



**Haringey** Council

Agenda Item

**Audit Committee**

**On 2<sup>nd</sup> November 2010**

**Report title: Annual Statement of Accounts – outcome of the annual audit for 2009/10 and review of the annual governance statement**

**Report of: Director of Corporate Resources**

**Ward(s) affected: All**

**Report for: Information**

**1. Purpose**

1.1 To update the Committee on the final outcome of the annual audit for 2009/10 and to agree an action plan flowing from the audit of the accounts and auditor's 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: Kevin Bartle – Lead Finance Officer**

**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 following their audit of the Council's accounts 2009/10 was approved by the General Purposes Committee on 23rd September 2010. 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 the Director of Corporate Resources to General Purposes Committee on 28 June 2010 – Statement of Accounts 2009/10

Report of the Director of Corporate Resources to General Purposes Committee on 23 September 2010 – Annual Governance Report

### **6. Background**

- 6.1 At the General Purposes committee meeting of 23rd September 2010, Grant Thornton presented to members the findings from their audit of the accounts for 2009/10, prior to signing off the audit by the statutory deadline of 30<sup>th</sup> September 2010.
- 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 30<sup>th</sup> September 2010, in the event the auditors issued the opinion on 27<sup>th</sup> September 2010.
- 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 2009/10 accounts on 7 June 2010 (prior to submission to the auditor of the full draft accounts on 28 June), which enabled the auditors to carry out a technical review of the accounts. This review was fed back to Council officers prior to the 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.

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

- The Council managed an effective closedown process and worked with the auditors to ensure a more rapid completion of the audit than in previous years.
- The Council continues to secure improvements in valuing and accounting for its fixed assets although the audit findings suggest there is scope for further development, particularly in light of the requirements under international accounting standards applicable from 2010/11.
- The Council is developing its response to the forthcoming comprehensive spending review and will need to work hard to deliver the anticipated significant financial challenge ahead.

## **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 and management response for improvements arising from the annual audit. This action plan is attached at Appendix A to this report with the management responses.

## **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 beyond those stated in the body of this report.

## Appendix A - 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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