



Grant Thornton

London Borough of Haringey
Audit Strategy Document
For the year ending 31 March 2009

June 2009

Our Ref PD/PH/LBH 2008-9
Your Ref

Gerald Almeroth
Chief Financial Officer
London Borough of Haringey
River Park House
225 High Road
London N22 8HQ

June 2009

Dear Gerald

**LONDON BOROUGH OF HARINGEY (THE COUNCIL) AUDIT STRATEGY DOCUMENT FOR THE YEAR
ENDING 31 MARCH 2009**

This Audit Strategy Document (ASD) has been prepared in order to highlight the key elements in the proposed strategy for the audit of London Borough of Haringey for the year ending 31 March 2009. The purpose of the document is further detailed in Section 1.

We look forward to the forthcoming audit and working with the Corporate Finance Team.

Yours sincerely

Grant Thornton UK LLP

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1 Engagement terms and objectives

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

1.1 Engagement terms

Our overall audit plan dated May 2008 sets out our terms of reference as auditors and has been provided to the Audit Committee.

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the Council for the year ending 31 March 2009.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) (ISAUK) 260.

1.2 Engagement objectives

Our engagement objectives are as follows:

- To audit the financial statements of the Council;
- To produce a concise and constructive report of key issues to the Audit Committee; and
- To draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

1.3 Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's (APB) Ethical Standards.

We have considered our independence and objectivity in respect of the audit for the year ending 31 March 2009 and do not believe there are any matters which should be brought to the attention of the Audit Committee. Further details on our independence and robustness are set out in Appendix A.

1.4 Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the Council. Such communication will be made either informally or via an audit progress memorandum where necessary.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the Council's management and documented for the Audit Committee's consideration.

1.5 Other matters

We set out further information in Appendix A covering:

- Roles and responsibilities of the Audit Committee;
- Audit quality assurance; and
- Communication with the Audit Committee.

2 Accounting and business risks

2.1 Potential accounting and business risks

Risk	Response
The Council had £37m invested in the failed Icelandic Banks. LAAP bulletins 78 and 79 provide comprehensive guidance on the treatment of accounting for the impairment of financial assets arising from the Icelandic Banks. The Council will need to demonstrate compliance with this guidance and the letter issued by DCLG on 4 March 2009 on accounting for possible investment losses.	Through discussion with officers of the Council and review of audit working papers, we will review the Council's treatment of the investments held in Icelandic banks against the LAAP guidance. We will also carry out a review of the Council's action plan, including assessing progress on implementation, through the use of a mandatory work programme from the Audit Commission.
We note that due to the economic downturn, valuations of land and buildings have fallen during the period of audit, which suggests that there is an audit risk that land and buildings are overvalued.	We will review the Council's methodology for revaluing its land and buildings, including assessment of impairments, and assess the level of compliance against FRS11 and FRS 15 as appropriate.
The Council has introduced the SAP asset management module during 2008/09. The data migration process has revealed various errors within the previous Fixed Asset Register.	We will test the data migration from the previous fixed asset register to SAP as part of our Fixed Asset testing.
In its Annual Governance Statement (AGS), the Council is required to include description of significant internal control issues occurring during the year and information around plans for addressing these. In the first draft of its AGS, the Council has included information on safeguarding children and treasury management as part of its list of significant internal control issues.	We will review the Annual Governance Statement to ensure that it fully reflects the significant internal control issues identified at the Council during the year.

There has been recent attention around Parliamentary members expenses and allowances and the Audit Commission has now encouraged auditors to review arrangements in local government.

We will carry out a high level review of the Council's arrangements for member expenses and allowances. We will also be considering senior officer allowances.

Our 2007/08 accounts audit identified some areas where the Council could improve its arrangements for producing the accounts. We made a number of recommendations in our ISA260 report, which management agreed to implement in time for production of the 2008/09 accounts.

Progress against these recommendations are being reviewed during the audit. Any issues that remain unresolved will be included within the 2008/09 Report to Those Charged with Governance.

3 Our audit approach

ISAUK 260 requires communication of:

- our concept of materiality and its application to the audit approach
- the way we propose to address the risk of material misstatements
- our assessment of and reliance on internal controls.

3.1 Audit strategy

We will be working closely with the Corporate Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff. Our audit will be planned on an individual task basis at the start of the audit, and timetables agreed with all staff involved.

In summary our audit strategy comprises:

- Updating our understanding of the Council through discussions with management and a review of the management accounts
- Reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the financial statements
- Assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system,

developing and implementing an appropriate audit strategy

- Testing the operating effectiveness of the internal financial controls, where appropriate
- Reviewing material disclosure issues in the financial statements
- Verifying all material income and expenditure and balance sheet accounts and performing a substantive analytical review of these accounts.

3.2 Our audit approach

Our audit approach is based on an assessment of the audit risk relevant to the individual financial statement assertions. Areas where the risk of material misstatement is more likely to occur are categorised as **critical**. It is in these areas that we focus much of our audit effort. Our work in other areas will typically be proportionately lower than for critical areas.

Critical areas are those where the risk of material misstatement is more likely to occur.

Not critical areas are those that are material in size or by nature but where the susceptibility to material misstatement is lower.

3.3 Critical areas

The critical assertions for the Council are deemed to be

	Completeness	Existence/ Occurrence	Valuation - Gross	Valuation - Net	Rights & Obligations	Cut-off	Presentation & Disclosure
Tangible Assets	X		X	X			
Investments			X	X			
Income and Debtors		X	X	X			X
Expenditure and Creditors	X	X	X				X

3.4 Audit automation using IDEA

We plan to utilise IDEA, a data interrogation software tool, at the start of the audit fieldwork to assist in the accuracy and completeness of our audit fieldwork. This will allow the audit team to take data directly from the Council's system and produce relevant information to be used in the audit process.

If we plan to perform tests of automated control procedures to reduce the scope of our substantive procedures, the operating effectiveness of general controls, that impact upon the operating effectiveness of automated key control procedures, will be evaluated.

3.5 Reliance on internal audit

We will liaise with internal audit throughout the audit as part of the managed audit approach.

3.7 Internal controls

We are required to evaluate the design of an entity's controls, including relevant control activities, over risks that could lead to material misstatement in the financial statements, and determine whether they have been implemented. Our emphasis is on identifying and obtaining an understanding of control activities that address the areas where we consider that material misstatements are more likely to occur.

3.6 Audit of IT and outsourced systems

Our audit approach assumes that audited bodies use a computer system for accounting applications that process a large number of transactions, which includes transactions processed by service bureaux or internally. Accordingly, our approach requires a review of internal controls in the Council's IT environment.

To comply with Auditing Standards we:

- focus on the key areas of understanding your business, and assessing the design of your internal control systems related to financial reporting, and
- Spend time with the senior management of the Council, in order to gather the additional information to document your systems, in particular in the area of governance.

IT and internal controls work has been performed as part of our interim audit visit. No significant issues have been identified as a result of this work which have impacted upon our audit strategy.

In the context of wider public concerns nationally, we will be considering arrangements in respect of members expenses and allowances during our final accounts audit.

Our work cannot be relied upon necessarily to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

3.8 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer present fairly the financial position of the Council.

Materiality is set at the planning stage to ensure that an appropriate level of audit work is conducted. It is also considered at the reporting stage in order to assess the impact of an item on the financial statements.

Any identified errors greater than 2% of materiality will be recorded on a schedule of potential misstatements, assessed individually and in aggregate, discussed with you and, if not adjusted, signed off by you as immaterial as part of your letter of representation to us.

An item of low value may be judged material by its nature (e.g. directors' emoluments), and an item of higher value may be judged not material, if it does not distort the presentation of the financial statements.

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

ISA 320 Audit Materiality

4 Administrative matters

4.1 Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Interim review including internal controls review	March 2009
Approval of Accounts required by	30 June 2009
Commence fieldwork	6 July 2009
Manager visit to review work	ongoing
Clearance meeting to discuss our findings	w/c 17 August 2009
Partner to review work	28 August 2009
Meeting to discuss draft ISA260 report	3 Sept 2009
Report to General Purposes Committee	24 Sept 2009
Report to Audit Committee	October 2009

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

4.2 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Paul Dossett	Engagement Lead	T: 020 7728 3180 E: paul.dossett@gtuk.com
Paul Hughes	Client Service Manager	T: 020 7728 2256 E: paul.hughes@gtuk.com
Caroline Glitre	Audit Executive	T: 020 7728 2078 E: caroline.glitre@gtuk.com

4.3 Fees

Our fee estimate (excluding VAT) was disclosed to the Council in our overall audit plan, submitted to the Audit Committee in April 2008:

The proposed accounts audit fee is on the basis that:

- Draft statutory accounts are presented to us by 30 June 2009 for audit, subject only to routine audit adjustments;
- Supporting schedules for all figures in the accounts are ready prior to the commencement of the final accounts audit, as per our arrangements letter sent to the Council on 22 April 2009;
- All books and records, including those held electronically are made available to us;
- A trial balance together with reconciled control accounts are presented to us on the commencement of fieldwork date;
- Your staff are available to help us locate information and to provide explanations; and
- All deadlines agreed with us are met.

Our ability to deliver the services outlined to the agreed timetable and fee will depend upon these schedules being available/tasks being completed by the due dates in the agreed form and content. If there are any variances to the

above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any additional costs will be billed as soon as they are agreed with the Chief Financial Officer and these fees will be due when the fee notes are issued.

4.4 Information required

Lists of information to be prepared have been supplied to management within our arrangements letter sent to the Council on 22 April 2009.

A Quality assurance, independence, communication with the Audit Committee and roles and responsibilities

(i)

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW.

Furthermore, audits of councils are subject to the Audit Commission's quality review process. In addition from 2009, the audit of Local Government financial statements are subject to review by the Quality Assurance Directorate for the first time.

We would be happy to discuss further the firm's approach to quality assurance.

(ii) Independence and robustness

To maintain our independence as auditors we ensure that:

- Audit partners and client service managers are rotated off the audit of audited bodies every five years;

- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council; and
- Our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

(iii) Audit and non-audit services

Services supplied to Council during the year are set out below:

	£
Audit services	
Audit work under the Code of Audit Practice	471,120
Other services	
None	0

(iv) **Communication with the Audit Committee**

We welcome communication with the Audit Committee and as part of the audit process we propose discussing with them the scope of the audit in advance of the commencement of our work. In addition we also propose to meet with the Committee following the conclusion of our procedures in order to communicate the matters arising.

We would also welcome the Audit Committee's input in relation to any areas of known concern within the Council.

Finally, we would be interested to hear if there are other matters that the Audit Committee would like us to address and to ensure we understand fully the Committee's expectations and requirements from the audit process.

In order to meet statutory deadlines, our ISA260 report will be presented, alongside the final set of accounts, at the General Purposes Committee on 24 September 2009.

(v) **Roles and responsibilities**

Officers are responsible for the preparation of the financial statements which show a true and fair view of the Council's affairs and for making available to us all the information and explanations we consider necessary.

Legislation also requires that the Council maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of Council.

The Council's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to Members that this has been done.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.