cash is likely to increase the risk of misappropriation of funds and may not be covered by the company's insurance policy.
Recommendation	We recommend that cash balances should be kept to a minimum and should not exceed a reasonable amount to cover urgent requirements. All cash takings above this threshold should be banked as soon as possible.
Management response	This situation arose due to a dispute with our secure cash delivery and collection company, which has now been resolved. The cash in question was being held in safes in a secure cash office with controlled access and the amount was fully covered by our insurance policy. The cash was banked and fully reconciled post year end and cash is now collected by secure carrier for banking each week. Timeframe: Immediate Owner: Helen Downie, Head of Finance

2. Accounting and internal control systems (continued)

Issue 2 – Disaster recovery plan	We noted that a formal disaster recovery plan has not been prepared. In the absence of a documented plan the time taken to put in place arrangements to enable continuation of the company's operations in the event of a significant incident would be increased.
Recommendation	We recommend that a disaster recovery plan should be prepared. All members of the management team should be familiar with this plan and copies should be retained off-site to ensure that they are readily accessible if access to the premises is limited.
Management response	The Trust will work together with the Company to develop a Disaster Recovery Plan as part of the overall review of our risk management arrangements Timeframe: In the next 12 months Owner: David Loudfoot, General Manager APPCT and Rebecca Kane, Managing Director APTL

2. Accounting and internal control systems (continued)

Issue 3 – Accruals procedures	We identified a number of misstatements due to incomplete accruals. Inaccuracies in the accounting data increase the risk of misstatement in the financial statements and reduce the effectiveness of the management information needed to assess future liabilities.
Recommendation	We recommend that management undertake a detailed review of payments made from the bank after the year end to ensure that the expense is recorded in the correct accounting period.
Management response	Agreed. Going forward, this review will be performed before finalising the draft accounts Timeframe: At completion of the 2008/09 financial statements Owner: Helen Downie, Head of Finance
Issue 4 – Maintenance of fixed asset register	We noted that the organisation does not have a fixed asset register that can be reconciled to the figures recorded in the general ledger. In the absence of this information, management are not able to ensure that disposals of assets are recorded in the general ledger, and it would be more difficult to identify the misappropriation of assets.
Recommendation	We recommend that management should create a register of all assets including information on purchase date, cost, location and condition. This register should include sufficient information to enable individual assets to be identified, and assets should be labelled with unique asset numbers where appropriate. The register should be reviewed on a frequent basis to ensure that it is up-to-date. On an annual basis management should check the register against the physical assets on a sample basis.
Management response	Agreed. A more detailed fixed asset register will be introduced, including the purchase date, cost and location of all new acquisitions. However, the backing documentation for earlier acquisitions is likely to be in archive and thus we will need to consider the cost/benefit of updating the register for these items, particularly as many older items will be fully depreciated. Timeframe: In the next 12 months Owner: Helen Downie, Head of Finance

2. Accounting and internal control systems (continued)

Issue 5 – Journals	We noted that journals are not independently authorised and reviewed. Due to the manual nature of journals, there is a greater risk that their use may give rise to fraud or error.
Recommendation	We recommend that journals should be reviewed and authorised by an individual independent of the preparer or initiator. Where resource constraints do not allow this to be undertaken on every journal, this should be performed at least on a sample basis.
Management response	Journals were not independently reviewed and authorised in the past due to resource constraints; however, this procedure will be adopted for material transactions going forward. Timeframe: Immediate Owner: Helen Downie, Head of Finance
Issue 6 – Reconciliation of purchase ledger and general ledger	We noted that the purchase ledger did not agree to the general ledger and there was no process in place to enable these to be reconciled.
Recommendation	We recommend that the purchase ledger should be reconciled to the general ledger on a monthly basis. Any reconciling items should be investigated on a timely basis. The reconciliation should be reviewed for completion by an independent designated officer with this review suitably evidenced.
Management response	Agreed. Going forward, this reconciliation will be performed and authorised as part of the monthly balance sheet reconciliation process. Timeframe: In the next 3 months Owner: Helen Downie, Head of Finance

2. Accounting and internal control systems (continued)

Issue 7 – Cost allocations	We noted that there was no formal procedure for review of the cost allocation calculations to ensure that they are reasonable and reflect the substance of the charity's operations. The bases of allocations are judgemental and are focussed on by external commentators and therefore it is important to ensure that they are appropriate.
Recommendation	We recommend that the results of the cost allocation exercise should be reviewed by someone independent of the preparer to ensure that the allocations are reasonable and are consistent with the operations of the group. Evidence of this review should be documented.
Management response	The draft financial statements, including cost allocations, were prepared by an independent firm of accountants, which ensures there is a degree of objectivity in assessing the reasonableness of the cost allocation. However, the new Head of Finance will also review the bases for allocating overhead costs prior to drafting the 2008/09 financial statements to ensure they are still appropriate and take into account any operational changes which have occurred. Timeframe: At completion of the 2008/09 financial statements Owner: Helen Downie, Head of Finance
Issue 8 – Cut off of income	We identified a number of cut off errors in relation to income. Inaccuracies in the accounting data increase the risk of misstatement in the financial statements and reduce the effectiveness of the management information needed to assess future cash flows.
Recommendation	We recommend that management perform a review of all income recognised for a set period (for example, one month) either side of the year end to ensure that it is recognised in the correct accounting period.
Management response	Agreed. Going forward, this review will be performed before finalising the draft accounts Timeframe: At completion of the 2008/09 financial statements Owner: Helen Downie, Head of Finance

3. Matters for communication to those charged with governance

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

Independence	We consider that we comply with APB Ethical Standards and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.
Non-audit services	We are not aware of any inconsistencies between APB Ethical Standards and the company's policy for the supply of non audit services or of any apparent breach of that policy. An analysis of professional fees earned by Deloitte in the period from 1 April 2007 to 31 March 2008 is included in Appendix 2.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Written representations	A copy of the representation letter to be signed on behalf of the board has been circulated separately. Non-standard representations have been highlighted.

4. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you previously and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

We would be happy to consider a request to perform a more extensive study of these matters and, where compatible with our independence as auditors, assist you with implementing any improvements. As you will appreciate, such an exercise would be a separate engagement to our audit appointment, since the scope and context of our audit work in these areas is necessarily limited.

This report has been prepared for the Board of Trustees, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP
Chartered Accountants

St Albans

18 December 2008

Appendix 1: Audit adjustments

Alexandra Park and Palace Charitable Trust – charity only accounts

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our audit:

	Credit/(charge) to current year income statement	Increase/(decrease) in net assets
	£	£
Errors of fact		
Cut off of income	(8,093)	(8,093)
Net under-accrual of purchase invoices	2,219	2,219
Correction to prepayment	7,531	7,531
Total	**1,657**	**1,657**

We will obtain written representations from the Board of Trustees confirming that after considering all uncorrected items for the group, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

Appendix 1: Audit adjustments (continued)

Recorded audit adjustments

We report all individually identified recorded audit adjustments in excess of £1,000 and other identified misstatements in aggregate adjusted by management in the table below.

	Notes	Credit/(charge) to current year income statement £	Increase/(decrease) in net assets £
Errors of fact			
Deferral of post year end income		(19,240)	(19,240)
Net over-accrual of purchase invoices		30,926	30,926
Reclassification of grant from Haringey Council	1	-	-
Errors of judgement			
Write off of catering equipment held in stock		(46,984)	(46,984)
Total		**(35,298)**	**(35,298)**

1 A grant of £300,000 was received from Haringey Council during the year. This was recorded under 'incoming resources from generated funds' however we proposed an adjustment to reclassify this as 'voluntary income'.

Appendix 1: Audit adjustments (continued)

Alexandra Palace Trading Limited – company only

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our audit:

	Note	Credit/(charge) to current year income statement £	Increase/(decrease) in net assets £
Errors of fact			
Net over-accrual of purchase invoices	1	19,327	-
Corporation tax liability		(23,800)	-
Total		(4,473)	-

1 This adjustment is the net of a number of under and over accruals. There would be no overall impact on net assets as the deed of covenant to Alexandra Park and Palace Charitable Trust would increase by a corresponding amount.

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £1,000 and other identified misstatements in aggregate adjusted by management in the table below.

		Credit to current year income statement £	Increase in net assets £
Errors of fact			
Over provision for Firoka debtor balance		43,000	43,000
Reclassification of debtors and creditors	1	-	-
Reclassification of deferred income	2	-	-
Total		43,000	43,000

1 This adjustment for £199,551 was to net creditors off against the related debtor balances

2 This adjustment for £644,656 was to reflect the gross asset and liability for debtors at the balance sheet date relating to 2008/09 income.

Appendix 2: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2007 to 31 March 2008 are as follows:

	2008 £	2007 £
Fees payable to the company's auditors for the audit of the company's annual accounts	17,500	20,000
The audit of the company's subsidiary pursuant to legislation	17,500	20,000
Total	35,000	40,000

Note: fee data shown above is net of Value Added Tax.

Appendix 3: Benchmarking of FRS 17 assumptions

At 31 March 2008

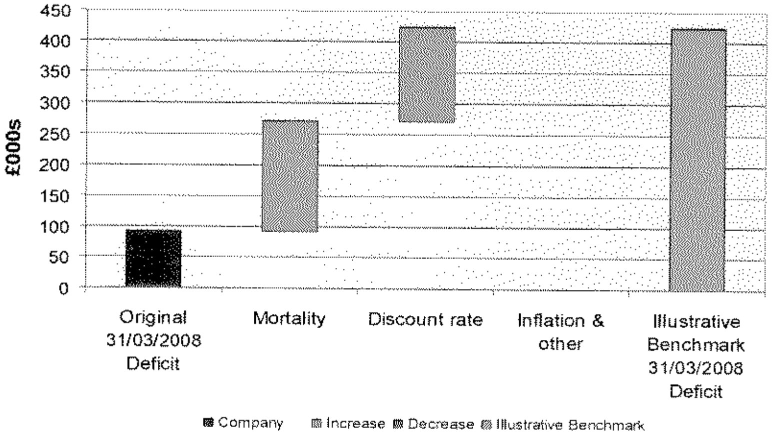


Figure A: Comparison of the deficit recorded using the assumptions selected by management against the deficit which would arise using the Deloitte Illustrative Benchmark assumptions

Key Assumptions used	Company	Deloitte Illustrative Benchmark
Discount Rate (% p.a.)	6.9	6.5
Inflation Assumption (% p.a.)	3.6	3.6
Life Expectancy @ 65 (pensioners)	19.6	22.4
Life Expectancy @ 65 (future pensioners)	20.7	24.4

Figure B: Summary of the assumptions selected by management and the Deloitte Illustrative Benchmark assumptions

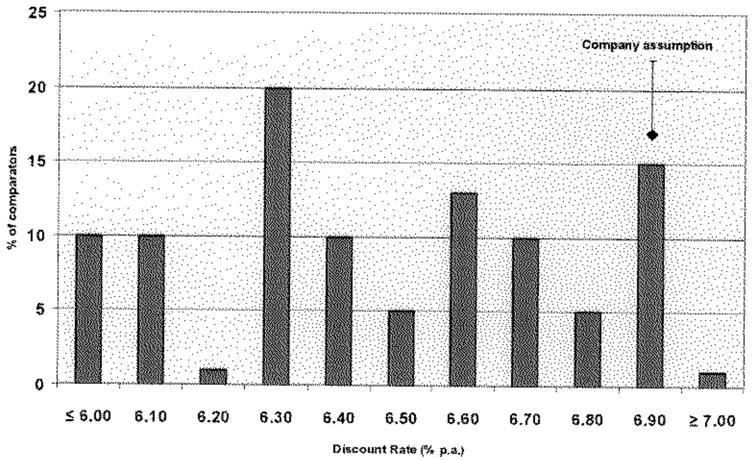
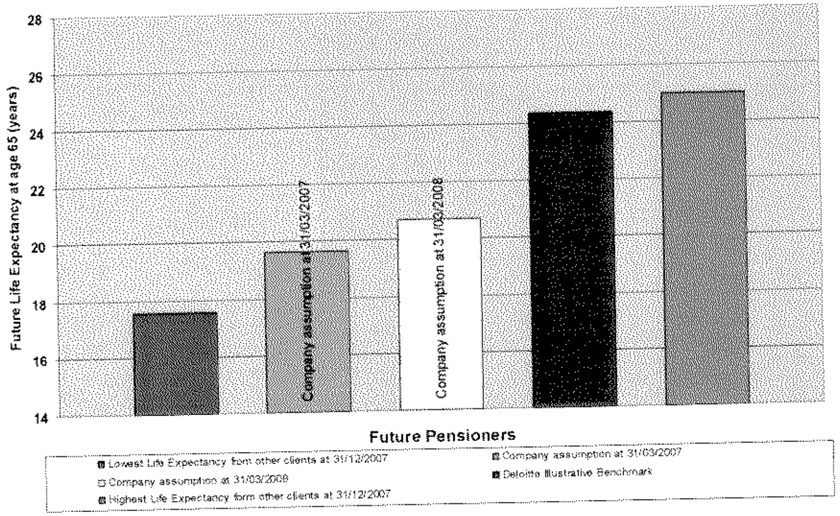


Figure C: Range of discount rate assumptions used by other Deloitte clients with 31 March 2008 year ends

Appendix 3: Benchmarking of FRS 17 Assumptions (continued)



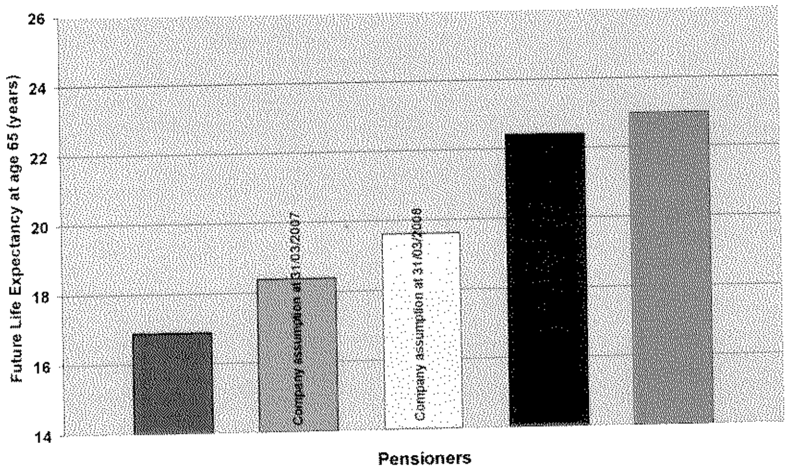


Figure D: Comparison of mortality assumptions for both current and future pensions selected by management at 31 March 2007 and 31 March 2008 against assumptions used by other Deloitte clients and the Deloitte Illustrative Benchmark

Appendix 3: Benchmarking of FRS 17 Assumptions (continued)

At 31 March 2007

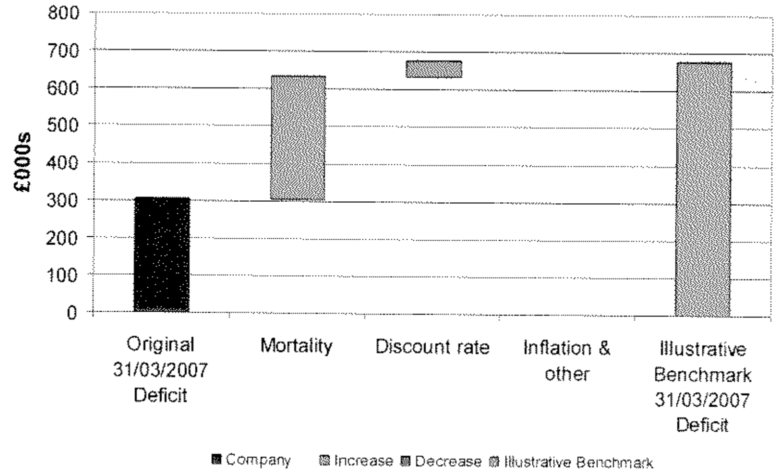


Figure E: Comparison of the deficit recorded using the assumptions selected by management against the deficit which would arise using the Deloitte Illustrative Benchmark assumptions

Key Assumptions used	Company	Deloitte Illustrative Benchmark
Discount Rate (% p.a.)	5.4	5.3
Inflation Assumption (% p.a.)	3.2	3.2
Life Expectancy @ 65 (pensioners)	18.4	22.4
Life Expectancy @ 65 (future pensioners)	19.6	24.4

Figure F: Summary of the assumptions selected by management and the Deloitte Illustrative Benchmark assumptions

Deloitte.