



Haringey Council

Agenda Item

Audit Committee

On 5th November 2009

Report title: **Audit of Accounts 2008/09**

Report of: **Chief Financial Officer**

Ward(s) affected: All

Report for: Information

1. Purpose

1.1 To update the Committee on the final outcome of the annual audit for 2008/09 and to agree an action plan flowing from the audit of the accounts and auditors final report.

2. Recommendations

2.1 That the Committee agrees the management responses contained in the action plan and receives an update on agreed actions at a future meeting of this Committee.

Report authorised by: Gerald Almeroth – Chief Financial Officer

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3. Executive Summary

3.1 The statutory report of Grant Thornton following their audit of the Council's accounts 2008/09 was approved by the General Purposes Committee on 24th September 2009. It was agreed that following the close of the audit the proposed action plan arising from this audit would be approved and monitored by the Audit Committee. The actions proposed arising from the report are included within the appendix to this report.

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

4.1 None.

5. Local Government (Access to Information) Act 1985

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

Report of Chief Financial Officer to General Purposes Committee on 25 June 2009 – Statement of Accounts 2008/09

Report of Chief Financial Officer to General Purposes Committee on 24 September 2009 – Annual Governance Report

6. Background

- 6.1 At the General Purposes committee meeting of 24th September 2009, Grant Thornton presented to members the findings from their audit of the accounts for 2008/09, prior to signing off the audit by the statutory deadline of 30th September 2009.
- 6.2 It was agreed that following the closure of the annual audit any follow up actions that were required would be brought to the Audit Committee for approval and on-going monitoring.
- 6.3 The statutory deadline for the signing off of the accounts by the Authority's auditors was 30th September 2008, in the event the auditors issued the opinion on 25th September 2009.
- 6.4 The auditors delivered an unqualified audit opinion and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

7 Accounts Opinion

7.1 The Council produced an initial set of draft 2008/09 accounts on 5 June 2009 (prior to submission to the auditor of the full draft accounts on 24 June), which enabled the auditors to use an initial team and carry out a technical review of the accounts to take place and be fed back, prior to production and approval of the formal draft accounts. This enabled audit work to begin early and was useful for the Council in obtaining timely feedback on its accounts. Grant Thornton have submitted the closedown process to the Audit Commission as good practice.

7.2 The auditor has stated that the closedown process was well managed by the Council this year and that there is clear corporate commitment to producing good quality accounts. This resulted in a relatively smooth audit process and a reduced level of proposed adjustments. Additionally, the auditor concluded that the Council had already engaged effectively in taking forward planning for accounting under International Financial Reporting Standards (IFRS).

7.3 The key highlights from the audit are set out below:

- The Council should develop its systems and procedures for valuing fixed assets so that it can be assured that its asset base has been valued appropriately and that the value of fixed assets shown in the balance sheet remains materially correct.
- There is scope for improvement in aspects of fixed asset accounting, including ensuring that fixed asset registers remain up to date, contain sufficient detail and that only appropriate expenditure is capitalised. Fixed asset accounting is one of the key areas where councils will need to carry out significant additional work in preparation for the introduction of International Financial Reporting Standards.
- The accounts had properly reflected the calculated impairment in respect of deposits in Icelandic banks in accordance with the national guidance issued. The auditor's review of Treasury Management arrangements, using the standard workbook issued by the Audit Commission, demonstrated that the Council has sound arrangements in place and has taken positive and appropriate action to deal with the fall out from the Icelandic banking crisis.
- A review of members' and senior officers' expenses and allowances found appropriate procedures and controls are currently in operation.

8 Action Plan arising from Annual Governance Report 2008/09

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

9 Financial Implications

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

10 Recommendations

10.1 That the Committee agrees the management responses contained in the action plan and receives an update on agreed actions at a future meeting of this Committee.

11 Head of Legal Services comments

11.1 There are no specific legal implications.



Grant Thornton

C Action Plan: Accounts audit

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
1. (2.4)	<p>Fixed asset accounting - capitalisation</p> <p>Our testing showed certain items of capitalised expenditure that appeared to be repairs and maintenance (i.e. revenue) costs, which under the SoRP requirements and the Council's own accounting policy should not be capitalised. Whilst explanations were provided for the cases identified, the Council needs to tighten its definitions and justification for capitalising expenditure, particularly for expenditure that appears to be revenue in nature.</p>	<p>The Council should improve the audit trail to fully demonstrate compliance with accounting standards when capitalising expenditure.</p>	High	<p>Agreed.</p> <p>Additional measures and guidance will be put in place regarding capital expenditure. In addition a sample check of high risk areas will be carried out before year end to ensure expenditure coded to capital is appropriate.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
2. (2.4)	<p>Fixed asset accounting - depreciation</p> <p>The Council using the major repairs allowance (MRA) as a proxy for Council house depreciation, which is currently allowed by the SoRP. However, this leads to a significantly lower depreciation figure than would be expected under conventional depreciation methods and this will not be consistent with IFRS compliant accounting.</p>	<p>The Council should prepare to move away from using the major repairs allowance (MRA) as a proxy for Council house depreciation as IFRS accounting is introduced.</p>	High	<p>Agreed.</p> <p>Full depreciation on council dwellings will be charged in 2009/10.</p>
3. (2.4)	<p>Fixed asset accounting - asset register</p> <p>The Council does not currently hold individual asset records for vehicles, plant and equipment and infrastructure assets, which will be required under IFRS. Now that the SAP asset management model has been introduced, the Council's has the tools to do this.</p>	<p>The Council should introduce individual asset records for vehicles, plant and equipment and infrastructure assets, which will be required under IFRS.</p>	High	<p>Agreed.</p> <p>In 2009/10 the Council will start to implement individual asset records for these areas, taking information gathered from the IFRS implementation and breaking down actual spend in the 2009/10 capital programme.</p>

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4. (2.4)	<p>Fixed asset accounting - disposals</p> <p>We found one asset, valued at £66k, classified as awaiting disposal when the decision had been made not to dispose of it. Although not significant in value, this results in a balance sheet misclassification.</p> <p>Also, the fixed asset register is not currently updated to reflect valuations that were carried out for the purpose of informing the decision to dispose at the time that those valuations are made. Although the asset register is updated accordingly at year end and profit or loss on disposal was calculated correctly in the sample we tested, this practice increases the risk of errors in calculating profit and loss and of having incorrect valuations recoded in the year end balance sheet.</p>	<p>The Council should ensure the classification of assets awaiting disposal is fully accurate and ensure that the fixed asset register is promptly updated to reflect valuations that were carried out for the purpose of informing the decision to dispose.</p>	High	<p>Agreed.</p> <p>Additional controls will be put in place to ensure correct classification occurs. Disposals will be processed through SAP on a quarterly basis, thus reducing the risk of error, as highlighted by the auditors.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
5. (2.4)	<p>Fixed asset valuations</p> <p>Our work in auditing the accounts of a number of other local authorities nationally has revealed some weaknesses in valuation methods and compliance with Royal Institute of Chartered Surveyors (RICS) guidance by in-house Council valuers.</p> <p>The significant in year reduction in Haringey council dwellings whilst other Council property values increased reveals the limitations of the current 5 year rolling revaluation approach. Our audit also identified scope for improvement in the documentation of assumptions used in arriving at HRA beacon valuations and for demonstrating that all fixed assets had been revalued in the past 5 years.</p>	<p>The Council should develop its systems and procedures for valuing fixed assets so that it can be assured that its asset base has been valued appropriately and that the value of fixed assets shown in the balance sheet remain materially correct. This will include ensuring that:</p> <ul style="list-style-type: none"> ● assets are split into the correct components and valued on the correct basis and in accordance with current valuation guidelines ● valuations and impairment reviews take place with sufficient frequency to ensure that the annual accounts materially reflect the fair value of assets ● Corporate Finance and Property Services work together closely, including ensuring that sufficient resource is devoted to dealing effectively with the more stringent valuation and accounting requirements. 	High	<p>Agreed.</p> <p>As part of the implementation of IFRS all asset valuations will be reviewed. In addition IFRS will require the Council to move away from a rigid 5 year valuation cycle to one that gives assurance that the asset valuation records are appropriate.</p> <p>Corporate Finance and Corporate Property Services are working together to revise procedures to ensure this happens effectively.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
6. (2.4)	<p>Pension fund bank account</p> <p>As highlighted in our report last year, pension fund cash balances are held in shared bank accounts with Council main funds, and concerns were raised over the suitability of this practice in the longer term. Our review this year, as with last year, concluded that good controls are in place to ensure funds relating to the fund are easily identifiable.</p> <p>We note that DCLG is consulting on proposals to prevent "co-mingling" of pension and general fund bank accounts.</p>	<p>Our recommendation remains that consideration is given to the pension fund having its own bank accounts separate from those of the Council.</p>	<p>Medium</p>	<p>Agreed.</p> <p>A costs and benefits analysis is being undertaken, along with an investigation into whether SAP can deliver the required separation, into the recommendation. A report on the outcomes and a recommendation on moving this matter forward will be taken to the Pensions Committee in January 2010.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
7. (2.4)	<p>Related party transactions (RPT)</p> <p>RPT declarations - At the start of the audit 29 of 98 RPT declarations had not yet been received. By the end of the audit, we would expect that all had been received. We would recommend that all declarations be received prior to the audit commencing, in order to avoid any potential audit adjustments.</p> <p>Identification of RPTs - As per discussion with the Council, there is no process for identifying RPTs outside the receiving of RPT declaration forms. We would recommend that the ledger be checked for any undisclosed material RPTs.</p>	<p>The Council should tighten its procedures for ensuring timely receipt of all RPT declarations and, in line with good practice, expand processes for identifying any undisclosed RPTs.</p>	Medium	<p>Agreed.</p> <p>Improved arrangements will be put in place to ensure all RPTs are received. The procedures for identifying other RPTs will be reviewed and improved if required in order to strengthen the controls.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
8. (2.4)	<p>Credit note procedures</p> <p>Our testing of post-year end credit notes raised found one instance of a credit note being raised against invoices that had not in fact been issued by the Council.</p> <p>The invoices originate from the Council's energy supplier Corona. The Council then raise equivalent invoices to partners such as CONEL. However, two of the invoices that were included in the credit note had not in fact been raised (value of £178k). The Council is correcting this error by raising the required invoices.</p>	<p>The Council should review other similar credit notes raised to identify if there is any further income that may be due, and should enhance controls to prevent similar issues from occurring in future.</p>	Medium	<p>Agreed.</p> <p>Fresh guidance will be issued to strengthen the process in this area. A periodic review of credit notes raised will be implemented to mitigate against the risk of incorrect credit notes be raised.</p>
9. (2.4)	<p>Debtor and creditor audit trail</p> <p>We encountered difficulties during the audit when trying to test creditors and debtors. The reports provided were of nominal activity i.e. showing historical movements, rather than open balances at year end, the latter being what we need to test.</p>	<p>For the 2009/10 audit, the Council should design reports that facilitate audit testing of year end debtor and creditor balances.</p>	Medium	<p>Agreed.</p> <p>Officers will work with the auditors during the interim audit to mutually agree reports that will be provided during the audit for these areas, thus ensuring the auditors' needs are fully met.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
10. (2.4)	<p>Revenue expenditure funded by capital under statute</p> <p>There is £16.8m in the accounts that is classified as 'revenue expenditure funded by capital under statute.' Per the SORP, and the Council's accounting policy, this figure should only include capital expenditure on assets not on the Council's balance sheet.</p> <p>However, our testing found that £10.2m of the expenditure included under this heading is non value enhancing capital expenditure on Council owned assets. Management has, therefore, agreed to reclassify this within the impairments line in the fixed assets note.</p>	<p>The Council should ensure that only appropriate expenditure is recorded under 'revenue expenditure funded for capital under statute'</p>	<p>Medium</p>	<p>Agreed.</p> <p>The controls will be revised to ensure this issue is rectified.</p>

No./ Ref	Matter arising	Recommendation	Priority	Management response and implementation details
11. (2.4)	<p>Government grants deferred balances</p> <p>Government grants deferred are required to be identifiable to specific assets that were funded from those grants, in order that the outstanding grant balance can be written down alongside depreciation of the asset to which it relates.</p> <p>Within the government grants deferred balance there is approximately £16m that dates back to 2000 or before. It is likely that some of this relates to residual balances that cannot be directly linked to individual assets and should be written out of the accounts.</p>	<p>For the 2009/10 accounts, the Council should carry out a further exercise to identify any residual government grants deferred balances that cannot be linked to the asset that they funded and should write these out of the accounts. From then on it should be made clear in SAP which asset any government grants deferred balance is linked to.</p>	Medium	<p>Agreed.</p> <p>From 2009/10, due to the Council now having the asset accounting module, all government grants will be linked directly to an asset.</p> <p>The review as requested by the auditors will be carried out and the required action taken.</p>
12. (2.4)	<p>Single status</p> <p>We observed that the Council has maintained a £0.7m provision for potential single status payments. It is our understanding that this is because the Council did not fully achieve the planned completion of re-gradings by the end of 2008/09.</p>	<p>The Council should ensure the prompt completion of the exercise and subsequently update its accounting for the remaining liability.</p>	Medium	<p>Agreed.</p> <p>The Human Resources team has a full timetable in place that is planning to have the single status issue fully resolved by mid 2010. All historic re-gradings will be completed by the end of the financial year.</p>

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13. (2.10)	<p>Members' allowances and expenses</p> <p>We found one minor omission from our testing of members allowances and expenses. The accounting note that details members' allowances should also include all members' expenses. We found that £2k of conference travel expenses had not been included, within the context of total 2008/09 expenditure in this area of almost £1.4m.</p>	<p>The Council should ensure that any Members allowances and expenses costs that are not processed via payroll are picked up within this relevant accounts note next year.</p>	Medium	<p>Agreed.</p> <p>The accounts closure process will include a separate review of members' allowances and expenses to ensure all such transactions are properly recorded.</p>
14. (2.4)	<p>Cash flow statement</p> <p>The draft cash flow statement presented for audit did not correctly reflect the cash flow implications of the Council's investments. Management prepared a revised cash flow statement that largely resolved the misstatement. However, there remains a balancing item of £333k that we draw to the attention of those charged with governance.</p>	<p>The Council should ensure that the cash flow statement presented for audit, fully reconciles to the other statements within the accounts.</p>	Medium	<p>Agreed.</p> <p>The process for calculating the cash flow is being reviewed in order to minimise the risk of error and ensure that it fully reconciles to the other statements.</p>



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