



Alexandra Park and Palace  
Charitable Trust

Report to the Board of  
Trustees on the 2010 Audit

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# Key findings

We have pleasure in setting out in this document our report to the Board of Trustees ("the Board") of Alexandra Park and Palace Charitable Trust ("APPCT") for the year ended 31 March 2010 for discussion at the meeting scheduled for 14 October 2010. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2010.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

<b>Audit status</b>	<p>We are satisfied that the status of the audit is as expected at this stage of the timetable. The principal outstanding matters are:</p> <ul style="list-style-type: none"><li>• Receipt of signed representation letter;</li><li>• Updating our work on the going concern review; and</li><li>• Updating our work on post balance sheet events up to the date of approval of the financial statements by the Board.</li></ul> <p>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 UK GAAP financial statements.</p>
<b>Identified misstatements</b>	<p>Audit materiality was £122,000 (2009: £125,000).</p> <p>There were no uncorrected misstatements. There were two corrected misstatements: to make a transfer between restricted and unrestricted funds and a balance sheet reclassification between debtors and creditors. The amount of the transfer from restricted funds is equal to the capital spend funded by the grant from Haringey Council.</p>
<b>Accounting and internal control systems</b>	<p>We did not identify any significant deficiencies in the financial reporting systems. We have made some minor recommendations for improvements in Section 2.</p>

# 1. Key audit risks

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

## Legal matters

On 25 March 2009, a pre-action protocol letter of claim was submitted by solicitors acting for Firoka (Alexandra Palace) Ltd and Firoka (Kings Cross) Ltd ("Firoka") against Haringey Council as trustee of APPCT. The letter asserted that the trustee was in breach of contract and intimated Firoka's intention to claim damages for breach of contract, specified as the failure of the trustee to complete the grant of a long lease of the Palace to Firoka and to enter into other related commercial agreements with Firoka. The value of this claim is £6.2 million.

On 26 May 2009, a detailed response was sent by solicitors acting for Haringey Council as trustee denying any liability.

No legal proceedings have yet been commenced by either party. No provision has been made in the APPCT's financial statements for either claim.

FRS 12 'Provisions, contingent liabilities and contingent assets' sets out three options of reflecting the claim in the financial statements depending upon whether it is considered to be: probable, possible or remote.

Management concluded for the 2009 financial statements that it was possible that there could be an outflow of economic benefit as a result of a past event. Accordingly, they disclosed the claim in note 26 to the financial statements. Since there have not been any changes in the situation reported in 2009, management have concluded that this treatment remains appropriate for the 2010 financial statements.

## Deloitte response

We wrote to APPCT's legal advisors as part of our normal audit procedures. They have confirmed that there has not been any further action in respect of this matter during the current year. We have reviewed the disclosures made in the financial statements and concur that they meet the requirements of FRS 12.

# 1. Key audit risks (continued)

## Going concern

The FRC published guidance applicable to directors of all UK companies for periods ending on or after 31 December 2009. The guidance focuses on three key principles. Directors should:

- make and document a rigorous assessment of whether the company is a going concern when preparing annual financial statements;
- carry out a review to cover a period of at least twelve months from the date of approval of the financial statements; and
- make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view.

The guidance is explicit that the directors should document their assessment of going concern.

Management have undertaken and documented their assessment of whether APPCT is a going concern. They have concluded that the entity will remain a going concern due to the ongoing financial support which Haringey Council ("the Council") is legally obliged to provide. The Council's current policy is to ensure that funds are provided to APPCT to maintain its bank balance at a pre-agreed level. This mechanism funds operational deficits, working capital movements and capital spend and ensures that APPCT is in a position to settle its third party liabilities as they fall due.

## Deloitte response

We have reviewed the assessment performed by management. We concluded that it meets the requirements of the FRC guidance. We concur with management's conclusion.

# 1. Key audit risks (continued)

## Defined benefit pension scheme liability

Alexandra Palace Trading Limited ('APTL') operates a defined benefit pension scheme for the benefit of 22 scheme members who transferred to the company on 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', the consolidated accounts of APPCT account for APTL's share of the underlying assets and liabilities of the scheme.

At 31 March 2010 the scheme had a deficit of £978,000.

### 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.

The assumptions selected by APTL are within the typical range of assumptions that are commonly used. Selecting appropriate assumptions is not an exact science; however it is important that the directors 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 in previous years and they believe that it is appropriate to use assumptions that are consistent with those used by Haringey Council. We have requested a specific representation from the directors that they have considered these assumptions and believe that they are appropriate.

## Revenue recognition

International Standards on Auditing (UK and Ireland) require us to presume that there is an increased risk of fraud and / or error in relation to revenue recognition.

### Deloitte response

We concluded that for APPCT there is an increased risk that revenue may be misstated through incorrect cut-off of rental income between different accounting periods and that for APTL there is an increased risk that revenue from cash-based sales may be incomplete.

We performed detailed sample testing on: income from the ice rink, food and beverage sales made in the Phoenix public house, and rental income. No misstatements were identified.

# 1. Key audit risks (continued)

## Provision

At 31 March 2010 the total provision for Haringey Council indemnification was £41.3 million (2009: £39.1 million).

	Accumulated balance	Interest	Total
Indemnification 1991/92 to 1994/95	5,005	9,881	14,886
Indemnification 1995/96 to 2009/10	18,187	4,854	23,041
Provision: 1988/99 to 1990/91	755	2,641	3,396
	23,947	17,376	41,323

The increase on the prior year relates to the ongoing operational deficits, movements in working capital and capital spend 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.

FRS 12 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.

### Deloitte response

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

## Capital grant from Haringey Council

APPCT received a grant of £312,000 from Haringey Council for capital works. This has been recognised as restricted voluntary income during 2010.

The grant has been fully utilised during the year to fund additions to tangible fixed assets. Management believe that the purchase of the assets fulfilled the requirements of the restriction, thus extinguishing it. A transfer from restricted funds to unrestricted funds has been recorded to reflect this.

### Deloitte response

We concur with the accounting treatment adopted by management. We noted that the documentation provided by Haringey Council to support the restriction was limited. We have recommended in Section 2 that management should ensure that written documentation is in place for any future grants.

## 2. Accounting and internal control systems

### Control observation

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

### Update on prior year recommendations

#### Disaster recovery plan

<b>Observation</b>	We noted during the 2007/08 audit that a formal disaster recovery plan had 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.
<b>Recommendation</b>	We recommended 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.
<b>Update</b>	A disaster recovery plan has now been prepared.

#### Journals

<b>Observation</b>	<p>We noted during the 2007/08 audit that journals were not independently authorised and reviewed. Due to the manual nature of journals, there was a greater risk that their use may give rise to fraud or error.</p> <p>During the 2008/09 audit we noted that this recommendation had not been fully implemented. We reviewed a sample of journals and noted that not all journals were signed off by a preparer and a reviewer. In addition, not all journals had supporting documentation attached.</p>
<b>Recommendation</b>	We recommended 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.
<b>Update</b>	We noted that a number of journals were both prepared and reviewed by the Head of Finance. We recommend that management continue to develop the strength of the finance personnel to enable greater delegation of journal preparation by the Head of Finance.
<b>Management response</b>	It is not possible to implement this recommendation completely at present due to the size and skill set of the Finance team. Plans are in place to address this in the medium term. In the short term, the scrutiny of financial reports and monthly transactions by budget holders, together with the oversight provided by the Boards, Finance Committee and London Borough of Haringey, constitute important compensating controls.



## 2. Accounting and internal control systems (continued)

### Current year recommendation

#### Formal documentation for grants and loans

**Observation** We noted that formal written documentation is not in place for all funding awarded to APPCT during 2009/10. In the absence of written documentation there is limited evidence of the restrictions imposed on the funding to enable the Board of APPCT to ensure that these restrictions have been properly discharged.

**Recommendation** We recommended that written documentation should be put in place for all grants and/or loans received by APPCT. These documents should be signed by both parties to the transaction to record agreement of the terms imposed. Management should review and document how these terms have been complied with.

**Management response** Agreed, we will endeavour to ensure that funders supply us with adequate documentation in the future.

**Timeframe:** Immediate

**Owner:** Head of Finance

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# 3. Accounting policies and financial reporting

## Upcoming financial reporting developments

For reference, the following developments in UK GAAP may impact the financial statements of APPCT.

### The future of UK GAAP

#### Background

In August 2009, the Accounting Standards Board published a policy proposal 'The Future of UK GAAP'. This recommends a three tier approach to financial reporting in the United Kingdom, with publicly accountable entities applying IFRS as endorsed by the European Union, companies currently applying the FRSSE continuing to do so and other companies applying the IASB's 'IFRS for SMEs'. It is proposed that entities will have the option of moving up the tiers (i.e. a non-publicly accountable company could choose to apply IFRS in full).

#### Potential impact on APPCT

As a charity APPCT would not meet the proposed definition of a publicly accountable entity and would be expected to prepare its financial statements (which are currently presented under UK GAAP) under IFRS for SMEs (although the option of applying full IFRS would be available). The significant changes resulting from a move to IFRS for SMEs would include:

- Defined benefit pension schemes – a net liability approach based on present value of future obligations would be required. There would be simplification of the calculation allowed by omitting certain variables, e.g. future salary increases.

#### Effective date

The timetable for transition is yet to be finalised. However, under the ASB's current proposals the changes to UK reporting will be effective for APPCT's financial year ending 31 March 2013.

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## 4. Other matters for communication

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.

<b>Independence</b>	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.
<b>Non-audit services</b>	<p>We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy.</p> <p>An analysis of professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 is included in Appendix 1.</p>
<b>International Standards on Auditing (UK and Ireland)</b>	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.
<b>Liaison with internal audit</b>	The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate.
<b>Written representations</b>	A copy of the representation letter to be signed on behalf of the board has been circulated separately. Non-standard representations have been highlighted.

## 5. 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 deficiencies 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

30 September 2010

# Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 are as follows:

	2010 £	2009 £
Fees payable to the Trust's auditors for the audit of the Trust's annual accounts	14,750	18,250
Fees payable to the Trust's auditors for the audit of the Trust's subsidiary pursuant to legislation	14,750	18,250
<b>Audit services provided to all group entities</b>	<u>29,500</u>	<u>36,500</u>
Taxation services	3,250	3,250
<b>All other services</b>	<u>3,250</u>	<u>3,250</u>
<b>Total</b>	<u>32,750</u>	<u>39,750</u>

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