


Haringey Council

Report for:	Corporate Committee 27 th September 2012	Item number	10
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Title:	Statement of Accounts 2011/12 and Annual Governance Report.
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Report authorised by :	 Assistant Director - Finance
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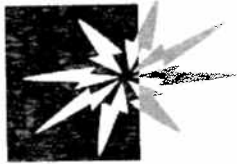
Lead Officer:	Peter Hayday Tel: 020 8489 3414; Email: Peter.Hayday@haringey.gov.uk
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Ward(s) affected: All	Report for Key/Non Key Decision: Non-key
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- 1 **Describe the issue under consideration**
 - 1.1 To present the Statement of Accounts for 2011/12 following the completion of the external audit.
 - 1.2 To consider the statutory Annual Report to those charged with Governance from Grant Thornton which reports on their annual audit of the Council's statutory accounts, value for money and other relevant information.

- 2 **Cabinet Member Introduction**
 - 2.1 Not applicable

- 3 **Recommendations**
 - 3.1 That the Committee consider the contents of this report and any further oral updates given at the meeting by Grant Thornton.
 - 3.2 That the Committee approves the Statement of Accounts 2011/12, subject to any final changes required by the conclusion of the audit, delegated to the Director of Corporate Resources in consultation with the Chair.
 - 3.3 That the committee notes the ISA 260 report of the auditors, Grant Thornton, and approves the management responses in the Grant Thornton action plan contained within the ISA 260 report.



Haringey Council

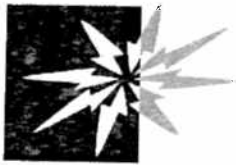
- 3.4 That the Committee notes and approves the 'unadjusted' misstatements as detailed in Section 3 of the Auditor's Report (Audit Adjustments).

4 Executive Summary

- 4.1 The approval of the Council's accounts is a non-executive function fulfilled by the Corporate Committee. The Statement of Accounts 2011/12 is appended to this report for approval.
- 4.2 The final Housing Revenue Account (HRA) outturn in the audited statement confirms that reported to Cabinet in June 2012 of £3.6million. However the General Fund position is showing a £1million increased surplus of £4.7million as the result of a late adjustment relating to the restatement of outstanding interest due on investments.
- 4.3 The statutory report of Grant Thornton on certain matters relating to the Council's governance responsibilities needs to be considered before a final opinion of the council's financial statement for 2011/12 is given.
- 4.4 It is expected that an unqualified opinion on the accounts will be given by the deadline of 30 September 2012.

5 Background information

- 5.1 Approval of the Council's accounts is a non-executive function, fulfilled by the Corporate Committee. In previous years members would have been presented with a draft set of accounts in June for approval prior to the commencement of the annual audit. Following the issue of a new statutory instrument, members are now required to formally approve the statutory accounts after the conclusion of the annual audit.
- 5.2 This report includes the Annual Financial Report 2011-12 and the External Auditor's Annual Report (ISA 260).
- 5.3 The Annual Financial Report is attached as Appendix 1 and comprises three elements:
- An Explanatory Foreword
 - The Statement of Accounts
 - The Annual Governance Statement
- 5.4 The Auditors "Annual Report " (ISA 260) comprises:
- Executive Summary
 - Key Audit Issues



Haringey Council

- Audit Adjustments
- Design and Effectiveness of Internal Controls
- Other Reporting Matters
- Value for Money

5.5 The preparation and audit of the annual statement of accounts is a statutory requirement of the Accounts and Audit (England) Regulations 2011. The Accounts must be prepared and certified by 30th June by the Chief Financial Officer (the 'responsible finance officer') that it represents a true and fair view of the financial position of the Council. By no later than 30th September the accounts must be audited, considered by the appropriate committee responsible for audit and published.

6 Statement of Accounts

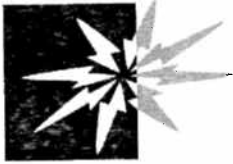
6.1 The Annual Financial Report and the Statement of Accounts therein are largely determined by statutory requirements and mandatory professional standards as set out within the "Code of Practice on Financial Reporting" published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The CIPFA Code of Practice is based on International Reporting Standards (IFRS). A summarised version of the accounts will also be published once the audit has been completed and the accounts have been formally approved.

6.2 The purpose of the Statement of Accounts is to provide clear information about the authority's finances and should answer such questions as:

- What did the authority's services cost in the year?
- Where did the money come from?
- What were the authority's assets and liabilities at the year end?

The Statement of Accounts reflects a common pattern of presentation to facilitate comparison with the accounts of other organisations. The accounts also form the basis of the Medium Term Financial Planning process.

6.3 The Council's Provisional Outturn 2011/12 was reported to Cabinet in June 2012 and detailed an overall underspend on the General Fund revenue budget of £3.7million and an HRA surplus for the year of £3.6million. Following the production of the annual accounts the surplus (underspend) on the General Fund increased by £1million as a result of a late adjustment relating to the accrued interest on investments. The HRA final outturn has remained as reported.



Haringey Council

7 Explanation of the Accounts

- 7.1 The following paragraphs give a brief overview of the statements by way of explanation and to facilitate navigation of the document.

The Impact of Changes to Reporting Requirements

- 7.2 As has already been stated the accounts are based on International Financial Reporting Standards (IFRS). The main change in disclosures resulting from changes in the IFRS reporting requirements relates to the reporting of 'heritage' assets. These are assets which have historical or artistic qualities that are held and maintained principally for their contribution to knowledge and culture. The overall value of the Council's heritage assets has been estimated at some £4million and is shown separately on the balance sheet with an accompanying note.

Sections of the Statements

- 7.3 The Statement of Accounts comprises the following main elements:
- The Movement in Reserves Statement shows the money that the Council had in reserve at the beginning of the financial year, and details the money coming in and out of those reserves resulting in the closing balance on 31 March 2012. This statement includes the movement on the General Fund and the Housing Revenue Account reported to Cabinet in June 2012. It also shows the movement in other useable reserves including Earmarked Reserves.
 - The Comprehensive Income and Expenditure (I&E) Statement shows the costs incurred and income received in respect of the services provided by the Council within the financial year. The I&E contains a number of 'accounting' entries that are required to be made by the code of practice governing the presentation of the accounts: as a result it is very different from the standard management accounts reported to Members through the year. Note 29 to the accounts includes the I&E set out in the more familiar way with a summary statement linking it back to the main I&E.
 - The Balance Sheet lists the financial value of the assets and liabilities of the Council as at the end of March 2012. For comparative purposes the previous year's figures are shown at the end and the beginning of the financial year.
 - Unlike the Income and Expenditure Statement the Cashflow Statement shows movement during the year based on cash



Haringey Council

transactions. As such it explains how the Council's cash position has changed over the course of the year.

- The Notes to the Accounts provide more detail behind the figures in the four main statements above. The reference on the statements directs the reader to the relevant note(s).
- The Housing Revenue Account (HRA) is a separate ring-fenced account showing the expenditure and income relating to the management and maintenance of the Council's social housing stock.
- The Pension Fund Accounts are separate from the rest of the Council's accounts and show the income (pension contributions and investment returns) and expenditure (pension payments and fund management costs) for the year together with the assets and liabilities of the Pension Fund as at 31st March 2012. The Fund is audited at the same time as the Council's main accounts but is subject to a separate audit opinion. This is reported as item 7 on the Committee's agenda.
- The Collection Fund is a separate account detailing Council Tax collections (including those collected on behalf of the Greater London Authority) and National Non-Domestic Rates (NDR) which is collected on behalf of the Government. Any surplus or deficit on the Fund is distributed between the Council and the GLA in proportion to their share of tax income drawn from the fund.
- The Group Accounts show the financial position of the Council's 'Group'; this comprises the Council itself plus its share of any controlled Companies. The Council incorporates Homes for Haringey and Alexandra Park and Palace Charitable Trust within its Group Accounts.

Matters Arising During the Course of the Audit

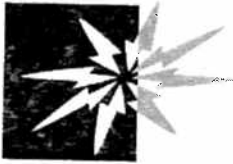
- 7.4 Following submission of the accounts to the auditors at the end of June, the accounts underwent technical review and validation. As a result, an unusually high number of errors were discovered in the draft accounts, over and above the level normally expected at that stage in the process. During the accounts closure process, assurances were given to senior management regarding quality that did not reflect the actual position. This matter is now being investigated within the Council's policies and procedures.
- 7.5 On discovery of the errors, the Council advised our external auditors, and during the past month, officers have been working with them to revise the accounts and answer queries arising from the restatement



Haringey Council

and audit. The errors in both the process and the accounts are a unique set of circumstances, and the Council will be working with our auditors to learn from what went wrong, and as far as practically possible, put procedures in place to ensure that such circumstances do not arise again.

- 7.6 The accounts presented to the Auditors at the end of June included accounting adjustments within the I&E which were not in accordance with IFRS. Although these adjustments had **no impact on the General Fund and HRA balances** they resulted in a number of changes being required to the four main accounting statements; most notably to the I&E and Movement in Reserves statements.
- 7.7 The main changes were as follows:
- In the I&E a £90million increase in the cost of services representing a misstatement of pension fund adjustments of £73million and capital accounting adjustments of some £17million. The other main changes in the I&E were an increase in the Financing and Investment income and expenditure of £60million reflecting HRA capital financing and lease liability adjustments and a £5million reduction in the fixed asset revaluation adjustment.
 - In the Balance Sheet a £10million switch between the treatment of some capital grants from 'Usable' to 'Unusable' Reserves and a £4million adjustment to the depreciation of housing properties. This latter adjustment had **no net impact on the value of the assets** but reflected a change in the methodology used for calculating depreciation.
 - As the above amendments were to the I&E and Balance Sheet they resulted in corresponding adjustments to the Movement in Reserves Statement and Cash Flow Statement and the supporting Notes and Group accounts.
- 7.8 A revised Statement of Accounts was submitted to auditors at the end of August following the work undertaken by officers to correct the identified errors. The auditors' ISA 260 report is based on the revised Statement of Accounts.
- 7.9 An improvement plan is being developed to address the procedural issues identified and to ensure no repeat next year. The outcome of the improvement process will be reported to the Corporate Committee circa February 2013.



Haringey Council

8 External Auditor's "Annual Report to those Charged with Governance"

- 8.1 The purpose of Grant Thornton's report is to detail their findings and matters arising during the course of auditing the financial statements. The report is attached as Appendix 2 and includes key audit issues, value for money conclusions and an agreed management action plan.
- 8.2 There are no areas of dispute between the Council and the auditors and all material amendments the auditors have asked to be made to the accounts have been actioned.
- 8.3 The report from Grant Thornton contains details of all major changes made over and above those summarised in paragraph 7.7 above.
- 8.4 Overall the Annual Report to those charged with Governance is positive. The Auditors will also make an oral presentation of their findings to the Committee.

9 Next Steps

- 9.1 Grant Thornton are required to give their opinion on the accounts by 30 September 2012 so any outstanding work on the audit needs to be completed before then.
- 9.2 The Director of Corporate Resources is required to sign a letter of representation to acknowledge the responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. A draft of this letter received from Grant Thornton is contained as Appendix 3.
- 9.3 The result of this audit will be incorporated in the Annual Audit and Inspection Letter which needs to be completed and agreed with officers and the Leader of the Council by the end of January 2013. It will then be made available to all Councillors and reported to the Cabinet. The final letter will contain references to the final opinion and a summary of the Annual Governance report issues.

10 Comments of the Chief Financial Officer and Financial Implications

- 10.1 There are no direct financial implications arising from the recommendations in this report.

11 Head of Legal Services comments

- 11.1 The Head of Legal Services has been consulted in the preparation of this report, and confirms that the Corporate Committee has the Constitutional power to make the decisions sought as part of its terms of reference.



Haringey Council

11.2 The Head of Legal Services also notes that the Statement of Accounts has been produced in accordance with legislative and industry best practice principles, and that there are no areas of dispute between the Council and the auditors. Accordingly, the Head of Legal Services advises that there are no direct legal implications arising from the report, or its recommendations

12 Policy Implication

12.1 None

13 Use of Appendices

13.1 Appendix 1: Annual Financial Report incorporating the Statement of Accounts for 2011/12 and the Annual Governance Statement.

13.2 Appendix 2: Report of the Council's external auditor to those Charged with Governance (ISA 260)

13.3 Appendix 3: Draft copy of the letter of representation from the Council to the external auditor.

14 Local Government Act, 2000 (Section 97)

Director of Corporate Resources Report to Cabinet June 2012 'Financial Outturn 2011/12'.

Closure of Accounts Working Papers

All the above papers are available for inspection through Peter Hayday, ext 3414.