



**Haringey Council**

Agenda Item

**General Purposes Committee**

**On 23 September 2010**

Report title: **Annual Governance Report – to consider the statutory report of Grant Thornton, the Council’s appointed auditor.**

Report of: **Director of Corporate Resources**

Ward(s) affected: **All**

Report for: **Decision**

**1. Purpose**

1.1 To present the statutory Annual Governance Report of Grant Thornton which reports on their annual audit of the Council’s statutory accounts, value for money and other relevant information.

**2. Recommendations**

2.1 That the Committee consider the contents of this report and any further oral updates given at the meeting by Grant Thornton.

2.2 That the Committee agree the amendments made to the Statement of Accounts 2009/10 and delegates authority to agree any final amendments to the Director of Corporate Resources.

2.3 That the Committee notes the Pension Fund governance report attached.

Report authorised by: **Julie Parker – Director of Corporate Resources**

*J. Parker*

*15/9/10*

**Contact officer: John Holden – Acting Head of Finance – Accounting and Control  
Telephone 020 8489 3720**

### **3. Executive Summary**

- 3.1 The statutory report of Grant Thornton on certain matters relating to the Council's governance responsibilities needs to be considered before a final opinion of the Council's financial statements for 2009/10 is given.
- 3.2 It is expected that an unqualified opinion on the accounts will be given by the deadline of 30<sup>th</sup> September 2010.
- 3.3 It is also expected that an unqualified conclusion will be issued on Value for Money reflecting the Council's arrangements for securing economy, effectiveness and efficiency in its use of resources.

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

- 4.1 None.

### **5. Use of appendices**

**Appendix 1:** Report of the Council's external auditor: London Borough of Haringey Audit 2009-10: Annual Report to those Charged with Governance

**Appendix 2:** Draft copy of the letter of representation from the Council to the external auditor

**Appendix 3:** Report of the Council's Pension Fund external auditor: London Borough of Haringey Pension Fund ("The Fund") Audit of Financial Statements 2009/10 Report to those Charged with Governance

**Appendix 4:** Revised Statement of Accounts for 2009/10

### **6. Local Government (Access to Information) Act 1985**

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

Report of the Director of Corporate Resources to General Purposes Committee on 28 June 2010 – Statement of Accounts 2009/10.

### **7. Background**

- 7.1 The Council's Statement of Accounts 2009/10 was reported to the General Purposes Committee on 28 June 2010. The purpose of this report is for Grant Thornton to present certain matters following their audit of these financial

statements. This reporting requirement is in accordance with the Audit Commission's statutory Code of Practice for Local Government bodies. It requires auditors to report to those charged with governance before the audit of the accounts is finalised.

- 7.2 The attached report (appendix 1) from Grant Thornton sets out the findings of the auditors under various headings and contains an action plan for making further improvements to the accounts closing procedures.
- 7.3 The Council has worked closely with Grant Thornton to improve the 2009/10 accounts process, which has included a jointly agreed action plan, arising from the 2008/09 audit, training sessions to finance staff to ensure improvements in the accounts closure process and working closely with the auditors throughout the accounts and audit process, to ensure a smooth and efficient audit.
- 7.4 The report from Grant Thornton also includes comments on the 2010 Value for Money conclusion. Grant Thornton will present their report on the conclusion to the General Purposes committee in December.
- 7.5 For 2009/10 there are no areas of dispute between the Council and the auditors and all amendments the auditors have asked to be made to the accounts have been actioned. The updated Statement of Accounts is attached as appendix 4 to this report.

## **8. Annual Governance Report**

- 8.1 The detailed Annual Governance report from Grant Thornton is attached. This includes their matters arising and a number of recommendations.
- 8.2 During the course of the audit a number of amendments to the accounts were identified and the Council have agreed to make these changes. The effect of these changes has increased the Council's general fund balance by £612k and earmarked reserves by £221k as at 31<sup>st</sup> March 2010. The key amendments that have been agreed and changed within the final statements are as follows:
  - The PFI liability has been overstated by £221k due to a calculation being based over the incorrect contractual period. This balance has been added to the PFI lifecycle reserve.
  - The accrued income due in 2009/10 in relation to homelessness and the corresponding outstanding debt was understated by £192k. This income results in an increase in the General Fund at 31<sup>st</sup> March 2010.
  - The Council's bad debt provision for sundry debt included a general provision of £420k which is not directly linked to specific debt. Consequently this provision has been released back to revenue and results in an increase in the General Fund at 31<sup>st</sup> March 2010.

A number of amendments have no impact on the council's distributable reserves. These included:

- New accounting standard IFRIC12 required additional disclosure around PFI assets that has now been included in the accounts.
- Fixed assets – there have been a number of reclassifications shown between the lines of the fixed asset note. There has also been additional disclosure made in the note to ensure we are fully compliant with the SORP. Included in these reclassifications is a £3.2m movement of impairment to downward revaluation which results in a change to the Income and Expenditure account but has no impact on the council's general fund.
- The new treatment of the presentation of NNDR and Council Tax debtors in the accounts in 2009/10 has resulted in additional disclosure required and some changes to the Collection Fund statement. These changes have no impact on the Collection Fund surplus for 2009/10.

## **9. Next Steps**

- 9.1 Grant Thornton are required to give their opinion on the accounts by 30<sup>th</sup> September so any outstanding work on the audit needs to be completed before then.
- 9.2 The Director of Corporate Resources is required to sign a letter of representation to acknowledge the responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. A draft of this letter received from Grant Thornton is contained as Appendix 2.
- 9.3 The report from Grant Thornton includes an action plan which requires a formal management response from the Council. The Council has agreed all of the recommendations and its response is included at the end of this report. The Action Plan, including the responses, will be reported to the Audit Committee at its meeting in November 2010 and it will be subsequently monitored by the Audit Committee.
- 9.4 The result of this audit will feed into the Annual Audit and Inspection Letter which needs to be completed and agreed with officers and the Leader of the Council by 31<sup>st</sup> January 2011. It will then be made available to all Councillors and reported to the Cabinet. The final letter will contain references to the final opinion and a summary of the Annual Governance report issues.
- 9.5 The revised pension fund accounts and auditors' report were reported to the Pensions Committee on 16th September 2010. A copy of the auditors' report on the pension fund accounts is attached for information as Appendix 3.

## **10. Financial Implications**

- 10.1 There are no direct financial implications arising from the recommendations in this report other than the increase in the Council's available reserves noted in section 8.

## **11. Recommendations**

- 11.1 That the Committee consider the contents of this report and any further verbal updates given at the meeting from Grant Thornton.
- 11.2 That the Committee notes the contents of the report in Appendix 3: London Borough of Haringey Pension Fund ("The Fund") Audit of Financial Statements 2009/10 Report to those Charged with Governance
- 11.3 That the Committee agree the amendments to be made to the Statement of Accounts 2009/10 and delegates authority to agree any final amendments to the Director of Corporate Resources.

## **12. Head of Legal Services comments**

- 12.1 There are no specific legal implications beyond those stated in the body of this report.

## Action Plan

Rec. No.	Para Ref	Recommendation	Priority	Council response	Implementation date and responsibility
1	-	<p><b>Accounting for council tax using the Collection Fund Adjustment Account</b></p> <p>During our review of the Council's accounting for council tax under the new SoRP requirements identified that the Council had not used a Collection Fund Adjustment Account to reflect the surplus or deficit on collections during the year. Whilst the values involved are not material we would recommend that the Council ensure the correct accounting is applied for 2010/11 in order to prevent a larger problem from arising in future years.</p>	Medium	Agreed. In 2010/11 the Council will review the accounting entries relating to the surplus or deficit on the Collection Fund and transfer the appropriate balance to the Collection Fund adjustment account.	March 2011 Head of Finance – Accounting and Control
2	2.9 - 2.11	<p><b>NNDR debtor due from the Department for Communities and Local Government (DCLG) and tax payers</b></p> <p>Our testing showed a large balance due from DCLG in relation to NNDR pool income not received in respect of previous years. The Council was able to demonstrate that these debts relate as far back as 2006/07 and as such reflect a weakness in the Council's system for reconciling the Council's finance system to its benefits system and recording the receipt of this money in a timely fashion. The Council should ensure that the two systems are reconciled and that the finance system accurately presents the true debt due from the DCLG and tax payers on a more timely basis.</p>	Medium	Agreed. The Council will review the DCLG debt in relation to NNDR to ensure that SAP accurately reflects the correct position and ensure it is reconciled to SX3 on a timely basis. In addition the Council will ensure that any subsequent repayment of the DCLG debt is recorded accurately and on a timely basis.	December 2010 Head of Finance – Accounting and Control

3	2.12	<p><b>NNDR Income from Ratepayers</b></p> <p>Our testing identified a significant difference between the NNDR income recorded in the Collection Fund and the NNDR income as per the NNDR3 return submitted by the Council for certification. The Council should ensure that the calculation for NNDR income to be included in the accounts is based upon the same report used for the NNDR3 return. This should ensure that in future years the two income figures can be agreed.</p>	Medium	<p>Agreed. The Accounting and Control team will work closely with the Benefits and Local Taxation team to ensure that the same reports are used for closing and for compiling the NNDR3 return.</p>	June 2011 Head of Finance – Accounting and Control
4	2.23	<p><b>Fixed Asset Movements</b></p> <p>The Council should ensure that manual checks are performed on the reports run from the fixed asset register to ensure that the movements reported in the fixed asset note are compliant with the SoRP.</p>	Medium	<p>Agreed. The Council will incorporate additional reconciliation checks on the reports generated from the fixed asset register.</p>	March 2011 Head of Finance – Accounting and Control
5	-	<p><b>Sundry Debtor Provision</b></p> <p>Our work on sundry debtors and the bad debt provision held against these balances identified a general provision of £420,000 which had been carried forward from 2007/08 and did not relate to specific balances. It is understood that this provision is held in order to mitigate against bad debts which service lines have not specifically provided against. Accounting standards do not allow the use of such general provisions and as such the Council should ensure a thorough review of all debtors and make provisions against specific balances that are considered doubtful.</p>	Medium	<p>Agreed. The Council will ensure that all bad debt provisions held are against specific debtor balances and not general provisions.</p>	March 2011 Head of Finance – Accounting and Control

6	2.25	<p><b>Depreciation of Council Houses</b></p> <p>As in the previous year the Council continues to use the major repairs allowance (MRA) as a proxy for Council house depreciation. The difference between the depreciation charged and the amount that would be charged under conventional depreciation methods was not considered material. However, the Council should continue with plans to calculate an actual depreciation figure on council dwellings in future years as the size of the impact can fluctuate year on year, particularly with the move to IFRS.</p>	Medium	<p>Agreed. The Council will continue to work towards analysing the Council dwellings' records held on the fixed asset register into their land and building constituents to enable actual depreciation figures to be calculated.</p>	March 2011 Head of Finance – Accounting and Control
7	-	<p><b>Reconciliation between rent and financial accounting systems</b></p> <p>Accounting information regarding rental income and debtors is maintained in a separate accounting system (OHMS) and a manual interface between the systems takes place as part of the closing process. In our review of the homelessness debtor a difference between the two systems was identified that had arisen due to human error when processing the manual interface. The Council should introduce a system whereby manual interfaces such as this are reconciled to ensure that the correct figures are included in the accounts.</p>	Medium	<p>Agreed. The Council will review the reconciliations currently produced between the OHMS system and the Council's finance system SAP and ensure that future reconciliations will identify this potential error from recurring.</p>	December 2010 Head of Finance – Accounting and Control
8	2.27	<p><b>Hostel Valuations</b></p> <p>The Council should formally document the rationale to back up the EUV basis used for valuing hostels, and ensure it is supported by appropriate evidence, to confirm compliance with the CLG housing valuation guidance.</p>	Medium	<p>Agreed. The Council will review the valuation methodology used for hostels to confirm compliance with CLG guidance.</p>	December 2010 Head of Finance – Accounting and Control



9	2.32	<p><b>Classification of changes in asset values</b></p> <p>The reconciliation between revaluation schedule and figures included in the accounts for revaluations identified a group of transaction which had incorrectly been treated as assets with impairments. The Council should perform such as reconciliation as part of their closing procedures to ensure that figures within the accounts accurately reflect the supporting schedules.</p>	Medium	<p>Agreed. The proposed reconciliation will be incorporated into the closing process for 2010/11.</p>	<p>March 2011</p> <p>Head of Finance – Accounting and Control</p>
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