



Haringey Council

Agenda item:

[No.]

**Audit Committee**

**On 3 February 2011**

Report Title: **Annual Audit Letter 2009/10**

Report of: **Director of Corporate Resources**

Signed :

*J. Pawke* 13/1/11

Contact Officer : Kevin Bartle, Lead Finance Officer

Wards(s) affected: **All**

Report for: **Key Decision**

**1. Purpose of the report**

1.1. To receive the Annual Audit Letter for 2009/10 from the Council's external auditors, Grant Thornton and to note the issues raised and actions being taken.

**2. State link(s) with Council Plan Priorities and actions and /or other Strategies:**

2.1. The Annual Audit Letter is part of the formal process of external audit and provides an independent assessment of the Council's position in terms of progress in meeting its strategic objectives.

**3. Recommendation**

3.1. To receive the Annual Audit Letter for 2009/10 and to note the Council's response.

**4. Summary**

4.1. The Annual Audit Letter for 2009/10 summarises the key issues arising from the work undertaken by the external auditors, Grant Thornton, during their 2009/10 audit. The main two areas of audit work are in respect of the audit of the accounts and the Value for Money conclusion.

- 4.2. In terms of the audit of the accounts for 2009/10 the Council received an unqualified opinion from the external auditors. This was formally reported to the General Purposes committee on 23 September 2010 within the statutory deadline.
- 4.3. In respect of the Value for Money conclusion, the auditors concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010. This was formally reported to the Audit Committee on 2 November 2010.
- 4.4. The auditors work on the certification of grant claims and returns is ongoing. The results of that work will be formally reported to the April 2011 Audit Committee.
- 4.5. The report also outlines how the Council is addressing the key areas for action raised by external audit in the Annual Audit Letter.

## **5. Head of Legal Services Comments**

- 5.1. The Head of Legal Services has been consulted on the content of this report and has no specific comment to make.

## **6. Service Financial Comments**

- 6.1. The resource implications for implementing the actions recommended in the Annual Audit Letter have been considered as part of the overall financial and business planning process and are included within the previously approved budget.

## **7. Use of appendices /Tables and photographs**

- 7.1. Annual Audit Letter 2009/10 – Grant Thornton

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

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

- Report of Director of Corporate Resources to General Purposes Committee on 23 September 2010 – Annual Governance Report – to consider the statutory report of Grant Thornton, the Council's appointed auditor
- Report of Grant Thornton to Audit Committee on 2 November 2010 – Value for Money 2009/10

## **9. Background**

- 9.1. The Annual Audit Letter for 2009/10 is compiled by the Council's appointed external auditors Grant Thornton. It summarises the conclusions and significant

issues arising out of the audit work for the Council in the preceding year. It includes information from the audit of the Council's accounts, the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources and the certification of claims and returns.

- 9.2. The Annual Audit Letter for 2009/10 from Grant Thornton is an important external assessment of the Council's overall position.
- 9.3. The auditors' findings have been reported previously to the General Purposes Committee and to the Audit Committee and actions agreed in response. The Audit Committee is responsible for monitoring the implementation and progress of the detailed actions, which are summarised in this report.
- 9.4. At the time of writing this report, the Annual Audit Letter will have been presented to the Cabinet at its meeting of 25 January 2011; any feedback from that meeting will be reported orally to this committee.

## **10. Annual Audit Letter 2009/10**

- 10.1. This is the third year of Grant Thornton operating as the Council's external auditor. Council officers have worked closely with Grant Thornton in preparation for and during the audit and a positive relationship continues to exist.
- 10.2. In relation to the Council's 2009/10 accounts, an unqualified opinion has been received. This is a positive outcome for the Council.
- 10.3. The auditors' Value for Money (VFM) concluded that "the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010".
- 10.4. The Council has improved its management arrangements in a number of areas, including data quality, commissioning and procurement and asset management and the auditors' view is that the Council's implementation of IFRS is on track. They also highlighted a number of areas for improvement. Council responses to these key areas are set out below.
- 10.5. Audit work on the certification of grant claims and returns is ongoing. The outcome of this work will be formally reported to the Audit Committee in April 2011.

## **11. Recommendation**

- 11.1. To receive the Annual Audit Letter for 2009/10 and to note the issues raised and actions being taken. Progress on the implementation of actions will be periodically reported to members.

## 12. Summary Actions

12.1. A summary of the key actions are set out in the table below.

Recommendations	Response	Responsible Officer
<p>The impact of the changes to local government funding are taken into account in all future financial plans - in doing this the Council will need to review the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery</p>	<p>In the light of the government funding reductions, the Council's overall service structure is being reviewed alongside detailed individual service reviews. These reviews are taking place as part of the Medium Term Financial Planning which includes an extensive budget consultation process, Equality Impact Assessments and robust budget scrutiny.</p>	<p>Chief Executive and the senior management team</p>
<p>The Medium Term Financial Strategy is reviewed in the light of the Spending Review and is subject to robust stress testing and sensitivity analysis</p>	<p>The process of reviewing the Medium Term Financial Strategy is already well underway. A detailed report was submitted to Cabinet on 21<sup>st</sup> December 2010 and further reports are planned for January and February 2011. The scrutiny of investment and savings proposals commenced in January 2011. The review process will continue to be supported by robust budget monitoring arrangements that ensure that all service proposals are subject to sound financial analysis.</p>	<p>Director of Corporate Resources</p>
<p>It continues to emphasise the importance of data quality, including housing benefit information, to prevent any relaxation in compliance</p>	<p>As a result of concerns raised in the previous Annual Audit Letter the Council has put in place a more rigorous regime for maintaining the integrity of its data quality. The associated systems and procedures will continue to be closely managed and monitored.</p>	<p>Director of Corporate Resources</p>

<b>Recommendations</b>	<b>Response</b>	<b>Responsible Officer</b>
There is a continued focus on the production of its first IFRS compliant accounts in 2010/11, including ensuring that there are sound arrangements for the valuation and accounting for property assets	The Council has a detailed project plan responsible for implementing the new IFRS. We will continue to work closely with Grant Thornton to ensure timely implementation and careful management of the project risks.	Director of Corporate Resources





## **London Borough of Haringey**

Annual Audit Letter 2009/10

26 November 2010

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# 1 Introduction and Key Messages

## **Purpose of this letter**

- 1.1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year at The London Borough of Haringey (the Council). Although this letter is addressed to the members of the Council, it is also intended to communicate the significant issues we have identified to key external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **Responsibilities of the external auditors and the Council**

- 1.2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## **What this letter covers**

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
  - auditing the 2009/10 year end accounts (Section 2)
  - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 A list of all the reports issued during the year is provided at Appendix A, whilst Appendix B sets out our actual and budgeted fees for 2009/10.

## **The Economy**

- 1.8 The Government's most urgent priority in the current financial climate is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment
  - reducing ring-fenced central government grants
  - abolishing Local Area Agreements
  - undertaking a full review of local government finance
- 1.9 The October Spending Review (SR) will have a significant impact on the Council, its plans and its finances. The SR announced a 28% cut in DCLG grants, estimated job losses within the public sector at 490,000 and £7bn of savings are required to be made to the welfare budget, mainly through benefit cuts. Cuts are being top-loaded with the greatest reductions being required in the first year of the SR period. The June Budget announced the Government's intention to work with local authorities to freeze council tax in England in 2011-12. The SR announced that local authorities who freeze their council tax in 2011-12 and keep their bills flat for the next four financial years will have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review period. As a large urban authority with a reliance on grant funding, the financial challenge for Haringey is significant, with the anticipated impact of the SR requiring savings of £45 - £50m to be made in 2011-12 alone.
- 1.10 The issues highlighted in this Annual Audit Letter should be understood within the context of the significant changes to government policy and the reduction in financial resources outlined above.

## **Key messages**

### **Accounts audit**

- 1.11 We issued an unqualified opinion on the Council's 2009/10 accounts on 27 September 2010, ahead of the statutory certification deadline. Our opinion confirmed that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year. The audit process was efficient and well managed, although there have been a number of audit adjustments. This has affected fixed asset accounting in particular following implementation of a new closing procedure. Further detail on our accounts audit work is detailed in section 2.

### **Value for Money Conclusion**

- 1.12 We issued our annual Value for Money (VFM) conclusion on 27 September 2010. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

1.13 Our work highlighted that the Council had improved its management arrangements in a number of areas, including data quality, commissioning and procurement and asset management. We also highlighted a number of areas for improvement and agreed an action plan with management to implement the associated recommendations. Further detail on our work in this area is detailed in section 3.

#### **International Financial Reporting Standards**

1.14 From 2010/11 the Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). Our work to date on this area confirms that, the Council's IFRS implementation plan remains on track. However, the preparation and review of the 2009/10 IFRS restated accounts represents the first major test and the Council must build on its good work to date.

#### **Key areas for Council action**

1.15 The Council will need to ensure that:

- the impact of the changes to local government funding are taken into account in all future financial plans - in doing this the Council will need to review the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery
- the Medium Term Financial Strategy is reviewed in the light of the SR and is subject to robust stress testing and sensitivity analysis
- it continues to emphasise the importance of data quality, including housing benefit information, to prevent any relaxation in compliance
- there is a continued focus on the production of its first IFRS compliant accounts in 2010/11, including ensuring that there are sound arrangements for the valuation and accounting for property assets.

1.16 Further details on these key messages can be found in sections 2 and 3 of this Letter.

## 2 Audit of Accounts

### **Introduction**

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 27 September 2010, ahead of the statutory certification deadline of 30 September 2010. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to those charged with governance (for the accounts audit this is defined as the General Purposes Committee). We presented our Annual Report to those Charged with Governance at the General Purposes Committee on 23 September and summarise only the key messages in this Letter.

### **Audit of the accounts**

- 2.3 The Council managed a rapid closedown process presenting us with the draft financial statements on 28 June 2010 and, as in previous years, they were supported by good quality working papers.
- 2.4 Closedown was well managed by the Council and there is clear corporate commitment to producing timely final accounts. The audit process has been efficient and well managed, although there have been a number of audit adjustments, particularly affecting fixed asset accounting.
- 2.5 The key messages arising from our accounts audit are:
  - the Council managed an effective closedown and audit process allowing early resolution of audit findings as they arose
  - the Council continues to improve in valuing and accounting for its fixed assets although our audit findings suggest that there is scope for further development, particularly in light of the requirements under International Financial Reporting Standards (IFRS) applicable from 2010/11.

### **Financial performance**

- 2.6 The Council reported a deficit on the Income & Expenditure account of £141.2million (2008/09 £129.9million) and a general fund balance of £10.5million.
- 2.7 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council has performed well to date by maintaining a robust budgetary control system and early identification of cost pressures. However, maintaining and building on these arrangements will be critical with the anticipated impact of the SR requiring savings of £45 - £50m to be made in 2011-12 alone, whilst the Council is experiencing continued financial pressures from demand led services.

- 2.8 The scale of the challenge faced has been recognised by Members and the Council will need to continue to work hard to deliver the anticipated significant financial challenge ahead.
- 2.9 We will continue to keep the Council's financial position under review as part of our 2010/11 audit including a risk based assessment of the robustness of the Medium Term Financial Plan, the assumptions made within it and the reasonableness of associated savings plans. This is in line with the new approach to local Value of Money audit work introduced by the Audit Commission.

### **Financial systems**

- 2.10 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 accounts. We also performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

### **Annual Governance Statement**

- 2.12 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Our work confirmed that the AGS was consistent with our knowledge of the Council and no issues arose from our work.

### **International Financial Reporting Standards**

- 2.13 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The IFRS transition at the Council is being led by the finance team and a clear project plan is in place.
- 2.14 Our work confirms that for the Council, the overall project plan remains on track. Key dates for preparing the opening balance sheet and restating the 2009/10 accounts and skeleton IFRS compliant statements are expected to be achieved. Our view is that the Council has placed a good focus on IFRS, but that the preparation and review of the 2009/10 restated accounts represents the first major test.
- 2.15 We will continue to review progress as part of our planned programme of work for 2010/11.

**Grant Claims and Returns**

- 2.16 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2008/09 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.
- 2.17 We certified a total of 14 claims in 2008/09 of which one claim was qualified, the housing and council tax benefit grant claim. Action arising from our recommendations concerning this qualification is being monitored by the Audit Committee.
- 2.18 We are currently in the process of certifying the 2009/10 grant claims and returns. Once this work is complete we will report in full on the findings of our work.

## 3 Value for Money

### **Introduction**

- 3.1 We issued our annual Value for Money (VFM) conclusion on 27 September 2010, at the same time as our accounts opinion. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 We set out the basis of this conclusion and the results of our assessment in our report presented to the Audit Committee on 2 November. In this Letter, we summarise the key messages from this work alongside relevant findings.

### **2009/10 VFM conclusion**

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 Value for Money conclusion was informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 Key highlights within the Council's arrangements were that the Council had:
- improved its management arrangements in a number of areas, including data quality (previously assessed as inadequate), commissioning and procurement and asset management
  - demonstrated strong and robust arrangements for the management of its workforce against the criteria set out by the Commission.
- 3.6 The main areas for further development were around:
- ensuring that the impact of significant reductions in future funding and the requirement to find savings beyond those that had been anticipated and planned for as part of the Medium Term Financial Strategy are taken into account in all future financial planning
  - addressing some significant in year challenges and robustly profiling the impact of these in future financial plans.
  - ensuring a continued emphasis on the importance of data quality to prevent any relaxation in compliance and a potential return to an "inadequate" assessment for data quality.
- 3.7 On the basis of the work completed, we issued an unqualified Value for Money conclusion.

**Approach to local value for money audit work from 2010/11**

- 3.8 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has adopted a new approach to local value for money audit work with key national stakeholders.
- 3.9 From 2010/11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience
  - prioritising resources within tighter budgets.
- 3.10 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.



## 4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Director of Corporate Resources, in her capacity as the Council's s151 officer, and will be presented to the Audit Committee on 3 February 2011.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

**Grant Thornton UK LLP**  
**26 November 2010**

## A Reports issued in relation to the 2009/10 audit

Report	Date Issued
Audit Plan	December 2009
Partnership working	March 2010
Accounts Audit Approach Memorandum	June 2010
Review of Leaseholder Service Charges	June 2010
Grants Plan 2009/10	August 2010
Annual Report to those Charged with Governance	September 2010
Value for Money	October 2010
Annual Audit Letter	November 2010
Grant Certification Summary Report	due December 2010

## B Audit and Other Fees

Audit Area	Budget 2009/10 £	Actual 2009/10 £
Financial statements	340,000	340,000
VFM conclusion / Use of resources	175,000	175,000
<b>Total Code of Practice fee</b>	<b>515,000</b>	<b>515,000</b>
Certification of grant claims and returns*	100,000	TBC

\*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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