Grant Thornton

Accounts Audit Approach Memorandum

London Borough of Haringey

For the year ended 31 March 2010

8 July 2010

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To the Audit Committee of London Borough of Haringey

We are pleased to perform the audit of London Borough of Haringey for the year ended 31 March 2010. This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention except as disclosed in Section 4, 'The small print'. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

We look forward to working with you during the course of the audit.

Grant Thornton UK LLP

Contents

1 Our audit approach

1.1 Audit objectives

Our audit objectives are as follows:

- to audit the financial statements of London Borough of Haringey (the Council)
- to produce a concise and constructive report of key issues to the Council (our Annual Report to those Charged with Governance (ISA 260))
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Council's staff.

In summary our audit strategy comprises:

- updating our understanding of the business 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 highest risk areas of 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 appropriate audit procedures
- testing the operating effectiveness of the internal financial controls, where appropriate
- reviewing the adequacy of material disclosures in the financial statements
- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams.

1.3 Identified high risk areas

In summary, our audit approach in respect of high risk areas will be as follows:

Capitalisation of Loss on Icelandic Investment

The Council has been permitted to capitalise the loss it has incurred on its Icelandic investments in the year. This capitalisation it intended to spread the cost to the Council over several years to minimise the impact in the current year when the Council is facing significant cost pressures in some service areas.

We will undertake procedures on this capitalisation to ensure that it has been accounted for in line with the guidance.

Fixed Assets Valuation

There is potential risk of material misstatement of asset values due to valuations not being performed in line with required standards. We have identified this as a significant issue for all of our local authority clients and raised some issues as part of last year's audit of the Council. In addition an asset management programme is now being used on SAP for the second time.

Our work will focus on whether asset values have been determined on the correct basis and are materially correct at the balance sheet date.

Financial Targets

The Council, in common with all local authorities, has to achieve significant savings in the next financial period. There is a risk that this could have a significant impact on the level of reserves held by the Council. We will carry out an updated review of the Council's financial position as part of our going concern procedures.

IFRS

As part of our audit we will be reviewing the Council's preparation for International Financial reporting Standards in 2010/11 including:

- accounting for any potential IFRIC 12 (service concession arrangements) transactions in the 2009/10 accounts.
- planning the restatement of 2009/10 accounts under IFRS.
- progress in addressing the key IFRS issues surrounding the accounting for Property, Plant and Equipment, Reserves and Group Accounts.

These are further detailed in Table 2.1.

1.4 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

1.5 Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the effectiveness of the internal audit function.

1.6 Audit of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the Council's internal controls in the information technology (IT) environment.

We have involved Technology Risk Services team members during the audit, this was based on the complexity of IT used in the significant transaction cycles and the control risk assessment.

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2 Key audit issues and financial reporting matters

We will report to you in our Annual Report to Those Charged with Governance (ISA 260), our findings and conclusions in respect of each of the risks that we have identified at the planning stage of the audit:

2.1 Key audit issues

Issue	Response
Capitalisation of Loss on Icelandic Investment The Council has been permitted to capitalise the loss it has incurred on its Icelandic investments in the year. This capitalisation it intended to spread the cost to the Council over several years to minimise the impact in the current year when the Council is facing significant cost pressures in some service areas.	We will undertake procedures on this capitalisation to ensure that it has been accounted for in line with the guidance.
Fixed Assets Valuation There is potential risk of material misstatement of asset values due to valuations not being performed in line with required standards. We have identified this as a significant issue for all of our local authority clients and raised some issues as part of last year's audit of the Council. In addition an asset management programme is now being used on SAP for the second time.	Our work will focus on whether asset values have been determined on the correct basis and are materially correct at the balance sheet date. We will carry out detailed testing of fixed assets during the audit and report our findings as part of the ISA 260.
Financial Targets The Council, in common with all local authorities, has to achieve significant savings in the next financial period. There is a risk that this could have a significant impact on the level of reserves held by the Council.	We will carry out an updated review of the Council's financial position as part of our going concern procedures.

Issue	Response
IFRS As part of our audit we will be reviewing the Council's preparation for International Financial reporting Standards in 2010/11.	We will continue to liaise on a regular basis with officers and monitor the Council's progress against its IFRS project plan. We will also review the implications of any developing issues through reference to IFRS guidance and the finalised IFRS Code. • accounting for any potential non-PFI related IFRIC 12 (service concession arrangements) transactions in the 2009/10 accounts • planning the restatement of 2009/10 accounts under IFRS • progress in addressing the key IFRS issues surrounding the accounting for Property, Plant and Equipment, reserves and Group Accounts.
2009 SORP The Council is required to comply with the 2009 SoRP in preparing its 2009/10 accounts. The principal change in the 2009 SoRP is around current and prior year adjustments to accounting for Council Tax (CT) and National Non-Domestic Rate (NNDR) income. From 1 April 2009 the Council's accounts should: • disclose CT balances net of any amounts that relate to other precepting bodies • only recognise NNDR cash collected in excess of the Council's cost of collection allowance. This change in accounting policy requires an adjustment to the prior year comparator figures shown in the 2009/10 accounts. There is no anticipated impact on the Council's general fund balance.	We will work with management to agree the prior year adjustment required to the Council's income and expenditure account, balance sheet and cashflow statement.

2.2 Financial reporting matters

Issue	Response
Reporting Timetable Un-audited accounts and summarisation schedules have to be submitted to the auditor by 30 June 2010. Audited annual reports, accounts and summarisation schedules have to be signed off by 30 September 2010.	Draft accounts were received by 30 June 2010. We will raise with management and, as required, those charged with governance, if there are any issues that would threaten achievement of opinion sign off by 30 September.
Other Regulators We will need to consider the work of other regulators (e.g. The Audit Commission) in reviewing the Annual Governance Statement (AGS). Should other regulators identify significant weaknesses in the internal control environment, we would expect this to be reported in the AGS, along with the action plan to correct identified internal control weaknesses.	We will review the AGS to ensure that the disclosures in it are consistent with our knowledge of the organisation. In reviewing the AGS we will also consider the work of internal audit, knowledge of the Council gained in our Use of Resources and interim audit work, and overall links with the Council's Assurance framework.
Building Schools for the Future The Government recently announced significant changes to the national BSF programme. although we understand that none of the Council's schemes have been cancelled there is a risk that future funding of the programme may be subject to change.	We will consider the need for any accounting or disclosure amendments that may be required in the context of any further national developments.

2.3 Update on previous period's unresolved key audit issues (taken from our 2009-10 report)

Issue	Response
Depreciation of Council Houses The Council has previously used the major repairs allowance (MRA) as a proxy for Council house depreciation. This will not be consistent with IFRS compliant accounting.	The Council is to revalue its land and buildings providing a split between the land and buildings in order to calculate the depreciation of the buildings. We will review the depreciation calculation, including the revaluation exercise, as part of our audit of the Council's accounts.

3 Logistics

3.1 Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Pre-year end fieldwork including internal controls review	March 2010
Statutory Accounts emailed to Auditors	30 June 2010
Commence fieldwork	5 July 2010
Manager visit to review work	July and August 2010
Partner visit to review work	September 2010
Clearance meeting to discuss our findings	9 September 2010
Report to General Purposes Committee	23 September 2010

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.

3.2 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Paul Dossett	Engagement partner	020 7728 3180
Paul Hughes	Senior Audit manager	020 7728 2256
Melanie Fox	Assistant Manager	017 5378 1218
Helen Phillips	Audit Senior	020 7728 2385
Negat Sultan	IT Manager	0116 257 5590

3.3 Fees

Our fee for the audit is £515,000 as agreed in our 2009/10 audit plan issued to the Council in December 2009. This fee includes the audit of the Council's financial statements and work to support our 2009/10 Value for Money conclusion, including the Use of Resources assessment work that we completed in Summer 2009 and the local risk based Use of Resources work that we have reported on during 2009/10.

We have proposed this fee on the basis that:

- statutory accounts are presented to us on 30 June 2010 for our review, with appropriate disclosures.
- supporting schedules for all figures in the accounts in line with the requirements of out audit arrangements letter are supplied by the agreed dates.
- all books and records are made available to us
- a trial balance together with reconciled control accounts are presented to us by 5 July 2010
- your staff are available to help us locate information and to provide explanations
- all deadlines agreed with us are met.

Our ability to deliver to the agreed timetable and fee will depend upon this. 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.

4 The small print

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

Engagement terms
The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the Council for the year ended 31 March 2010.

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

Confidentiality
This memorandum is strictly confidential, and although it has been made available to management to facilitate discussions and should not be disclosed to third parties without our prior written consent.

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

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 business. Such communication will be made either informally or via an audit progress memorandum.

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 General Purposes Committee's consideration.

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. Grant Thornton UK LLP also conducts internal quality reviews of engagements.

Furthermore, audits of Local Government bodies are subject to the Audit Commission's quality review process.

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

Independence and robustness
To maintain our independence as auditors we ensure that:

- audit partners are rotated off the audit of audited bodies every five years and audit managers every seven years
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council
- 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.

Audit and non-audit services
Services supplied to the Council during the year are set out below:

	£
Audit services	
Statutory audit of accounts and Value for Money	£515,000

Communication with those charged with Governance
Communication with those charged with governance is an essential element of the audit. We will discuss with the Audit Committee the scope of our work in advance. We propose that we meet with the General Purposes Committee following the conclusion of our procedures in order to communicate the matters arising

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

Roles and responsibilities

The directors 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 requires that the directors' report must contain a statement that, for each person who was a director when the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware
- they have taken all steps they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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 the 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 the Audit Committee 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.