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Alexandra Park and Palace Charitable Trust ("APPCT")

Report to the Board on the 2011 Audit

Final Report

14 July 2011

Contents

Introduction

Key findings on audit risks and other matters

Our findings on the key audit risks and other matters are as follows:

- **Revenue recognition** – we identified a risk in relation to the cut off of income in APPCT and completeness in APTL. The results of our testing proved satisfactory, with no issues to note.
- **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. No legal claims have been made by either party. Therefore, management have concluded that this should continue to be disclosed as a contingent liability. We concur with their conclusion.
- **Accounting for the ice rink** – APPCT undertook a project to refurbish the ice rink during 2010/11. The total additions to tangible fixed assets were £2.3 million, which were included within the 'improvements to palace and park' category. We have considered the accounting treatment for these additions and the useful economic lives selected by management and concur with their conclusions. Negotiations are ongoing with the contractor over the final account. No additional liability, nor reduction in the contract value, has been recognised by management and we agree with this accounting treatment.
- **Contract with Heineken** – APTL entered into a significant contract with Heineken during the year which will allow Heineken to locate the Dutch Olympic delegations headquarters outside the Olympic Village (called 'Heineken House') at Alexandra Palace during London 2012. We reviewed the contract and considered the accounting treatment adopted by management in respect of the transactions arising during the year. We concur with the treatment adopted.
- **Defined benefit pension scheme** – APTL operates a defined benefit pension scheme for the benefit of 4 employees. The net pension liability recognised at 31 March 2011 was £349,000. We reviewed the actuarial assumptions adopted by management and concluded that they are reasonable. We considered the accounting treatment of the change in the assumption for future pension increases from RPI to CPI. We concur with the treatment adopted.
- **Provision to Haringey Council** – At 31 March 2011 the total provision for Haringey Council indemnification was £42.9 million (2010: £41.3 million). The increase on the prior year relates to the ongoing operational deficits, movements in working capital and capital spend of APPCT. We concur with the accounting treatment adopted by management.
- **Going concern** – the financial statements have been prepared on a going concern basis. We have considered the basis on which management have reached this conclusion and the disclosures made in the financial statements. We have concluded that the approach taken is reasonable.

Identified misstatements and disclosure deficiencies

Audit materiality was £116,000 (2010: £122,000). There are no identified uncorrected misstatements or disclosure deficiencies.

Introduction (continued)

Completion of the audit and the auditor's report
The status of the audit is as expected at this stage of the timetable. On satisfactory completion of the outstanding matters listed below, we anticipate issuing an unmodified audit opinion on the truth and fairness of the consolidated financial statements. 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. • Receipt of signed letter of representation; and • Updating our work on the going concern review and post balance sheet events to the date of approval of the financial statements.

1. Key audit risks

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

1. Revenue recognition	Deloitte response
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.	We identified 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 rental income invoiced around the year end, and on income from the ice rink, food and beverage sales made in the Bar and Kitchen. No misstatements were identified.

2. Legal matters	Deloitte response
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 ways of reflecting the claim in the financial statements depending upon whether it is considered to be: probable, possible or remote. Management have concluded that it is 'possible' that there could be an outflow of economic benefit as a result of a past event. Accordingly, they have disclosed the claim in note 26 to the financial statements.	We wrote to APPCT's legal advisors as part of our normal audit procedures. They have confirmed that there has not been any further substantive 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)

3. Accounting for the ice rink	Deloitte response
APPCT undertook a project to refurbish the ice rink during 2010/11. The total additions to tangible fixed assets were £2.3 million, which were included within the 'improvements to palace and park' category. Management have selected useful economic lives as follows: • 10 years for the refurbishment of the ticket office, entrance foyer, changing rooms and skate hire facilities • 20 years for the remainder of the ice rink infrastructure and equipment The average life expectancy of ice arenas quoted by the Canadian Recreation Facilities Council is 32 years. Management consider that the life of the ice rink at Alexandra Palace will be shorter as the rink has been installed into a historic building. The life of the old ice rink was 22 years. Negotiations are ongoing with the contractor over the final account. No additional liability, nor reduction in the contract value, has been recognised by management at 31 March 2011.	We concur with the accounting treatment adopted by management.

4. Contract with Heineken	Deloitte response
APTL entered into a large contract with Heineken Nederland BV ("Heineken") during the year ended 31 March 2011 which will allow Heineken to locate the Dutch Olympic delegations headquarters outside the Olympic Village (called 'Heineken House') at Alexandra Palace during London 2012. An element of the hire charges payable by Heineken was due on the date of the agreement and was settled before 31 March 2011. This payment on account has been recorded as deferred income at 31 March 2011. APTL incurred legal fees during the year in respect of entering into the contract. These fees have been recorded as a prepayment at 31 March 2011.	We concur with the accounting treatment adopted by management.

1. Key audit risks (continued)

5. Defined benefit pension scheme	Deloitte response
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 4 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', APTL is required to account for its share of the underlying assets and liabilities of the scheme. At 31 March 2011 the net pension liability recognised by APTL was £349,000 (2010: £978,000). The reduction in the liability was principally due to an actuarial gain of £654,000, of which £300,000 arose as a result of the announcements made by the UK Government in 2010 that statutory pension increases will now be linked to the Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI"). The move from RPI to CPI has been treated by management as a change in assumptions rather than a change in benefits and, as a result, has been recorded in the Statement of Total Recognised Gains and Losses rather than the Profit and Loss Account.	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 trustees 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 will request a specific representation from the trustees that they have considered these assumptions and believe that they are appropriate. We concur with the accounting treatment adopted by management for the change in the basis of statutory pension increases from RPI to CPI.

2. Other matters

1. Provision to the Council

Background

At 31 March 2011 the total provision for Haringey Council indemnification was £42.9 million (2010: £41.3 million).

	Accumulated balance	Interest	Total
Indemnification 1991/92 to 1994/95	5,005	9,881	14,886
Indemnification 1995/96 to 2010/11	19,730	4,854	24,584
Provision: 1988/99 to 1990/91	755	2,641	3,396
	25,490	17,376	42,866

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.

In addition to this provision for Haringey Council indemnification, APPCT has recognised a loan creditor of £2.1 million relating to Haringey's 12 year loan to fund the ice rink refurbishment. This is in addition to the provision discussed above, and is interest-bearing.

Deloitte response

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

2. Going concern

Background

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.

3. Accounting and internal control systems

Control observations

During the course of our audit we identified the following control observations:

Contract signing	
Description	We identified one contract that was signed but no date had been included to evidence the point at which both parties were bound by the contract terms.
Recommendation	All contracts entered into should document the date on which they were signed by both parties.
Management response	Agreed. This will be implemented going forwards.
Timeframe:	Immediate
Owner:	Senior management team

Tangible fixed assets - additions	
Description	We noted that the fixed asset additions relating to the ice rink have been recorded in the fixed asset register based on the purchase invoices received. This will make it difficult to account for future disposals or replacements of components of the asset.
Recommendation	The assets purchased should be disaggregated on the fixed asset register to enable future disposals or replacements to be reflected accurately.
Management response	Agreed. This will be done once the final account has been settled with the main contractor and the final cost can be properly disaggregated.
Timeframe:	Upon completion of the final account
Owner:	Head of Finance

Tangible fixed assets - disposals	
Description	We identified that some fixed assets were disposed of during the year but not removed from the fixed asset register. Finance had not been informed of the disposals by the relevant departments.
Recommendation	Management should ensure that there is an effective process for departments to notify finance of any fixed asset disposals.
Management response	A formal policy and procedure for fixed asset disposals was introduced in May 2010 and communicated to all staff via email and the monthly staff meeting. Unfortunately, some staff had not complied with the stated policy during the year. The policy and correct procedures for disposing of fixed assets have since been reiterated to all staff.
Timeframe:	Completed
Owner:	General Manager

4. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) we are required to report to you on the matters listed below.

Confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Non-audit services	In our opinion there have not been any breaches of APB Revised Ethical Standards for Auditors in respect of the supply of non audit services.
Fees	Details of the non audit services provided by Deloitte and the fees charged in relation thereto in the period from 1 April 2010 to 31 March 2011 are presented below.

	2011 £	2010 £
Fees payable to the Trust's auditors for the audit of the Trust's annual accounts	15,340	14,750
Fees payable to the Trust's auditors for the audit of the Trust's subsidiary pursuant to legislation	15,340	14,750
Audit services provided to all group entities	30,680	29,500
Taxation services	3,250	3,250
All other services	3,250	3,250
Total	33,930	32,750

In addition to this, in June 2011 a further fee of £1,500 was agreed for the preparation of a new template for the financial statements.

5. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" attached as Appendix 1 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.

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

Reading
14 July 2011

Appendix 1: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the trustees on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with UK GAAP;
- to express an opinion as to whether the accounts have been prepared in accordance with the Charities Act; and
- to form an opinion on whether adequate accounting records have been kept by the charity.

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

Materiality (cont'd)

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.

We determine materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also local considerations of subsidiaries and divisions of the group, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

For local statutory reporting purposes, individual materiality levels will be set for each of the subsidiary companies.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give trustees the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.

Safeguards and procedures (cont'd)

- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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