# London Borough of Haringey

## Annual Report to Those Charged With Governance (ISA 260)

**September 2011**

## Contents



## Appendices



 

# 1. Executive summary

## Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Corporate Committee of London Borough of Haringey (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Corporate Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Audit conclusions

**Financial statements opinion**

We were presented with draft financial statements and accompanying working papers on 30 June 2011 by the deadline. The working papers were of a good standard and the financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS).

We identified a £236k audit adjustment that impacts on the Council's income and expenditure position (comprehensive income and expenditure statement). This related to the estimate used for the housing benefit creditor within the accounts being higher than the amount subsequently included on the housing and council tax benefits claim submitted. However, on the grounds of materiality and a past history of clawbacks the Council has chosen not to process it. As required by ISA260 any unadjusted errors are reported at the end of Appendix B, Audit Adjustments. The adjustments noted on the balance sheet (statement of financial position) were of a presentational nature only and had no overall net effect on the Council's reported assets and liabilities.

Based on our work to date, there are a number of adjustments required to the financial statements, the most significant being:

- The Alexandra Park & Palace accounts to be consolidated into the Council's Group accounts following the conversion to IFRS. The net impact of this on the Group balance sheet will be immaterial. The debt of £42.9m owed to the Council by AP&P will be reinstated onto the Council's balance sheet, along with the introduction of a £42.9m bad debt provision against the long term debtor.
- Property, plant & equipment to increase by £11.855m due to depreciation on council dwellings not having been reversed in previous years.

 

The key messages arising from our audit of the Council's financial statements are:

- At this stage the Council has been unable to provide copies of all of the contracts we had selected for testing. The Council should reinforce the message that where information is requested from other departments it should be provided as quickly as possible to facilitate the audit completion deadline being met.
- The Council needs to ensure the valuation team adequately document their assumptions in order to support the estimates and judgements within the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Corporate Committee on 27 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

**Value for Money Conclusion**
In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified conclusion.

Further details of the outcome of our value for money review are given in section 3.

## The way forward

Matters arising from the financial statements audit have been discussed with the Director of Corporate Resources. We have made a number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Director of Corporate Resources and the senior finance team.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 30 September deadline.

## Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.


## Acknowledgements

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.


**Grant Thornton UK LLP**

**September 2011**

 

# 2. Key audit issues

## Matters identified at the planning stage

The issues below were communicated to you in our Audit Approach Memorandum dated 20 June 2011. Our responses to the matters identified are detailed below:

| Issue | Audit areas affected | Work completed | Findings and conclusions |
|---|---|---|---|
| Accounting under IFRS | All areas of the financial statements | • A specific review of the Council's preparedness for IFRS has been completed. The results of this review have been reported to the Audit Committee in April 2011 in a red/amber/green (RAG) format.<br>• We have maintained on-going liaison with the Finance Team regarding emerging IFRS issues and guidance and we have provided support for any proposed changes to accounting treatment being considered under IFRS. | • We have agreed with the Council that under IFRS the accounts of Alexandra Park & Palace Trust should be consolidated into the Council's Group Accounts.<br>• From work carried out during the audit, we have not identified any other areas where there have been any significant departures from the requirements of the CIPFA Accounting Code. |
| Financial performance pressures | All areas of the financial statements | • We have monitored the Council's financial position throughout the year through review of Cabinet papers and liaison meetings with the Director of Corporate Resources.<br>• We have substantively tested revenue and expenditure.<br>• We have completed a review of the Council's Financial Resilience. | • Our review of Financial Resilience concluded that overall, the Council's level of available reserves and contingencies provide adequate cover for known future financial risks.<br>• We have concluded that the Council's reported underspend of £51k was materially accurate. |

 

| Issue | Audit areas affected | Work completed | Findings and conclusions |
|---|---|---|---|
| **Revaluation of fixed assets** | **Property, plant and equipment** | • We held early discussions with management to gain assurance that revaluations completed would be in line with IFRS requirements.<br>• We substantively tested a sample of revaluations completed during the year, agreeing the amounts to the valuation reports and carrying out a review of the assumptions used by the valuer.<br>• We confirmed which schools in the borough are in the process of transferring to Academy status. We obtained evidence as to the date of the authorisation to become and Academy and the date of transfer. | • We have agreed an adjustment of £383k for 6 investment property units that had not been revalued.<br>• We agreed with the Council that the transfer of Alexandra Park and Woodside Schools to Academy status are non-adjusting Post Balance Sheet Events, as both the authorisation and transfer dates occur after 1st April 2011. The Council has agreed to include appropriate disclosure within the accounts.<br>• See page 10 for further details on the revaluation of PPE.<br>• We are in the process of completing work to confirm that where negative revaluations have been made during the year they have been taken to Statement of Comprehensive Income if appropriate to do so. |
| **Valuation of Council dwellings** | **Property, plant and equipment** | • We agreed with the Council that its use of the Major Repairs Allowance (MRA) as a proxy for depreciation was acceptable under the Code.<br>• We reviewed the valuation of council dwellings including the uplift applied to those dwellings where a beacon valuation had not been ascertained. | • We noted a lack of documented evidence to support the assumptions used by the valuation team to derive the valuation. Clarity ISA requirements mean that judgments of this nature need to be adequately supported and we have included this as a recommendation for future years.<br>• Although the use of MRA as a proxy for depreciation is allowable, as this is not standard practice for all authorities we agreed with the Council that further disclosure should be included within the accounts. The Council should also consider this treatment in light of the future HRA self-financing reforms.<br>• We noted a difference between the value of council dwellings per the valuation report and per the accounts amounting to £11,855k. This related to depreciation from previous years not reversed out as it should be, as these assets are revalued every year. An adjustment has been agreed to increase the value of council dwellings and decrease the capital adjustment account. |

 

| Issue | Audit areas affected | Work completed | Findings and conclusion |
|---|---|---|---|
| **Alexandra Park and Palace Trust** | **Group accounts consolidation** | • We reviewed whether the Trust should be consolidated against IAS 27 - Consolidated and Separate Financial Statements.<br>• We liaised with the Council as to the impact of this consolidation. At the time of the draft accounts being prepared, it had not been possible to receive clarification from the Charity Commission at to whether consolidation could have an adverse impact on the Trust's charitable status.<br>• We also received information during the audit from the Audit Commission which helped to support the decision to consolidate. | • The Charity Commission confirmed to the Council in August 2011 that consolidation would have no impact upon the Trust's charitable status.<br>• The Council has subsequently agreed to consolidate the Alexandra Park and Palace (AP&P) Trust accounts into the Council's Group Account statements.<br>• The Council has been funding AP&P's deficit and the consolidation will lead to the £42.9m owed to the Council being reinstated onto its balance sheet. A £42.9m bad debt provision against the long term debtor will also be introduced. This has been restated for all three years of the balance sheet disclosed within the accounts.<br>• During the course of the audit the management team identified a further adjustment relating to a £2.103m loan made to AP&P during the year to fund the refurbishment of the ice rink. This had been incorrectly treated as Revenue Expenditure Funded From Capital Under Statute. A long term debtor will be introduced to the accounts as AP&P are repaying the loan over a 12 year term. |
| **Finance support functions review** | **All areas of the financial statements** | • We discussed the new structure for finance as part of our regular liaison meetings with the Council.<br>• We worked with the Council to manage the risks inherent to the team preparing the accounts not being in place for the duration of the audit work. | • The Council were able to provide us working papers that were of a good standard and answered most of our queries within a reasonable time. Exceptions were noted outside of finance where information was requested from other departments. The Council will need to ensure that other departments understand that information should be provided to the audit team as quickly as possible to enable the work to be completed.<br>• The team who will be responsible for preparing the financial statements next year will be different to previous years. Although some of these team members have been involved in resolving audit queries this year, the Council should still ensure that it has appropriately captured the knowledge of the outgoing team. |

 

| Issue | Audit areas affected | Work completed | Findings and conclusion |
| --- | --- | --- | --- |
| Consultant contracts | Expenditure | • Based on findings from Internal Audit's review of the use of Consultants, it was noted procedures as laid out by the Standing Orders were not always complied with. We suggested that weaknesses identified in this area should be considered in the context of the Annual Governance Statement.<br><br>• A wider risk was identified of not having contracts in place as required within the parameters specified by Standing Orders for all expenditure types, not just expenditure on consultants. From the payments listing, a sample of payments were selected and checked to ensure this complied with the Contracts Standing Orders in particular ensuring that a signed contract was in place. | • There were no issues with the majority of the small sample of contracts we reviewed. However, we did find that in one case the contract in place had not been signed. This represents a control issue in that signing the contract acts as the authorisation for payments to be made to that supplier. It also represents a potential value for money concern as performance should be monitored against the requirements of an agreed, signed contract.<br>• At time of writing the work is still ongoing on the rest of our sample. For two contracts the Council has as of yet only been able to provide Deeds of Novation, which give assurance that the supplier has been authorised. The signed contracts in these cases had been archived and subsequently destroyed by the archiving company without the authorisation of the Council. No duplicate copies have yet been located. The lack of access to signed contracts specific to these projects again raises a potential value for money concern.<br>• For the remaining part of our sample we are yet to receive any contracts for review, although the Council is continuing its efforts to retrieve them. It is our understanding that in these cases there are Framework agreements in place, and that the Council's legal team have confirmed to procurement that this negates the need for individual signed contracts for specific projects. Until we have sight of the Framework agreements we are unable to reach a view as to whether this arrangement is in accordance with the Council's standing financial orders.<br>• We will update the Committee verbally as to any further progress on our testing as at the date of the meeting. |

 

| Issue | Audit areas affected | Work completed | Findings and conclusion |
|---|---|---|---|
| Redundancies | Provisions | • Based on discussions with management, with the ongoing restructure there were likely to be redundancies which the Council would need to account and disclose for based on IAS 37 - Provisions and Contingent Liabilities.<br>• We reviewed the provision within the draft accounts and updated our understanding of redundancy amounts agreed since that time. | • The Council's calculation of the redundancy provision in the draft accounts was a reasonable estimate at that time. However further redundancies have been agreed since then that should be recognised as a provision in 2010/11 and a £4,501k adjustment has been agreed.<br>• See page 10 for details on the provision for redundancies. |
| Potential costs for ongoing cases | Provisions | • We have updated our understanding of the ongoing cases through discussions with management. | • The Council has included disclosures on contingent liabilities which cover all significant on-going cases. This is considered adequate disclosure based on the information provided on the progress of these cases. Provisions have been made where appropriate.<br>• We have agreed the updated disclosures within the final set of accounts. |
| Use of estimates and judgements | All areas of the financial statements | • We have discussed the requirements for disclosures and supporting evidence for estimates and judgements within the financial statements including asset valuations, allowances, prepayments, accruals and provisions.<br>• We reviewed the Council's accounting policies and disclosures for likely areas where estimates and judgements would be used. | • We concluded that adequate disclosures have been included for these areas in the financial statements.<br>• However, we did note a weakness in the documentary evidence provided to support the valuation of Council Dwellings and a recommendation has been raised to improve these arrangements in future years.<br>• The Council should also ensure it has processes in place to facilitate its provisions and other estimates, such as National Non Domestic Rate income within the Collection Fund, being based on the most up to date information available. |

 

## Status of the audit

We carried out our audit is accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete although we are finalising our procedures in the following areas:

- outstanding work on contracts, PPE, reserves and various other tests for which information has been requested;
- review of the final version of the financial statements, including Group Accounts with AP&P incorporated;
- completing the audit of the Group Accounts;
- completing the audit of the Council's Whole of Government accounts submission;
- obtaining and reviewing the Council's letter of representation;
- review of the revised version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Corporate Committee on 27 September 2011.

In addition, finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

A small number of issues arose during the course of the audit, which whilst not considered material to the reported financial performance , should be considered by the Corporate Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

## Matters arising from the financial statements audit

Following certification by the Council's Responsible Finance Officer on 30 June 2011, we were presented with draft financial statements for audit.

We are pleased to report that the financial statements were accompanied by good working papers, although we have raised recommendations on ensuring listings of debtors and creditors from which samples are selected, are available at the start of the audit.

**Segmental Reporting**

Under the requirements of the Code based on IFRS, Councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's chief operating decision maker ("CODM"), to assess the segment's performance and allocate resources. The Council disclosed operating segments in its 2010/11 financial statements which we found to be in line with its internal reporting arrangements. These were:

- Children and Young People
- Adults, Culture & Community
- Corporate Resources
- Urban Environment
- Policy, Performance, Partnerships & Communications
- People, Organisation and Development
- Chief Executive Services
- Non service revenue
- Housing Revenue Account
- Individual Schools

 

We audited the Council's segmental reporting note 'Amounts Reported for Resource Allocation Decisions' and found that income and expenditure were presented in line with the Council's outturn report for 2010/11. Under the Code there is a requirement to present a reconciliation of the segmental analysis to the Comprehensive Income and Expenditure Statements We found that this reconciliation was not present in the draft accounts. A reconciliation has subsequently been provided and an adjustment agreed for it to be included within the Note.

**Revaluation of property, plant and equipment**

The Council has a five year revaluation programme in place. From 2010/11 revaluations in the year were based on this programme and this resulted in 80% of assets being revalued which was considered reasonable as the Council had revalued all its assets in 2009/10, revalued assets with significant spend in the year and carried out an impairment review.

We reviewed a sample of valuations, agreeing the amounts against the valuation reports and carried out a review of the assumptions used by the valuer.

We noted that for all assets other than investment properties the finance team calculated the total net book value based on the information provided by the valuation team. The total amounts are then checked by the valuers, rather than having been provided by them . It was also noted that the valuers did not provide the finance department with a spreadsheet of their valuations. A few immaterial differences were noted between the valuation reports and the amounts subsequently included by finance in the fixed asset register. A recommendation has been made to address these two issues.

Investment properties were revalued at year end and carried at fair value as per the Council's accounting policy. However, from our testing we noted that not all the units on one of the investment properties had been revalued. The valuation team has now revalued the other units, resulting in a decrease in value of £383k.

We have agreed additional disclosures with the Council regarding the property, plant and equipment for schools which we have reviewed and considered appropriate.

The current restructuring of Property Services will impact upon who is carrying out the Council's PPE valuations. The Council needs to ensure that the risk of insufficient knowledge transfer of its property portfolio is mitigated.

**Redundancy provision**

Included in the draft accounts was a provision for redundancies of £9,306k which was based on the number of redundancies made up to end of April 2011. This was reviewed against IAS 37 and no issues were noted. However since April 2011 there have been further redundancies that have been subsequently identified as part of the approval of the Council budget and the savings plan for 2011/12. These redundancies related to formal Council decisions and "at risk" letters issued in 2010/11.

These additional redundancies amounted to £4,501k and in line with IAS 37 this should be accounted for as a provision in 2010/11 as they represent a financial liability that has resulted from a past event. An adjustment has been proposed for this. The Council has set aside a reserve to covers its redundancies and therefore the adjustment has no impact on the surplus for the year or the General Fund balance.

 

**Leases**

We reviewed the Council's methodology for identifying its leases and assessing this against IAS 17 to account for these as either operating or finance leases. The Council set a de-minimus level of £50k and any leases with a capital value of this amount were consider immaterial and not reviewed against IAS 17. The Council grouped leases with similar terms and reviewed these against IAS 17 to determine which of these leases should be accounted for as operating or finance leases. The Council has identified fourteen leases that should be accounted for as finance leases under IFRS. All but one were previously accounted for as an operating leases.

Based on the work completed, the Council methodology was appropriate. A sample of leases was selected for review against the IAS 17 criteria and no issues were noted with the accounting of these leases by the Council. The Council has made appropriate adjustments for the finance leases identified in order to bring them on balance sheet. The Council has included appropriate disclosures in regards to its leases. However, we did experience significant delays in receiving a breakdown of long and short term leases and the Council needs to reinforce the message that where information is requested from other departments it should be provided as quickly as possible to facilitate the audit completion deadline being met.

**Accumulated absences accrual (holiday pay accrual)**

The Council included a provision of £6,015k relating to an accumulated absences provision in line with IAS 19.

The Council calculated its non-teaching staff holiday pay accrual based on a sample of staff which included the different departments and staff on different pay bands. The teaching staff holiday pay accrual was based on the CIPFA model provided. No issues were noted from review of the calculation.

However based on the Code, this should be accounted for as an accrual instead of a provision and an adjustment has been proposed.

**Pensions**

Following the Chancellor's budget statement on 22 June 2010, future pension increases are linked to the Consumer Prices Index (CPI) and not the Retail Prices Index (RPI). The Council has treated the previous use of RPI as being due to a constructive obligation and has accounted for the change in line with guidance from CIPFA. The effect of this change comes through as a negative past service cost item in the Non-distributed costs line for 2010/11 of the Comprehensive Income and Expenditure Statement of £115m. We have reviewed the accounting of this change and no issues have been noted. The Council has made appropriate disclosure of this change in the accounts.

 

## Misstatements

Misstatements that were identified by the management team during the course of the audit and subsequently adjusted include:

- The property, plant and equipment note was revised at the start of the audit due to errors identified as part of the reconciliations carried out by the Council. This has increased the closing net book value reflected within the balance sheet by £10.915m.
- During the year the Council made a £2.103m long term loan to Alexandra Palace & Park to facilitate refurbishment of the ice rink. This had been incorrectly treated as Revenue Expenditure Funded from Capital Under Statute. An adjustment was identified in order to place the loan onto the Council's balance sheet as a debtor as AP&P will be repaying it over a 12 year term.

Further misstatements were identified as a result of the audit work performed, the most significant of these are:

- reclassification of £4,913k relating to capital expenditure incorrectly coded as income instead of expenditure. This had no impact on the net expenditure or the surplus reported for the year.
- £4,494k increase in non-current and decrease in current insurance provision, as under IFRS this split is required. This has an impact on the classification with in the Statement of Financial Position.
- £2,351k decrease of creditors and bank balances. This relates to internal amounts owed between the Council and schools which should have been netted off at the time of preparing the accounts.

All adjusted and unadjusted misstatements are set out at Appendix B.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them.

Our audit identified one amendment to the financial statements that has not been processed by management on the grounds of materiality. The unadjusted misstatement relates to:

- adjustment of £236k to the housing benefit creditor due to the difference between the estimate used for the creditor and the amount included on the housing and council tax benefits claim submitted.

The impact of this unadjusted misstatement on the Statement of comprehensive income and expenditure for the year ended 31 March 2011 would be to decrease the net expenditure by £236k. The financial outturn reported against the Council's budget would also be affected by this amount, moving from a reported underspend of £51k to £287k.

 

## Evaluation of key controls

**Internal Controls**

We have undertaken 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 present a material risk to the accuracy of the financial statements.

However, we did note that the Deputy Chief Financial Officer has the access rights necessary to make journal entries in the general ledger. We have raised a recommendation for these rights to be removed as the duties of senior financial reporting personnel should not include the ability to make journal entries.

**Review of IT**

We 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 could adversely impact on our audit of the accounts.

We have, however, identified two control issues from the IT review that we do not consider could have an adverse impact on the accounts. We have discussed these issues with management and made recommendations for improvement which are detailed in appendix C.

**Review of internal audit**

We periodically review the Internal Audit function for compliance with the requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in June 2011 concluded that the Council's function met these requirements. We draw on this work in forming our overall Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

We have raised three recommendations from our review of Internal Audit which have been agreed with management. These are detailed at Appendix C.

We note that the Head of Audit and Risk Management provided an opinion that the system of internal control in operation for the year ended 31 March 2011 accords with proper practice and is fundamentally sound as per the Annual Audit Report and Assurance Statement. This opinion provides an element of assurance to the Council about its overall governance arrangements.

**Management of the risk of fraud**

We have sought assurances from the Director of Corporate Resources and the former Chair of the Audit Committee, who was in this role throughout 2010/11, in respect of processes in place to identify and respond to the risk of fraud at the Council.

From these enquiries we have established that the Council considers there are adequate processes in place to mitigate against the risk of fraud occurring at the Council and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

 

## Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We noted that the AGS covers all the required elements and is in accordance with our knowledge of the Council. At time of writing the Council is considering whether the August 2011 civil disturbances in London have identified any significant governance issues to be reflected in the final version of the AGS.

In 2009/10 we recommended that the AGS be presented to Members by someone from outside of audit, in line with best practice, so that the Head of Internal Audit can clearly demonstrate her independence when providing her opinion on the system of internal control which supports the Council's overall conclusion in the AGS. We are pleased to note that the draft 2010/11 AGS was presented to the Corporate Committee for approval on 20th June by the Director of Corporate Resources.

## Public challenge matters

We received a question from a member of the public who was concerned about the approval of head teacher salaries. In response we selected a sample of head teachers and checked to ensure that their salaries were in line with the schools' finance manuals. No issues were noted from the work carried out.

At the time of writing we have received no other questions or objections in respect of the financial statements for the year ended 31 March 2011 that prevent us from issuing our audit certificate.

## Next steps

The Corporate Committee is required to recommend to Council the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

 

# 3. Value for money

## Value for money conclusion

In order for us to provide a positive conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

The Audit Commission Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

**Programme of work - review of proper arrangements**

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed below:

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Planning finances effectively to deliver strategic priorities and secure sound financial health** | Refer to our review of Financial Resilience | • The Medium Term Financial Plan sets out the Council's strategic priorities and how these will be delivered. The Council has agreed spending priorities and actions linked to these outcomes based on evidence of need and available resources for 2011/12.<br>• The Council has set a balanced budget for 2011/12 which includes a savings plan of £41m and a total of £84m over 3 years. The final stages of the planning cycle did not provide adequate time to develop enough robust savings options to consider, which impacted on some implementation timescales for 2011/12.<br>• The Council reviewed potential savings delays as part of the associated planning cycle, and a provision of £1.8m for slippage has been included in the 2011/12 budget.<br>• Significant work is still required to meet the outstanding budget gap of £21.3m within the MTFP.<br>• Achievement of the savings plan has been identified as a significant risk for the Council. It is included in the Internal Audit plan for the year and progress will be monitored monthly.<br>Based on the above, proper arrangements for planning finances effectively are considered to be in place. |

 

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Having a sound understanding of costs and performance and achieving efficiencies in activities** | Refer to our review of Financial Resilience | • The Council has arrangements in place to provide sound financial management, and has a largely good record in controlling spend in non demand-led services. There have however been serious challenges in demand led services, particularly Children's Services.<br>• There are currently mixed levels of financial management ability for non financial managers across the Council, for example, in relation to a detailed understanding of unit costs, cost drivers, and benchmarking data. The reduction in service manager posts and associated increases in spans of control for managers, and the reduction in finance and other central support services to these managers is a risk for the Council. This is recognised, and finance support will be prioritised on the basis of risk based judgements, the provision of financial management and SAP related training, and the development of enhancements to SAP.<br>• Services could improve their understanding of the relationship between demand and expenditure, for example by utilising Activity Based Costing, to better inform financial planning and financial monitoring discussions.<br>• A summary of the progress made against the savings plan is reported as part of the monitoring report to Cabinet. This is RAG rated. The most recent monitoring report provided to us forecast, of the £8,004k saving required for 2010/11, £7,380k rated as green, £469k amber and £155k red.<br>Based on the above, proper arrangements for understanding costs and performance are considered to be in place. |
| **Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people** | Reviewed as part of Financial Resilience work and our audit of the financial statements | • The budget monitoring report is presented to Cabinet. This includes both information on the performance management and financial performance of the Council. Commentary is exception based.<br>• The Cabinet minutes provide evidence of the scrutiny of overspends against the budget by members. These reports are available to stakeholders on the Council's website.<br>• The financial statements were submitted on time and with few significant issues arising.<br>Based on the above, proper arrangements for reliable and timely financial reporting are considered to be in place. |

 

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money** | Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity | • The Council has a good track record of sustainable procurement. For example, during 2010/11 it changed its paper supplier so that it is using recycled paper which had a positive environmental and financial impact.<br>• During the year the Council introduced the 'CompeteFor' initiative, an online portal for procurement services. This has reduced the burden on local Small and Medium Sized Enterprises tendering for Council contracts.<br>• The Council is currently considering shared service opportunities with the London Borough of Waltham Forest.<br>• When reconfiguring services the Council is evaluating alternative delivery models rather then solely focusing on council provision and for example is currently outsourcing leisure services.<br>• Our review of Personalisation in Adult Social Care found that the Council is working hard to develop the local market and to ensure that suppliers provide services that meet users desired outcomes and provide VFM.<br>• However, as part of our accounts audit we reviewed a sample of payments to assure ourselves that contracts were in place with suppliers where required by the Council's Standing Orders. At time of writing we have not yet received all the contracts for review, although the Council is continuing its efforts to retrieve them. This represents a potential risk to VFM as services received should be scrutinised against the performance requirements of a contract. In addition, we found that in two cases contracts had been destroyed by the archiving company without the Council's authorisation.<br>Based on the above, proper arrangements for commissioning and procuring services are considered to be in place but improvements are required regarding the retention and availability of contracts. |

 

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Producing relevant and reliable data and information to support decision making and manage performance priorities** | Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity | • In previous years we have identified issues around the data supporting the Housing and Council Tax Benefit subsidy claim. In response, the Council has put in place enhanced quality control procedures to improve the accuracy of benefits assessments. The corporate performance team carried out workshops with the benefits team at the start of the year to help address the issues identified. At time of writing, the 2010/11 subsidy claim certification process is not yet complete, but at this stage a general improvement in accuracy has been noted.<br>• There were no issues raised or recommendations made in respect of data quality in the latest Ofsted inspection of Children's services (September 2010).<br>• Internal Audit's 2010/11 report on the Data Quality of National Performance Indicators provided Substantial Assurance.<br>• There was a Data Quality Strategy Action Plan in place for 2010/11 which was monitored by the corporate Performance team and Data Quality audits occurred across the Council. Results of these were reported to the relevant Head of Service and Director at the end of each audit.<br>• There is a new corporate Business Intelligence team in place. The team members previously analysed Children's service data and these skills have now been transferred to the Council's corporate performance management.<br>Based on the above, proper arrangements for producing relevant and reliable data are considered to be in place. |

 

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Promoting and demonstrating the principles and values of good governance** | Refer to our review of Financial Resilience, review of the AGS and follow up of the governance review | • The Local Code of Corporate Governance (LCCG) has been largely effective in driving improvements and ownership of governance issues and arrangements across the Council. There are regular meetings and a work programme for key officer groups to ensure that key statutory processes and good governance arrangements are completed and awareness raised.<br>• The Council appointed external consultants to review its governance arrangements during the year and an action plan was agreed to address issues arising from the review. Based on our follow up review, the Council has proactively addressed the issues raised and has sought to implement best practice. See page 26 for details of our follow up work.<br>• As part of the finance reports to Cabinet, risks associated with achieving the MTFP are highlighted. Financial risks are also identified in the MTFP.<br>• Our financial resilience review covered financial governance at the Council. This has not highlighted any significant issues with appropriate information being regularly provided to the Cabinet to provide an opportunity for review and challenge.<br>• Our review of the Annual Governance Statement did not highlight any significant issues.<br>Based on the above, proper arrangements for good governance are considered to be in place. |

 

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Managing risks and maintaining a sound system of internal control** | Refer to our review of Financial Resilience and review of the AGS | • The Council maintains a sound system of internal control, as evidenced by the Annual Audit Report and Assurance Statement provided by the Head of Internal Audit and Risk Management.<br>• Our review of internal controls in operation at the Council did not lead to any high priority recommendations which would indicate a significant effect on the control system.<br>• Our financial resilience review includes a section on financial control. This has not highlighted any significant issues. See page 24 for further details.<br>Based on the above, proper arrangements for internal control are considered to be in place. |
| **Making effective use of natural resources** | We have updated our previous assessment through discussions with officers and a review of documentation. | • The Council's building carbon emissions for 2010/11 were 36,966 tonnes, an improvement on 2009/10 and a 10.81% improvement on the 2006/07 baseline.<br>• The Building Schools For the Future project completed in 2010/11. It is our understanding that for 2011/12 this will have a negative impact upon the Council's carbon emissions due to the extra facilities such as IT at each school. To mitigate this risk voltage optimisation is being put into all secondary schools. Properties are also being sold by the Council which will reduce its carbon emissions.<br>• 2010/11 saw improved recycling rates and cleaner streets supporting the Council's ambition to become London's greenest borough.<br>• 2011/12 performance reports are based on an outcomes framework, one of the outcomes being 'Sustainable'. As part of this framework the Council will be monitoring its performance against its performance indicators for fly tipping, recycling, litter and carbon emissions.<br>Based on the above, proper arrangements for making effective use of natural resources are considered to be in place. |

 

| Code criteria | Work completed | Conclusion |
|---|---|---|
| **Managing assets effectively to help deliver strategic priorities and service needs** | Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity | • The Council performed well in the 2009/10 assessment, showing improved performance on the previous year and providing various detailed case studies of outcomes and value for money across the Council's services.<br>• The Council has further rationalised the use of its assets under the Smart Working programme.<br>• Various BSF projects were completed in 2010/11, including Heartlands High which aims to achieve an independent environmental rating (BREEAM) of 'Excellent'. This support the Council's priority of a Cleaner, Greener Haringey.<br>• Evidence to support a robust decision making process behind asset sales has been provided. There is a regular review of asset portfolios, particularly for assets that are becoming surplus or uneconomic to retain. The Capital & Asset Strategy Board considers reports on such properties and, if supported by the Board, approval for disposal will be sought by Cabinet or under delegated authority as appropriate. The Capital & Asset Strategy Board regularly monitors the programme of disposals.<br>• The Medium Term Financial Plan sets out the Council's priorities which have been tailored to local needs.<br>Based on the above, proper arrangements for managing assets are considered to be in place. |

 

| Code criteria | Work completed | Conclusion |
| --- | --- | --- |
| **Planning, organising and developing the workforce effectively to support the achievement of strategic priorities** | Refer to our review of Financial Resilience. Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. | • The Council operates a highly regarded workforce management monitoring system, and outputs from this system are included in the finance and performance monitoring reports to CEMB and the Cabinet, where actions are agreed to manage related workforce issues.<br>• The sickness absence level during 2009/10 was an average of 9.38 per FTE. This compares to the London average of 9.4 and the national average of 12.3 for the same period.<br>• However, Haringey's sickness absence levels have fluctuated over the past three years, with increase of an average 0.5 per FTE (5.6%) during 2009/10 and a reduction during 2010/11 of an average of 1.42 per FTE (15%). 2011/12 and beyond will represent a real challenge in terms of maintaining the downward momentum when budgets are squeezed and staff are under more pressure to delver "more for less".<br>• Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted. Given the significant organisational change that is taking place during 2011/12, it will be important for CEMB to continue to carefully manage workforce issues when they arise and maintain a robust approach to sickness absence monitoring for the recent downward trend to improve.<br>• We have held discussions with the Assistant Chief Executive as to the workforce challenges currently facing the Council.<br><br>We RAG rated 'Workforce' as green in our Financial Resilience report, based on the above. Based on this, proper arrangements for workforce are considered to be in place. |

 

## Matters arising from the review of Value for Money

Key outcomes from our local programme of work are detailed below. Where we have identified areas of weakness in the Council's arrangements, recommendations to support improvements have been made and are detailed in Appendix C of this report.

## Securing Financial Resilience

We have completed a review to assess whether the Council has robust systems and processes in place to effectively manage its financial risks and opportunities and secure a stable financial position. We also have considered whether the Council's financial position should enable it to continue to operate for the foreseeable future.

To support our conclusion against this criteria we have undertaken a review which considered the Council's arrangements against three key areas:

- Strategic financial planning
- Financial governance
- Financial control

The key findings from this review are:

**Key Indicators of Performance**

We RAG rated this area of the assessment as Green. The key indicators of performance considered include working capital ratio, the level of useable reserves compared to gross revenue expenditure, outturn against budget and sickness absence levels. Haringey has not faired well compared to the rest of London in terms of spending power reductions, and has had to take significant steps to ensure financial balance. In particular, the Council's level of available reserves and contingencies provide adequate cover for known future financial risks. The Council has been developing a robust approach to absence management, and it will be important to maintain this focus during the MTFP period.

**Strategic Financial Planning**

We RAG rated this area of the assessment as Amber. The key reason for this is the scale of the savings challenge facing the Council and whether it can be effectively delivered whilst maintaining priority services. Some aspects of the 2011/12 planning process were understandably rushed, impacting on the ability of some services to finalise savings and budget assumptions prior to the start of 2011/12. This has been recognised by the Council, which is intending to conclude its review of the 2012/13 budget significantly earlier than the previous year. Significant work is still required to meet the outstanding budget gap of £21.3m within the MTFP.

**Financial Governance**

We RAG rated this area of the assessment as Green. The Council has a well established approach to financial governance that has delivered solid results in recent financial years. Significant reductions to finance resource, allied to reductions in service manager posts and some operational challenges in relation to the use of some key financial systems raise risks in relation to the role and responsibilities of the new "Haringey Manager". However, the Council well understands these risks and is progressing mitigating actions.

**Financial Control**

We RAG rated this area of the assessment as Green. The Council's has a robust approach to financial and performance management, and has a largely good record in controlling spend in non demand led services. The Council also demonstrates appropriate deployment of internal and external assurance mechanisms. Achieving financial management cultural change throughout the organisation represents a barrier to delivering effective budgetary controls in the period beyond delivering the front ended savings of the SR 10.

 

## Securing Economy, Efficiency and Effectiveness

We have reviewed whether the Council has prioritised its resources to take into account budget constraints and whether it has achieved cost reductions and improved productivity and efficiencies.

As well as a review against key risk indicators, we have completed a number of reviews that support and inform our conclusion in respect of this criteria:

## Personal Budgets in Adult Social Care

A personal budget (PB) is an allocation of money for an individual to spend on a support plan. The individual completes a questionnaire and then develops the support plan, with social care professionals, to meet a jointly agreed set of needs. PBs give users a transparent and agreed allocation of funding and the power to choose how to spend that money in the way they think most suitable to meet their needs.

In 2007 the government, through the concordat 'Putting People First', made PBs one of the cornerstones of personalising social care. The Department of Health (DoH) expected that by April 2011 30% of all eligible social care users or carers should have a PB. The policy direction described in 'Putting People First' is broadly continued in the coalition government's 'Vision for Adult Social Care: Capable Communities and Active Citizens'. The government has said it is committed to ensuring PBs are available to all recipients of ongoing state funded social care by 2013 as a response to rising public expectations of choice and quality and increasing demand. The challenge for all Councils in implementing PBs is the financial environment that they are operating in.

In October 2010 The Audit Commission published its report 'Financial Management of Personal Budgets - Challenges and Opportunities for Councils'. Our methodology was informed by this research, and by our review of the progress made by another London borough as part of its 2009/10 VFM audit.

The Council's 2010/11 outturn against NI 130, Social Care Clients receiving Self Directed Support (SDS), was 23%. This was an improvement on the 2009/10 performance of 21%, when the comparative data available shows that Haringey was the fifth strongest performer in London. Regarding the indicator, it should be noted that the Audit Commission's October 2010 report found that "NI 130... probably underestimates the proportion of PB holders... The definition for NI 130 includes more people (than the Association of Directors of Adult Social Services survey of councils). ADASS believes many 'do not appear to be directly relevant to the offering of a PB'". In addition, there is evidence to suggest that some other authorities have not complied with the NI guidance and have captured significantly lower community base numbers as a result. This inflates their performance against the indicator.

According to the results of the ADASS PBs survey in April 2011, the majority of authorities are now delivering PBs to over a third of their eligible users. The Council's outturn for this survey was 24.5%. This snapshot survey does not capture any direct payments which ceased before the 31st March, for example carers' one-off payments or any where the client passed away before the year end. Again, the Council has informed us that for the purposes of the survey other authorities have reduced their community base figures which therefore inflated their reported SDS percentage.

Finally, the Council's 2010/11 outturn reported to London Councils was 30.1%, in line with the London average. This figure is higher than the NI 130 figure as it excludes one-off items of equipment as it would be unlikely these clients would want or qualify for a personal budget. The Council asserts that for the purposes of this return many authorities have excluded both professional support and equipment clients from their community base figures and that again this artificially inflates their SDS percentage. Indeed, if the Council were to employ these practices it has calculated that its 2010/11 outturn would have been 45.2% and that performance would therefore be the third best in London compared with the other authorities that appear to be excluding professional support and equipment from their community base figures.

It is therefore unclear as to whether or not the Council was able to meet the Department of Health's April 2011 target of 30% and we recognise that given the variability of sources from which councils have compiled their data a meaningful comparison with other councils is difficult.

However, the unequivocal indicator that performance at the Council has improved is the significant increase in the numbers of users with PBs. This provides a clearer picture than the percentages as these differ substantially according to source and compliance with definition and what has or has not been included in the community base figure. The number of users in receipt of PBs in Haringey has increased from 17 in 2009/10 to 278 in 2010/11 and we are told that the current number as at August 2011 is 453. In addition, the Council does have a very high number of people on Direct Payments, (the precursor to Personal Budgets) and it anticipates that these can be converted to PBs relatively quickly now that the conversion process is established. An action plan is in place to increase the number of people receiving PBs and this is monitored through the monthly performance call over. The total number of clients in receipt of self directed support overall has increased from 1236 in 2009/10 to 1259 in 2010/11.

It is our view that the Council has worked hard over the past four years to embed personalisation. Stakeholder engagement is good, particularly with users and carers via user reference groups. The Council performed well in terms of the quality outcomes survey it was involved in with nine other local authority demonstrator sites. This centred on the experience of people receiving a personal budget and the difference it made to their lives. The Council is taking steps to safeguard users via its locally produced Supplier Accreditation process. It is committed to developing the market and to driving down costs for users.

We found that there are appropriate management structures, monthly budget monitoring occurs and there is member involvement on the Transforming Social Care Board. However, we found issues with the recording of data used to report performance against NI 130 in 2009/10.

We identified weak controls in place to mitigate the risk of fraud or abuse of direct payments to users. This is of particular concern as in Haringey the percentage of PBs being administered via direct payment in is more than double the national average. We also found that the risk of external fraud in relation to PBs was not included on the Adult services risk register.

The Council is aware of these fraud risk issues and has drafted a 'Personal Budget Audit Policy' which will give social workers some needed leverage when holding discussions with the borough's challenging client base. The policy states how often direct payment recipients will be subject to checks of their bank statements and receipts, and gives staff a process to follow. The draft policy states thresholds for what is considered an amount needing enhanced monitoring, and also gives guidelines for what to do if a user has any unspent budget left in their bank account. The Council plans to finalise the policy as soon as possible, having consulted widely prior to implementation of the policy in order to comply with Equality Impact Assessment requirements.

Our overall conclusion is that the Council has made good progress within a challenging budgetary environment; there are however some areas for improvement as noted above.

 

**Follow-up of Review of Partnerships**

In March 2010 we issued our 'Partnership working in Haringey' report. As part of our VFM work for 2010/11 we have followed up this report, looking at progress made against the recommendations raised. The situation has changed considerably since the time of our review, particularly in light of the government's deficit reduction strategy. The removal of many of the requirements of Local Area Agreements has meant that the Haringey Strategic Partnership (HSP) needed to look again at its structure and the costs and resultant outcomes that were being achieved. In addition, the reorganisation of the NHS has put strain on the Health and Wellbeing Board. The HSP Executive instigated a further review of its structure by external consultants, which encourages the view of partnership working as 'business as usual'.

Key issues raised in our 2010 review that the HSP still needs to focus on are:

- Theme board effectiveness – the Council is currently undertaking a 'mapping exercise' which will document the decisions, actions and outputs of each theme board over the past two years. This will appropriately inform any decisions to be made regarding changes to these boards and the structure of the HSP as a whole.
- Joint Strategic Needs Assessment (JSNA) – with potential changes occurring to the form of the theme boards, the HSP needs to ensure that engagement in JSNA priority setting for 2011/12 is maintained regardless of the structures in place.
- Community and Voluntary sector involvement – the Council needs to carefully manage its relationship with HAVCO and CVS groups as it makes the transition to commissioning services rather than giving grants direct to CVS bodies.
- Private sector involvement – little progress has been noted in this area. It should continue to be a priority given the importance of limiting unemployment in the borough.

The HSP should also review its response to the civil disturbances suffered in London in early August 2011 and should ensure that it learns from the experience.

**Follow-up of review of Governance**

In December 2010 the Council commissioned external consultants to review the Council's governance arrangements. The purpose of our follow-up review was to gain assurance that the Council has taken on board the report's findings and has made efforts towards putting its recommendations into place. The work carried out does not suggest anything to the contrary.

We were provided with numerous Protocol documents which evidence the discussions held and conclusions made by the Council in relation to the recommendations. The Council have sited that there may be difficulties in implementing some of the recommendations but have treated these difficulties as challenges rather than reasons as to why the recommendations ought to be rejected.

 

As recommended in the report, he Council has introduced Area Committees to enable devolved decision making. These cover the same geographical area as the Area Assemblies which were already in place. The Area Committee Chairs form the core of the Overview and Scrutiny Committee.

In line with recommendations, the number of Council committees has been reduced from eight to five. The number of Full Council meetings has been reduced from eight or nine a year to five, with three of these being divided into two parts - a "Haringey Debate", where observers can attend and speak, and a formal business session when observers do not have speaking rights. Our impression is that this is challenging change to introduce, but that the first Debate held (on Health Inequalities) was constructive and apolitical.

Given that a relatively small amount of time has elapsed between the submission of the report and today's date, it is understandable that not all recommendations have yet been met. As the majority of recommendations have been addressed and good progress made this supports our unqualified VFM conclusion.

**Follow Up of prior year assessment**
There were no areas where the Council's arrangements were considered to be inadequate in the year ended 31 March 2010. However, we did make one high priority and four medium priority recommendations in our Value For Money report issued in October 2010.

We have followed up the recommendations made and are satisfied that they have all been met. Regarding the production of the Council's Annual Report, this is no longer a requirement for us to be able to reach an unqualified VFM conclusion. We would, however, still consider the production of an Annual Report to be best practice.

**Overall conclusion**
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects the London Borough of Haringey put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

 

# Appendices

 

# A. The reporting requirements of ISA 260

**Purpose of report**

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

**Responsibilities of the directors and auditors**

The directors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

**Clarification of the roles and responsibilities with respect to internal controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Corporate Committee that it has done so.

The Corporate Committee is required to review the Council's internal financial controls. In addition, the Corporate Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Corporate Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Corporate Committee.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

 

**Independence and robustness**

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

**Audit and non-audit services**

Services supplied to the Council for the year ended 31 March 2011 are as follows:

| | £ |
|---|---|
| **Audit services** | |
| Statutory audit | 505,000* |

* The Audit Commission issued a rebate to the Council of approximately 9% against this fee

**Audit quality assurance**

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

 

# B. Audit adjustments

### Adjustment type

**Misstatement** - A change in the value of a balance presented in the financial statements
**Classification** - The movement of a balance from one location in the accounts to another
**Disclosure** - A change in the way in which a balance is disclosed or presented in an explanatory note

### Adjustments to the financial statements

| Adjustment type | £000 | Account balance | Impact on financial statements |
|---|---|---|---|
| Misstatement | 42,866 | Long Term Debtors and Bad Debt Provision | Increase of long term debtors and bad debt provision<br><br>This relates to the requirement under IFRS for the Alexandra Park & Palace accounts to be included within the Council's Group Accounts. As a result of this AP&P's cumulative deficit of £42.9m which has been funded by the Council needs to be reflected within the Council's primary statements. The debt of £42.9m owed to the Council by AP&P will be reinstated onto the Council's balance sheet, along with the introduction of a £42.9m bad debt provision against the long term debtor. The net impact of this on the Group balance sheet will be immaterial.<br><br>This is classed as a misstatement due to the impact upon the accounts. However it should be noted that the lack of consolidation in the draft financial statements was because the Charity Commission had not yet confirmed that consolidation would not impact upon the Trust's charitable status, as opposed to an error being made by the Council. |
| Misstatement | 11,855 | Property, plant & equipment and Capital Adjustment Account | Increase of Property, plant & equipment and decrease of Capital Adjustment Account<br><br>This relates to depreciation on council dwellings not reversed in previous years. |
| Classification | 6,015 | Provisions and Creditors | Increase of creditors and decrease of provisions.<br><br>This relates to the holiday pay accrual being classified as a provision instead of an accrual. |

 

| Adjustment type | £000 | Account balance | Impact on financial statements |
|---|---|---|---|
| Classification | 4,913 | Income and expenditure | Decrease of gross income and gross expenditure, however no impact on the net expenditure or surplus reported for the year on the face of the comprehensive income and expenditure statement<br><br>This relates to transfers to capital expenditure with the balancing entry incorrectly coded as grant income instead of revenue expenditure. £2,920k of the adjustment relates to 2010/11, with a further £1,993k having been identified relating to the prior year. As the amount is not material no prior year adjustment required and the adjustment has been made in 2010/11. |
| Classification | 4,572 | Provisions | Increase in non-current and decrease in current insurance provision<br><br>Under IFRS the Council's insurance provision should be split between current and non-current. This has an impact on the classification with in the Statement of Financial Position. |
| Misstatement | 4,501 | Provisions and reserves | Increase of provision and decrease in reserves.<br><br>This relates to redundancies agreed since the initial estimate of the redundancy provision was calculated and other provisions related to staff costs. |
| Classification | 2,351 | Creditors and Bank | Decrease of creditors and bank balances.<br><br>This relates to internal amounts owed between the Council and schools which should have been netted off at the time of preparing the accounts. Combined with the adjustment below, the net impact is a reduction in the schools bank balance of £14k. |
| Classification | 2,337 | Debtors and Bank | Decrease of debtors and increase of bank balances.<br><br>As above, this relates to internal amounts owed between the Council and schools which should have been netted off at the time of preparing the accounts. Combined with the adjustment above, the net impact is a reduction in the schools bank balance of £14k. |

 

| Adjustment type | £000 | Account balance | Impact on financial statements |
|---|---|---|---|
| Misstatement | 2,103 | Debtors and Capital Adjustment Account | Increase of debtors and adjustment to Capital Adjustment Account<br><br>During the year the Council made a long term loan to Alexandra Palace & Park to facilitate refurbishment of the ice rink. This had been incorrectly treated as Revenue Expenditure Funded from Capital Under Statute. An adjustment is required in order to place the loan onto the Council's balance sheet as a debtor as AP&P will be repaying it over a 12 year term. |
| Misstatement | 1,970 | Collection Fund - NNDR income due from ratepayers | Decrease in NNDR income due recognised within the Collection Fund.<br><br>This is due a difference noted between the estimate of the income within the accounts and the amount subsequently included on the NNDR return. |
| Classification | 1,789 | Provisions and Creditors | Increase in provisions and decrease in creditors.<br><br>This relates to housing accruals that should have been coded as provisions. |
| Misstatement | 725 | Bad Debt Provision and Reserves | Increase in adults bad debt provision and decrease in earmarked reserves<br><br>This relates to an adjustment to the healthcare debtors being recognised within the financial statements. An increase in the bad debt provision was proposed in light of potential recoverability issues on invoices being disputed. This has been funded by a transfer from the Earmarked reserves.<br><br>The bad debt provision is a matter of subjective judgement and therefore this is not considered to be a 'misstatement' in the strictest sense. |
| Classification | 421 | Impairment of debtors | Increase of housing rent impairment of doubtful debt and decrease of homelessness impairment of doubtful debt.<br><br>This relates to an misclassification of a code to the homelessness impairment of doubtful debt instead of the housing rent impairment. |

 

| Adjustment type | £000 | Account balance | Impact on financial statements |
|---|---|---|---|
| Misstatement | 383 | Investment property and Capital Adjustment Account | Decrease in Investment property and adjustment to Capital Adjustment Account<br>This relates to Investment Properties which should be valued at fair value. We identified that six units within a block of investment properties had not been revalued during the year. Property Services agreed to complete a valuation to update the accounts accordingly.<br>Per IAS 40 and the Code, gains and losses on revaluation of investment properties should be accounted in the comprehensive income and expenditure statement. This has no impact on the surplus reported as the amount is then adjusted out through the Capital Adjustment Account. |
| Classification | 304 | Other operating expenditure and Cost of services | Decrease in Other operating expenditure and increase in Corporate and democratic core expenditure<br>This relates to levy payments incorrectly classified as Other operating expenditure. |
| Misstatement | 173 | Government Debtors and Receipts in Advance | Decrease in Government Debtors and decrease in Receipts in Advance<br>Adjustment to Government Debtors as it should have incorporated Receipts in Advance from National Non Domestic Rate payers. |
| Disclosure | Various | Various | We have agreed various other revised or additional disclosures with the Council, the most significant being:<br>* enhanced disclosure around property, plant and equipment for schools<br>* disclosure around the civil disturbances in August 2011 as this is a non-adjusting Post Balance Sheet event<br>* inclusion of required reconciliation between the Segmental Reporting note and the Comprehensive Income and Expenditure Statement |

 

## Unprocessed adjustments to the financial statements

| Adjustment type | £000 | Account balance | Impact on financial statements |
|---|---|---|---|
| Misstatement | 236 | Housing benefits expenditure and creditors | Decrease in housing expenditure and decrease in creditors.<br>This relates to an adjustment of the housing benefits creditor due to the difference between the estimate used for the creditor within the accounts and the amount subsequently included on the housing and council tax benefits claim submitted. |

 

# C. Action plan

### Priority

**High** - Significant effect on control system
**Medium** - Effect on control system
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| **Accounts audit** | | | | |
| 1 | We tested a sample of payments to confirm whether contracts were in place as required by the Standing Orders. At time of writing the Council has not been able to retrieve all the contracts requested. We also found that the archiving company had destroyed two contracts without the Council's authorisation. The Council should ensure that signed contracts are available in order to assess the performance of providers against the contract requirements. | H | All officers will be advised of the importance of this. The archive company's action will be investigated. | Head of Finance – Budgets, Accounts and Systems<br>31 October 2011 |
| 2 | Where information was requested from other departments outside of Corporate Finance delays were suffered with obtaining this information. The Council will need to ensure that other departments understand that information should be provided to the audit team as quickly as possible to enable the work to be completed. | M | All officers involved in the audit of the accounts will be reminded of the need for responses to be provided to the auditors in line with agreed protocols of 5 days after requests for information are made. | Head of Finance – Budgets, Accounts and Systems<br>30 June 2012 |
| 3 | We noted a lack of documented evidence to support the assumptions used by the valuation team to derive the Council Dwelling valuation. Clarity ISA requirements mean that judgments of this nature need to be adequately supported and the Council should improve its arrangements for future years. | M | The requirements of the working papers to support valuation decisions will be reviewed and improved to take account of the auditors' recommendations. | Head of Finance – Budgets, Accounts and Systems/ Head of Corporate Property Services<br>31 March 2012 |

 

# C. Action plan

### Priority

**High** - Significant effect on control system
**Medium** - Effect on control system
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| **Accounts audit** | | | | |
| 4 | The Council should continue to ensure it has processes in place to facilitate its provisions and other estimates being based on the most up to date information available. | M | The Council's view is that it currently has proper processes in place to ensure the most accurate provisions are made at the time of closing the accounts. All provisions made in the 2010/11 accounts, at the time the accounts were presented to the auditors, were reasonable. Through the audit some of these figures have been changed, due to more up to date information becoming available. This is the reality of having a cut-off date at a given point in time and there will always be a possibility of this incidence occurring. | Head of Finance – Budgets, Accounts and Systems<br>31 March 2012 |
| 5 | As the Council will have a new team preparing the accounts next year and will need to ensure the knowledge within the team is not lost. | M | Full training will be given to all staff involved in the year end process to ensure continuity of the standards required and full technical knowledge. | Head of Finance – Budgets, Accounts and Systems<br>31 March 2012 |
| 6 | The total value of assets revalued in the year should be calculated by the valuation team, not the finance team. The valuers should also provide the finance team with a spreadsheet of the valuations to reduce the number of errors during input of the valuation amounts onto SAP. These changes will help to ensure that the valuation team take ownership of the property valuations appearing in the accounts. | M | The accounts team will liaise with Corporate Property Services to further improve upon the valuation process and to ensure the auditors are satisfied with the process in the forth coming year. | Head of Finance – Budgets, Accounts and Systems/ Head of Corporate Property Services<br>31 March 2012 |

 

# C. Action plan

### Priority

**High** - Significant effect on control system
**Medium** - Effect on control system
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| **Accounts audit** | | | | |
| 7 | The current restructuring of Property Services will impact upon who is carrying out the Council's PPE valuations. The Council needs to ensure that the risk of insufficient knowledge transfer of its property portfolio is mitigated. | M | Agreed. | Head of Finance – Budgets, Accounts and Systems/ Head of Corporate Property Services<br>31 December 2011 |
| 8 | The Council should enhance its controls within the Housing team to ensure adequate review of accruals and provisions. This will mitigate the risk of liabilities being incorrectly coded. | M | Agreed. | Head of Finance – Budgets, Accounts and Systems / Head of Finance - Adults & Housing<br>31 March 2012 |
| 9 | The Council should ensure that working papers for debtors and creditors, from which a sample can be selected, are available at the start of the audit. | M | The accounts team will work with the auditors, prior to the commencement of the audit, to ensure working paper requirements are fully understood and can be provided at the start of the audit. | Head of Finance – Budgets, Accounts and Systems<br>31 March 2012 |
| 10 | We found that the Deputy Chief Financial Officer has the access rights necessary to make journal entries in the general ledger. These rights should be removed as the duties of senior financial reporting personnel should not include the ability to make journal entries. | L | Agreed. It should be noted that whilst this access was available, the officer in question has not actioned any such transactions. | Systems Manager<br>30 September 2011 |

 

# C. Action plan

**Priority**

**High** - Significant effect on control system
**Medium** - Effect on control system
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| **Accounts audit** | | | | |
| 11 | The Council should ensure that in future years its Segmental Reporting note separately identifies the following items of income and expenditure, in order to fully meet the disclosure requirements of the Code:<br>• Income from Council Tax, Interest Payments and Precepts and Levies | L | Agreed | Head of Finance – Budgets, Accounts and Systems<br>30 June 2012 |
| **Accounts 2009/10 recommendations not yet implemented** | | | | |
| 12 | **NNDR Income from Ratepayers**<br>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.<br>**2010/11 update:**<br>A £1,970k difference was noted between the NNDR3 return and the draft accounts, due to the return having been compiled at a later date on 28/6/10. The Council should amend its closedown procedures so that the NNDR3 return is completed in line with the accounts closure timetable. | M | Improvements were made during the 2010/11 closing process, which has resulted in an accurate debtor position of monies due from the Government in the form of the NNDR pool debtor. In addition there are genuine areas in the NNDR3 that are not required in the accounts.<br>However the auditors recommendation from the 2009/10 audit is agreed and procedures will be put in place for the 2011/12 closing process to ensure that this recommendation is fully complied with, subject to those areas where there should be genuine differences. | Head of Finance – Budgets, Accounts and Systems<br>31 March 2012 |

 

# C. Action plan

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| **Review of IT controls** | | | | |
| 13 | Management should ensure that security hardened baseline configurations are utilised across all network devices. In addition, consideration should be given to subscribing to manufacturers / software supplier security advisory alerts. | M | Regular external penetration tests are undertaken by a Tiger scheme approved supplier. An annual IT Health Check is also undertaken. Up-to-date action plans are created and agreed to address the weaknesses identified in these penetration test reports. The risks & actions are prioritised and assigned to responsible officers. Risk acceptance will be sought from the Section 151 Officer if required.<br>Compliance with the identified weaknesses will also be addressed during completion of the Infrastructure Renewal Programme schedule of works. As the IT infrastructure is changing substantially, not all weaknesses are now relevant.<br>IT Services will ensure that, where possible, security hardened baseline configurations will be deployed across all new & upgraded network devices, or the associated risks will be accepted.<br>Logicalis have registered to become a member of the Cisco Advisory Service. | IT Operations Manager<br>Ongoing |

 

# C. Action plan

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| 14 | Management should ensure that an effective policy and related procedures are established for the collation, analysis, dissemination and retention of Network logs to ensure that they facilitate proactive monitoring and maintenance. | M | The requirement for proactive log monitoring is published in the Council's security policies (ISP006 & ISP008). It is further supplemented within the Information Security Standards Manual (ISS002).<br><br>IT Services is aware of the risk of current non-compliance and is in the process of addressing the recommendation.<br><br>LogRhythm training was provided to relevant IT Infrastructure & Network Service Delivery staff on 15/03/11 & a deadline of 30/09/11 was agreed with the IT Operations Manager for full implementation.<br><br>Dedicated resources are however required to facilitate proactive monitoring and the delivery of these is being considered. | IT Operations Manager<br><br>30/09/11 |
| **Review of Internal Audit** | | | | |
| 15 | The work documented in the file should be consistent with the findings in the final internal audit report. For instance, where information has been received from the Council staff after the draft report is issued, this should be documented on the file and used to support the revised report. Similarly, where review notes have been used to explain work completed and recommendations made, the file should be updated accordingly, to ensure that issues identified on the file are explained once those review notes are removed. | M | We consider that this should be a Low priority. We agree that it would be good practice to retain on file all audit evidence that comes to light subsequent to the draft report being issued, in support of the changes made the report. In future, the testing programme and working papers will be updated to reflect the cleared file review points. However, we do not believe that there are any control risks on the basis of the findings. | Deloitte Audit Manager<br><br>Immediately |

 

# C. Action plan

| Rec No. | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|---|---|---|---|---|
| 16 | Controls should not be removed unless the risks which they address are sufficiently covered by the remaining controls. | M | We consider that this should be a Low priority. This relates to the Housing Benefits audit and more specifically to the risk that 'Management information is not complete, accurate, valid or timely'. Although the remaining controls did not fully mitigate the risk, evidence was obtained of monthly management team meetings where information is presented, which form the basis of informed decisions. Therefore we do not believe that there is any substantial control risk. However, the point raised has been noted for future reference. | Deloitte Audit Manager<br><br>Immediately |
| 17 | The final report should include either recommendations or minor points in the body of the report for all controls which have not been found to be 'Effective'. | L | The findings relate to one of the controls tested as part of the Payroll audit The control which was found to be 'Partly Effective' relates to Service Managers requiring to complete a Notification of Leaving e-form through Harinet. The audit sampled 20 leavers and five exceptions were found where a form was not completed. Four relate to electoral staff for whom no records are normally kept because of their casual role and one relates to a Councillor for whom an HR file is not kept. In the case of the Councillor, the Pay Control Manager obtained confirmation of the list of Councillors who were not re-elected. In all cases the correct date of leaving was recorded on SAP.<br><br>We do not believe that there are any control risks based on the findings of this review. | Deloitte Audit Manager<br><br>Immediately |

 

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