Grant Thornton

London Borough of Haringey

Report to Those Charged With Governance (ISA 260)

For the year ended 31 March 2012

Contents

1 Executive summary

1.1 Purpose of this report

The purpose of this report is to highlight the key issues affecting the results of The London Borough of Haringey (the Council) and the preparation of the Council's financial statements for the year ended 31 March 2012. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position. 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 (the Value for Money Conclusion).

We take responsibility for this report, which has been prepared on the basis of the limitations set out in 'The 'ISA 260 reporting arrangements' (Appendix A).

1.2 Introduction

In the conduct of our audit we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated March 2012 except for needing to address the impact of the weaknesses in the Council's preparation of the financial statements which resulted in the Council withdrawing the accounts submitted for audit in June 2012 and presenting revised statements at the end of August.

Our audit is still on-going in the following areas:

- completing testing of PPE revaluations, debtor, creditors, reserves, provisions, grant revenue, cashflow statement;
- receipt of bank confirmation letters for school bank accounts;
- agreeing adjustments raised see section 2.2;
- updating our post balance sheet events review, to the date of signing of the accounts;
- receipt of the letter of representation;
- final review of financial statements; and
- review of Whole of Government Accounts.

We received draft financial statements in accordance with the national deadline and the accompanying working papers at the commencement of our work. Following submission of the accounts for audit at the end of June, the accounts underwent technical review and validation by the Council. 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 had been given to senior management regarding quality that did not reflect the actual position. This matter is now being investigated by the Council in line with its policies and procedures. The Council advised us on discovery of the errors and during the past month we have been working with them to revise the accounts and they have been answering our queries from the audit and restatement of the accounts.

It is recognised that the errors and process are a unique set of circumstances, and the Council will be working with us 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.

1.3 Key audit and financial reporting issues

Financial statements opinion

From the adjustments identified as a result of our audit, there has been an overall impact of an increase in the net worth of the Council of £1,250k These adjustments are explained in detail in sections 2 and 3 of this report. A number of other adjustments have been processed through the accounts that were minor and of a presentational nature only and had no overall net effect on the Council's reported assets and liabilities.

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

- Several requests for additional working papers were made during the course of the audit and this resulted in delays completing the audit in early September as planned.
- The Council recognise that there is a need to significantly improve the processes for dealing with prior year issues and preparing robust financial statements which stand up to audit scrutiny. Recommendations have been raised in respect of improving the quality of some working papers.
- An adjustment has been proposed to increase council dwelling depreciation by £4,336k. This is because we took the view that the planned maintenance spend in the 30 year HRA business plan provided a better estimate of depreciation over the next thirty years rather than the Major Repairs Allowance (MRA) that the Council has used as the proxy for depreciation in previous years.
- The Council accounted for its valuation incorrectly. Valuations had been undertaken as at 1 April 2011 and the Council had accounted for these values as at 31 March 2012. This had an impact on the depreciation charge for the year and the *increase/decrease* in asset values.
- We identified an asset reclassified from Assets Under Construction to other land and buildings in the year which should have been reclassified in the previous year. As this asset was not treated as operational during 2011/12, no depreciation had been charged on it resulting in an understatement of £440k. An adjustment has proposed for the reclassification and depreciation charge A number of issues have been identified with the asset accounting module and management should undertake a review of the system to check it is fit for purpose.
- Errors were noted in the school bank account reconciliations with non-reconciling items being included as such. This resulted in the schools cashbook balance being understated by an estimated £2,962k.

[At this stage of the audit, we anticipate issuing an unmodified audit opinion, following approval of the financial statements by the Corporate Committee.]

The key messages arising from our audit of the Council's financial statements to date are set out in section 2.

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 opinion.
Further details are set out in section 6.) Note- if the accounts are not signed by the deadline, the VFM conclusion will be an except for conclusion.

1.4 Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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

1.5 The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director of Finance and the senior finance team as they have arisen. We will continue to do so until the audit is completed.

Recommendations arising from our work have been discussed and agreed with the Assistant Director of Finance and the senior finance team.

1.6 Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

September 2012

2 Key audit issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

2.1 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated March 2012 except for needing to address the impact of the weaknesses in the Council's preparation of the financial statements which resulted in the Council withdrawing the accounts submitted for audit in June 2012 and presenting revised statements at the end of August.

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Accounting under IFRS	All areas of the financial statements	• We have continued to maintain on-going liaison with the Finance Team regarding emerging issues and guidance has been provided for any changes to accounting treatment under IFRS.	• From the work undertaken we have not identified any issues that indicate departure from accounting standards. However, during our work we identified additional information was required for disclosures in relation to estimates and judgements, accounting for schools and accounting policy for leases and depreciation. These have been discussed with the Council and will be amended in the revised financial statements.
HRA Self Financing	All areas of the financial statements	• The Council received a final settlement for HRA of £232m from the DCLG which we have agreed to DCLG confirmation. • We have reviewed the disclosures and accounting treatment as part of our final accounts audit to ensure the arrangements are appropriate and in accordance with relevant accounting standards and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code.	• The HRA settlement was not separately disclosed on the Comprehensive Income and Expenditure Statement (CIES)as an exceptional item. An adjustment has been proposed to ensure it is disclosed is in accordance with the Code requirements for exceptional items.

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Accounting for Heritage assets	Property, plant and equipment – Heritage assets	• As this was a new accounting requirement for 2011/12 and our work initially focused on the Council's approach to identification of heritage assets • We considered the approach to valuation of the identified assets and the appropriateness of the values included in the accounts • As part of our work in this area we also considered the accounts disclosures associated with heritage assets for compliance with the Code.	• Through our audit procedures we have gained assurance that the Council has correctly identified and accounted for its heritage assets • Further information on our findings are detailed in section 2.2.
Financial performance	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 and Assistant Director of Finance. • We have substantively tested revenue and expenditure. • Our work on Council reserves considered use of reserves during the year as well as the closing position to gain an understanding of the Council's financial position. • As part of our value for money work we followed up on our financial resilience review which provided a further overview of the Council's financial position.	• Management identified a number of errors to the financial statements and as mentioned above we were presented with revised statements on 30 August 2012. The CIES, Balance Sheet, Movement in Reserves Statement, Cashflow Statement, Amounts Reported for Resource Allocation decisions note and other related notes were revised as a result. The adjustments made by management did not have an impact on the reported general fund balance to Cabinet in June. • From the detailed testing carried out, we identified a number of adjustments and noted these did not materially impact on the Council's reported General Fund outturn position of a £4,729k increase for the year. • Our review of Financial Resilience reported to Corporate Committee in June 2012 concluded that overall, the Council's level of available reserves and contingencies provide adequate cover for known future financial risks. • The results of our value for money work are detailed in section 6.

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Revaluation of Non-current assets	Property, plant and equipment	• We held early discussions with management to gain assurance that revaluations completed would be in line with IFRS requirements • We undertook a thorough review of the Council's valuation approach, in particular that applied to MEA (Modern Equivalent Asset). This included challenge of the assumptions applied by the valuer within the calculation and re-performance of calculations to ensure accuracy of the final valuation figures • We substantively tested a sample of revaluations completed during the year, agreeing the amounts disclosed in the financial statements to the valuation	• Apart from Council dwellings, all other assets revalued in 2011/12 were valued by external valuers. Council dwellings were revalued by an internal valuations team • From our review of the assumptions used by both internal and external valuers we were able to gain assurance on the basis of valuations • A number of issues have been identified in relation to the revaluation of non-current assets and further information on our findings are detailed in section 2.2.
Component accounting	Property, plant and equipment	• We reviewed the Council's methodology for identifying and accounting for components in 2011/12 for both council dwellings and all other applicable non-current.	• From review of the Council dwelling valuations, the Council has not completed the valuation on a component basis. Although not a requirement for 2011/12, the Council should start planning for componentisation of Council dwelling as soon as possible as this is required under HRA self-financing. • For all other land and buildings, the Council has identified components as part of the review of valuations and these are being revalued on this basis. From our review of the asset register we noted that the entries on the register did not reflect the components included in the valuation report. In addition the useful economic lives of assets was recorded as a weighted average life of the components. Although this does not have an impact on the annual depreciation charge, each component should be included separately on the register.

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Depreciation of Council dwellings	Property, plant and equipment	• We reviewed the valuation of Council dwellings as part of our work to ensure it is in line with guidance issued. • In previous years, the Council has used the Major Repairs Allowance (MRA) as a proxy for depreciation. This will not be possible under the new self-financing HRA regime from 2012/13, although there will be a transition period. The Council needs to prepare for this. • From review of the accounts, the Council has continued to use MRA as a proxy for depreciation for 2011/12 in line with guidance. Management reviewed this and provided detail of the planned spend on council dwellings over the next thirty years as an alternative basis for the depreciation charge.	• Our review of council dwellings valuations has provided assurance that these have been completed in line with guidance. • In 2010/11we recommended that the Council ensured documentation was maintained for the estimates and judgements used in valuing assets. This was not fully implemented and has been raised again as sufficient documentation was not available during the audit. • The Council prepared a paper setting out the spend on council dwellings over the next thirty years based on the HRA business plan. Based on the stock condition survey carried out for preparing the HRA self-financing business plan, it was estimated that the Council will spend £538,093k over thirty years. This would cost the Council £17,936k per annum. This was considered to be a more appropriate basis for calculating depreciation and an adjustment has been made by management to increase Council dwelling depreciation by £4,336k.
Alexandra Park and Palace Trust (AP&P)	Group accounts consolidation	• We liaised with the auditors of AP&P to inform our planning and reviewed the consolidated accounts as part of the accounts audit.	• The the timetable for approval of the AP&P accounts was brought forward in line with the Council's closedown timetable. • An unqualified opinion was given on the AP&P accounts for the year ended 31 March 2012. • From testing of the group accounts no issues were identified

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Accounting for schools	Property, plant and equipment - schools	• We have provided the Council with the information available to date on accounting for schools. Discussions have been held with the finance team throughout the year. • We have discussed with the Council the requirement to ensure that disclosures in respect of accounting for schools is clear and that there is consistency in the treatment of schools that fall within the same category e.g. all voluntary controlled schools are presented in the same way in the financial statements.	• The Council has included its policy and appropriate disclosure on schools. This included the number of schools in the borough split between those controlled by the Council and those which are not. • From review of a listing of school assets we identified land for a voluntary controlled school which had a net book value of £146k had been included in the Council's balance sheet. This does not comply with the Council's accounting policy in relation to the treatment of school assets and an adjustment has been proposed to. remove the asset from the balance sheet • We requested the Council include the value of the schools, and where information was not available for the non-controlled schools, a reasonable estimate was used. This information will be included in the revised accounts. • Further information on our findings are detailed in section 2.2.
Use of Estimates and Judgements	All areas of the financial statements	• One key area of the Council's accounts which includes judgements and estimates relates to property valuations and specifically school assets. Work completed in these two areas has been considered separately in this report. • We have discussed the requirements for disclosures and supporting evidence for estimates and judgements within the financial statements including allowances, prepayments, accruals and provisions. • We reviewed the Council's accounting policies and disclosures for areas where estimates and judgements would be used.	• See page 7 for recommendation raised for judgements and estimated used for property valuations. • We requested additional disclosures be included for non-current asset valuations and useful lives of assets and for leases, accruals, provisions and the holiday pay accrual to provide further clarity on the judgements used by the Council to arrive at estimated values in these areas. • We considered all other disclosures where an estimate or judgement had been made were adequate.

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Reduction in Finance function	All areas of the financial statements	• To ensure that the accounts audit would be delivered in line with the timetable agreed with the Council, our audit work initially focused on high risk areas to ensure the Council had sufficient time to provide any additional information requested and resolve any queries raised as part of our work.	• We were provided with a set of working papers at the start of the audit, however several requests for additional information were made throughout the course of the audit where the information submitted was inadequate. Please refer to section 5 for recommendation raised regarding improving working papers. • Both ourselves and key officers were given assurance that the action plan agreed to improve the audit process as part of the post-mortem review in 2010/11 had been addressed. As the audit evolved we noted this was not the case. • We will undertake another review in October 2012 and work with the Council to ensure the audit process is improved in 2012/13. We will work with the Council to ensure that internal audit verify completion of the action plan.
Fraud	All areas of the financial statements	• We reviewed the fraud and corruption arrangements in place through discussions with Head of Internal Audit & Risk Management and Head of Legal. • We liaised with Internal Audit on questions from the public regarding alleged frauds at schools.	• The results of our review are detailed in section 3 with no significant issues identified. • No issues have been noted in regards to the counter-fraud arrangements in place for schools.
Whole of Government Accounts (WGA)	All areas of the financial statements	• We plan to complete our work on the WGA once we have completed our accounts audit work. • Work is yet to be undertaken on the WGA. Work on WGA will be undertaken on conclusion of the main accounts audit.	• Councils are required to prepare and submit for audit their WGA by the 31 July 2012. The Council did not submit its WGA until the 10 September 2012. The deadline for certification of the WGA is the 5 October 2012 we may have to issue a qualified opinion, if the deadline is missed.

Issue	Audit Areas affected	Work completed	Assurances gained / Issues identified
Control weaknesses in the Trust's IT systems are not addressed	All areas of the financial statements	• Detailed results of the work undertaken on the Trust's IT systems were set out in our AAM presented to the March Audit Committee.	• No further control issues relating to IT have been identified from our work carried out.

2.2 Matters identified during the course of the audit

Revaluation of Non-current assets

With the exception of Council dwellings, all other land and building assets were revalued by external valuers. The valuers provided their valuation report as at 1 April 2011 and completed an impairment review of assets as at 31 March 2012. The Council accounted for the valuations as though these had been completed as at 31 March 2012 instead of 1 April 2011.

We were unable to verify the date of valuation specified by the Council to the valuers or obtain a signed engagement letter. The Council should ensure engagement letters are in place when work is contracted out and finance team should ensure they lead the valuation process.

As a result of the above the depreciation charged for the year and the movement on revaluation was incorrectly calculated. An adjustment has been proposed to account for the valuation as at 1 April 2011, calculate the increase/decrease in valuation and the depreciation charge for the year. As a result the net book value of assets and revaluation reserve are overstated by £996k and £143k respectively. There would also be an additional charge to the Comprehensive income and expenditure account for depreciation and impairment of £1,139k. Adjustments for the above have been proposed which management have not made as these are not considered material.
Work is still on-going to check that revaluations have been correctly accounted. ***Work to be completed.***

Transfer of academy schools

During 2011/12 two schools achieved academy status. One of the schools, Woodside High School, was revalued prior to the transfer> However on accounting for this, the Council did not take into account the correct revalued amount. The Council only accounted for the land revaluation in calculating the loss on transfer and not the revalued amounts for buildings. An adjustment has been proposed to include the revalued building amount in calculating the loss on transfer. This results in a decreased loss on disposal of £12,468k, an increase in impairment to the CIES of £6,121k and a decrease to the revaluation reserve of £6,347k.These adjustments have been made by management.

Property, Plant & Equipment (PPE) - additions

From our testing of additions we identified that for one invoice the Council had incorrectly capitalised VAT of £51k. From our testing, we were unable to confirm that this was an isolated incident and therefore the error was extrapolated over in-year PPE additions resulting in an extrapolated error of £185k. An adjustment to decrease PPE additions in the year has been made for this amount. Management decided that as the amount was not material no adjustment would be made.

Reclassification of assets from Assets Under Construction (AUC)

The Council completed work at the Heartlands High School during the year and reclassified it from AUC to other land and buildings. We noted that the school became operational in September 2010 and therefore the spend up to that point of £36,962k should have been reclassified as other land and buildings in 2010/11. A prior period adjustment has been proposed for this which has been processed by management.

As the asset was operational in 2011/12 depreciation should have been charged on the asset for the year. This has been estimated as £440k for which an adjustment has been proposed.

Included in the reclassification line of the PPE note was an amount of £1,759k relating to Revenue Expenditure Funded from Capital Under statute (REFCUS). Per the Code, REFCUS should not be accounted for on the Council's balance sheet and should be expensed to the CIES. We are yet to obtain all the information to understand this transaction and conclude if REFCUS has been correctly accounted for. ***Work to be completed.***

Heritage assets
The Council approach to valuing its heritage assets is based on insurance value and where this was not available, on a valuation provided by a suitably qualified person. The Council's most significant item that meets a heritage asset classification is s a collection held at Bruce Castle which was valued by a suitably qualified person. From review of the asset register, we noted that the asset was not included at its revalued amount of £1,750k. An adjustment has been proposed to adjust the value of the collection to the revalued amount.

The Council has included disclosures in the accounts relating to its heritage assets, including their nature and valuation approach. We have reviewed these disclosures against the requirements of the Code and identified two minor non-compliances which have been raised with management for amendment.

Investment properties
From work we noted that two assets were incorrectly classified as investment properties. For an asset to be classified as investment property it should be used solely to earn rentals and/or for capital appreciation.

One of the buildings was being used by the Council and should be classified as other land and buildings. The other was not occupied or held for capital appreciation and should be classified as a surplus asset. Investment properties were therefore overstated by the net book value of these two assets which amounts to £370k and an adjustment to reclassify these assets has been raised. Management have not made this adjustment as it is not considered to be material.

Embedded leases
We reviewed significant contracts entered during the year to determine whether the arrangements meet the definition of a service concession per IFRIC 12 or contained a lease under IFRIC 4. The most significant contract entered into the year was with Veolia. We have reviewed the contract and it appears to contain a lease. We are still in discussions with management to determine if it does contain a lease and if so what the accounting impact is. ***Work to be completed.***

Retentions
From review of accruals we noted that the Council only accrues for retentions when construction projects are completed rather than when work is in progress. From review of AUC, it is estimated that the Council has retentions of £1,912k as at 31 March 2012. The Council has accrued for retentions of £1,664k therefore an adjustment has been proposed to increase accruals for retentions by £248k. This adjustment has not been made by management as it is not considered material.

School bank reconciliations
From our review of the school bank reconciliation, we noted the schools included items such as accruals and accrued income as reconciling items. Although this is in line with previous year-end returns it is incorrect and the schools cashbook balance is being understated by these items. We selected a sample of eight schools to identify the misstatement and extrapolated the error across the total school balance. Based on these procedures, we have estimated that the schools bank balances are understated by £2,962k. An adjustment has been proposed to correct this misstatement.

In addition a recommendation has been raised that the schools should exclude such items from the bank reconciliation to ensure that the balance reported is the cashbook balance.

Cash & cash equivalents

From review of the disclosure note, we noted that the Council nets off its credit bank balances against the debit school bank balances. Netting off of credit and debtor balances is not allowed by the CIPFA Accounting Code and an adjustment has been proposed to split the Council and school bank accounts accordingly.

Accumulated absences accrual (holiday pay accrual)

The Council's methodology remains the same as the previous in calculating non-teaching staff holiday pay accrual. We did not note any issues with the calculation. For teaching staff, the Council uses the CIPFA model provided to calculate the accrual. From our review we noted that the Council had used an incorrect estimated cost in the tool. The accrual was recalculated using the corrected cost amount and this resulted in an increase of the accrual by £354k. An adjustment has been proposed to increase the holiday pay accrual by this amount.

Council tax bad debt write offs

The Council wrote off council tax debts amounting to £845k in previous years which was accounted for on SAP however not IWorld, the Council tax system. This write off was approved in line with the Council's policy, however, these write offs could not be allocated to individual council tax accounts. An adjustment has been proposed to reverse the write off in 2011/12 which management has agreed to. The Council will raise this amount as a bad debt provision in 2011/12 and write off these debts on the IWorld in 2012/13.

Debtors

From our testing of debtors we noted that the council tax bad debt provision was incorrectly disclosed in the debtors note. This resulted in an increase in government debtors and council tax provision for bad debt by £7,307k and £5,791k and a decrease of other public bodies debtors by £1,516k. This adjustment has been processed by management.

From our testing we identified a balance of £2,351k included in debtors relating to an audit adjustment made in the previous year. This balance should have been reversed during 2011/12 and not included as a debtor amount at the year end. The corresponding entries are against creditors and cash of £2,336k and £15k respectively. An adjustment has been made by management to correct this.

Creditors

Our testing for unrecorded liabilities highlighted two invoices relating to 2011/12 which were paid in 2012/13. These had not been accrued for in 2011/12. As a result of this we extended our testing in this area. From the extended sample we identified that the Council had not accrued for invoices amounting to £478k. One of the initial errors related to over-performance on a contract which we could isolate and no further testing required. The invoice amounted to £62k. An adjustment has been proposed to increase creditors by £540k which management have not adjusted as it is not considered material. Management should improve their processes for identifying and capturing accruals at year end to ensure creditors are not understated.

From review of the creditors listing we identified debit balances of £160k which should be reclassified as debtors. We have proposed an adjustment for this.

Provisions

A provision has been included for a portion of the deficit relating to Thomas More school amounting to £395k. The school has a deficit of £900k and have requested additional funding from the Council to financially assist the school. This provision does not meet the criteria of a provision per International Accounting Standard (IAS) 37, Provisions and contingent liabilities. The information provided to date has not clearly demonstrated that the Council has an obligation to financially support the school or that the provision is based on a reliable estimate. Based on the above, an adjustment has been proposed to reverse the provision and transfer it to an earmarked reserve .

A provision is included in the accounts for housing dilapidations, where landlords make claims for damage by former Council tenants. The value of the provision made for each property is the higher of the claim and the surveyor's estimate of the costs on a case by case basis. It is considered that the 'reliable estimate' would be that made by an impartial third party expert and as such it is determined that it is the surveyors' estimates that should be used in the calculation of the provision. Adjustment of the difference between the two amounts results in a decrease of £492k on the provision.

Included in provisions was an amount of £1,789k relating to housing rent dilapidation which was raised in 2010/11. This provision was incorrectly reversed against creditors instead of provisions. An adjustment has been proposed for this to be corrected.

Potential liability in respect of Municipal Mutual Insurance Ltd
A court case on the 28 March 2012 has ruled that Municipal Mutual Insurance (MMI) has a liability for additional claims for infections by asbestosis based on the date of exposure rather than the date of onset of illness. The directors of MMI, which is in administration, had indicated in their accounts for the year ended 30 June 2011 that if the recent judgement was adverse the Scheme of Arrangement could be triggered resulting in requests for clawback from Councils of an estimated 10% of claims previously paid by MM1. Although the Scheme of Arrangement had not been triggered by 31 March 2012 many commentators believe that it will be triggered in the next 12 months

The Audit Commission also understands that MMI continues to receive a material number of new claims which could lead to a further clawback of up to 25%. The Council was insured by MMI and would be subject to clawback should the Scheme of Arrangement be triggered. The Council was insured by MMI and would be subject to clawback should the Scheme of Arrangement be triggered. The Council has decided not to make a provision for any potential liability as the 'trigger' event has not yet taken place and in the absence of such an event there is insufficient certainty around any liability the Council may have to justify establishing a provision' A contingent liability note has, however, been included in the draft financial statements and the Council has an Insurance MMI Reserve from which a sum has been set aside to cover the costs of any payments that may become due to MMI.

The Council should continue to monitor this issue and if the likelihood of the Council incurring a liability becomes more certain, it should consider establishing a provision for this purpose.

Icelandic Bank investment
The Council has calculated the impairment based on the LAAP bulletin issued by CIPFA. From review of the accounting entries we noted that the Council had netted off the impairment reversal against interest receivable. Interest payable has also been reduced by amounts included in the individual services budgets. This does not appear appropriate and an adjustment has been proposed for these incorrect entries.

Disclosure Adjustments
A number of disclosure adjustments were identified as a result of our audit procedures including:

- From initial work on the draft PPE note, a number of adjustments were made to the individual lines in the note. These adjustments did not impact the net book value on the balance sheet
- Investment income being incorrectly disclosed in Note 14 to the accounts. The subjective analysis for the amounts reported for resource allocation decisions note has been restated for issues noted during the audit
- Amendments to the Financial instruments note as a result of issues noted during the audit
- Changes to the debtor note in relation to reclassification of bad debt provision between debtor lines with no impact on the total impairment of debtor amount
- the restatement of the Provisions note as amounts were incorrectly classified
- Exit packages note has been revised for changes identified from audit procedures

These and other disclosure adjustments will both increase the clarity of the financial statements and compliance with IFRS and the Code have been processed by the Council.

Unresolved issues
Assets held for sale – we are waiting for information that an asset has been correctly held for sale in line with IAS.

Work outstanding
Work is outstanding in the following areas:
PPE depreciation testing to be completed
PPE – leases review of the Veolia contract to determine if it contains a lease
Revaluations – sample testing to be completed
PFI – awaiting information required on unitary charges
Reserves – work outstanding to confirm closing position following completion of other work
Provisions – awaiting information on selected provisions and contingent liabilities
Creditors – awaiting information to support selected sample
Debtors – testing to be completed
Exit packages – revised note and testing to be completed, HR to provide information
Review of final cashflow statement
PPE additions – testing to be completed
Review of CIES disclosures
Journal testing to be completed
Review of the pay multiple ratio note

3 Audit adjustments

3.1 Misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We have reported all misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

3.2 Impact of adjusted misstatements

All adjusted misstatements are set out in detail below.

3.3 Adjusted misstatements

	Detail	Balance sheet £000	Inc/Exp statement £000
1	**Misstatement: schools** The asset register includes land for a voluntary controlled school which does not comply with the Council's accounting policy in relation to the treatment of school assets. The net book value of the land is £146k.	(146)	146
2	**Misstatement Property, Plant and Equipment: Academy schools** One of the school Woodside High School was revalued prior to transfer to academy status. However, on accounting for this the Council did not take into account the correct revalued amount. It did not account for the building revaluation. An adjustment has been proposed to include the revalued building amount in calculating the loss on transfer. This results in a decreased loss on disposal of £12,468k, an increase in impairment to the CIES of £6,121k and a decrease to the revaluation reserve of £6,347k.	Nil	Nil
3	**Misstatement Property, Plant and Equipment: AUC reclassification** The Council completed work at the Heartlands High School during the year and reclassified it from AUC to other land and buildings. We noted that the school became operational in September 2010 and therefore the spend up to that point of £36,962k should have been reclassified as other land and buildings in 2010/11.	Nil	Nil

	Detail	Balance sheet £000	Inc/Exp statement £000
4	**Misstatement Property, Plant and Equipment: heritage assets** Heritage assets were not disclosed at their revalued amount: Heritage assets increased by £1,250 Revaluation reserve increased by £1,250	1,250 (1,250)	Nil
5	**Misstatement investment properties** Two assets were identified as being misclassified as investment properties. Investment properties were overstated by the net book value of these two assets which amounts to £370k. They have been reclassified as an operational asset and as a surplus asset.	Nil	Nil
6	**Misstatement school bank reconciliations** Errors were noted in the school bank account reconciliations with non-reconciling items being included as such. We have extrapolated this error as having an overall impact of a understatement of the schools cashbook by £2,962k	Nil	Nil
7	**Reclassification cash & cash equivalents** From review of the disclosure note, we noted that the Council nets off its credit bank balances against the debit school bank balances. Netting off of credit and debtor balances is not allowed by the CIPFA Accounting Code.	Nil	Nil
8	**Misstatement council tax write off** The Council wrote off council tax debts amounting to £845k in the year which was accounted for on SAP however not IWorld, the Council tax system. As the systems could not be reconciled, an adjustment has been proposed to reverse the write off in 2011/12 and raise a bad debt provision for the same amount which management has agreed to.	Nil	Nil
9	**Misstatement: Accumulated absences accrual (holiday pay accrual)** For teaching staff, the Council uses the CIPFA model provided to calculate the accrual. From our review we noted that the Council had used an incorrect estimated cost in the tool. The accrual was recalculated using the corrected cost amount and this resulted in an increase of the accrual by £354k	(354)	354

	Detail	Balance sheet £000	Inc/Exp statement £000
10	**Reclassification: Debtors** The council tax bad debt provision was incorrectly disclosed in the debtors note. This resulted in an adjustment to increase government debtors and council tax provision for bad debt by £7,307k and £5,791k and decrease of other public bodies by £1,516k. There is no impact on the overall reported debtor position following this reclassification.	Nil	Nil
11	**Reclassification: Creditors** From our testing we identified a balance of £2,351k included in debtors relating to an audit adjustment made in the previous year. This balance should have been reversed during 2011/12 and not included as a debtor amount at the year end. The corresponding entries are against creditors and cash of £2,336k and £15k respectively. An adjustment has been made by management to correct this.	Nil	Nil
12	**Reclassification Provisions** Included in provisions was an amount of £1,789k relating to housing rent dilapidation which was raised in 2010/11. An audit adjustment in 2010/11 was made to reclassify this a provision. This provision was incorrectly reversed against creditors instead of provisions.[1]	Nil	Nil
13	**Reclassification Icelandic Bank** The Council had netted off the impairment reversal against interest receivable of £866k. Interest payable has also been reduced by amounts included in the individual services budgets £680k.	Nil	Nil
14	**Reclassification: HRA self-financing** An adjustment was proposed to separately disclose the HRA settlement as an exceptional item on the face on the CIES	Nil	Nil
15	**Reclassification: Creditors** From review of the creditors listing we identified debit balances of £160k which should be reclassified as debtors.	Nil	Nil

	Detail	Balance sheet £000	Inc/Exp statement £000
16	**Disclosure** A contingent liability note has been included for MMI as the Council has decided not to make a provision for any potential liability as the 'trigger event has not yet taken place and in the absence of such an event there is insufficient certainty around any liability	N/A	N/A
17	There were a number of disclosure and presentational changes that arose during the course of the audit that have been made to the financial statements.	N/A	N/A
Impact		**759**	**491**

3.4 Unadjusted misstatements

	Detail	Balance sheet £000	Inc/Exp statement £000	Reason for not adjusting
1	**Misstatement Property, Plant and Equipment: revaluation** The Council accounted for its valuation incorrectly. Valuations had been undertaken as at 1 April 2011 and the Council had accounted for these values as at 31 March 2012. This had an impact on the depreciation charge for the year and the increase/decrease in asset values. As a result the net book value of assets and revaluation reserve are overstated by £996k and £143k respectively. There would also be an additional charge to the CIES for depreciation and impairment of £1,139k.	(1,139)	1,139	This adjustment has not been made by management as it is not considered material.
2	**Misstatement Property, Plant and Equipment: additions** An adjustment was identified in our testing of additions in which VAT was incorrectly capitalised. This error was extrapolated over the additions for the year and amounted to £185k.	Nil	Nil	This adjustment has not been made by management it is not considered appropriate. The £51k has been reclaimed in the September VAT claim.
3	**Misstatement Property, Plant and Equipment: AUC reclassification** We identified an asset reclassified to other land and buildings in the year however this should have been reclassified in the previous year	(440)	440	This adjustment has not been made by management as it is not considered material

	Detail	Balance sheet £000	Inc/Exp statement £000	Reason for not adjusting
	and depreciation of £440k charged in 2011/12 on the asset.			
4	**Misstatement Property, Plant and Equipment: retentions** From review of the Council's AUC, it is estimated that the Council has capital retentions of £1,912k as at 31 March 2012 The Council has accrued for retentions of £1,664k therefore an adjustment has been proposed to increase accruals for retentions by £248k.	Nil	Nil	This adjustment has not been made by management as it is not considered material
5	**Misstatement creditors** Our testing for unrecorded liabilities highlighted two invoices relating to 2011/12 which were paid in 2012/13. These had not been accrued for in 2011/12. An adjustment has been proposed to increase creditors by £540k which management have not adjusted as it is not considered material.	478 (540)	62	This adjustment has not been made by management as it is not considered material
6	**Misstatement Provisions** A provision has been included for a portion of the deficit relating to Thomas More school amounting to £395k which does not meet criteria of being recognised as a provision.	395	(395)	This adjustment has not been made by management as it is not considered material
7	**Misstatement Provisions** Housing dilapidations provision - The value of the provision made for each property is the higher of the claim and the surveyor's estimate of the costs on a case by case basis. It is considered that the 'reliable estimate' would be that made by an impartial third party expert and as such it is determined that it is the surveyors' estimates that should be used in the calculation of the provision. Adjustment of the difference between the two amounts results in a decrease of £492k on the provision.	492	(492)	This adjustment has not been made by management as it is not considered material
Impact		**(754)**	**754**	

3.5 Adjustment identified by management

Misstatements that were identified by the management team during the course of the audit and subsequently adjusted have been included below. Items two to eight arise as a result of the Council revising the financial statements approved on 30 June 2012 (refer to section 1.2 of this report).

	Detail	Balance sheet £000	Inc/Exp statement £000
1	**Property, Plant and Equipment: council dwellings depreciation** - An adjustment has been proposed to increase council dwelling depreciation by £4,336k. This is because we took the view that the planned maintenance spend in the 30 year HRA business plan provided a better estimate of depreciation over the next thirty years rather than the use of MRA as a proxy for depreciation which is the current basis used by the Council.	(4,336)	4,336
2	Adjustments to net cost of services	Nil	91,205
3	Other operating expenditure	Nil	(1,519)
4	Financing and investment income and expenditure	Nil	60,347
5	Taxation and non-specific debt settlement	Nil	1,925
6	(Surplus)/deficit on revaluation of fixed assets	Nil	(4,111)
7	Useable and unusable reserves	10.126 (10,126)	Nil
8	The adjustments had an impact on the movement in reserves statement, cashflow statement and various disclosure noted which have been amended to reflect the above.	N/A	N/A
Impact		**(4,336)**	**147,847**

The above adjustments have no impact on the increase in the general fund and HRA position for the year as there are reversed in the movement in reserves statement.

4 Design effectiveness of internal controls

4.1 Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the Council's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the Council. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include all possible improvements in internal control.

See Appendix A for further details of our approach in respect of internal controls.

Property, Plant & Equipment (PPE)

We selected a sample of assets to verify they existed. We were unable to verify specific infrastructure and vehicle, plant and equipment assets as these are included as groups or on block under these categories on the asset register. There is a risk that assets included in the register are no longer in use or held by the Council. The Council should ensure that assets included in their asset register are still held and in use and can be easily identified and located to confirm their existence.

We requested several reports in relation to PPE and they were not always provided in a user friendly format which resulted in delays selecting samples and completing tests. The Council should ensure that staff receive appropriate levels of training and support in the use of the SAP asset accounting module.

Overall, management should review the asset management system to check it is fit for purpose.

Working papers

The Council provided working papers on the first day of the audit, however these were incomplete and in some instances they did not agree back to amounts disclosed in the accounts. As a result, several additional requests for information were made during the course of the audit. During the planning process we issue the Council with an arrangements letter which sets out our requirements for working papers, providing working papers in line with this would result in a more efficient audit. As in previous years the Council provided us with listing of transactions from SAP, the accounting system, for debtors and creditors instead of listing of these amounts which shows amounts owed to/by the Council. A recommendation for this was raised in 2010/11 and we have raised this recommendation again. In addition we noted that there were reports from systems such as the council tax and housing systems where listing of debtors were not run at year end. These systems do not allow reports to be run retrospectively. The Council should ensure that these reports are run at year end and saved.

The Council needs to undertake a review of the quality of its working papers to support the financial statements.

Debtors bad debt provision and write offs

We reviewed the Council's policy for providing for bad debts and write offs made in the year. The Council has in the past tended to provide100% for debt over a year old and a reasonable amount for current debt which varies for each category of debt. We noted that there is significant amount of debt that is over two years old which the Council is still pursuing in some cases, but is not being collected. We also noted that for housing rent debtors of £9,420k, only £300k was written off in the year. This was discussed with management and it was agreed there was a need to improve the debtor position and for r the Council to review its debtors to identify which of these are genuinely collectable and those which won't realistically be recovered. This is the case for areas such as HRA, Council Tax and Housing benefit debtors. Although the net debt remaining on the balance sheet is considered to be reasonable due to high levels of provision, it is recommended that write offs be processed where it is considered remote that the monies will be collected.

Capital grants unapplied

We were able to gain assurance on the overall balance of the capital grants unapplied account. The Council should maintain a detailed analysis of the individual grants movements in line with the Code requirements.

4.2 Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of our overall review of the internal controls system. We also performed a follow up of the issues that have been raised in the previous year. We concluded that, from the work undertaken to date there are no material weaknesses that are likely to impact on the Council's financial statements for the year ended 31 March 2012. We reported issues identified to the Council along with an action plan with management in our AAM which was reported to the May 2012 Corporate Committee.

Key to priority rating of recommendations

- ▲ High – significant effect on control system
- Medium –effect on control system
- Low – best practice

	Assessment	Recommendation	Management comment	Implementation and responsibility
1	▲ High	The Council should make arrangements to ensure that staff receive appropriate levels of training in the use of the SAP asset accounting module.. Overall, management should review the asset management system to check it is fit for purpose.	Agreed. A review of the module is currently underway with the aim of introducing a revised asset accounting system for the 2012-13 accounts.	Head of Finance – Budgets, Accounts and Systems December 2012

	Assessment	Recommendation	Management comment	Implementation and responsibility
2	▲ High	The Council should ensure working papers are prepared in line with the Arrangements Letter which is sent to the Council prior to close-down. Working papers should agree to the amounts included in the financial statements. This will increase the efficiency of the audit. The Council should to undertake a review of the quality of its working papers to support the financial statements.	Agreed. Further work will be undertaken to ensure that the working papers accurately feed through to the entries in the main accounts.	Finance – Budgets, Accounts and Systems December 2012
3	▲ High	The Council should ensure engagement letters are in place when work is contracted out and finance team should ensure they lead the valuation process.	Agreed. The closure programme will be amended accordingly after consultation with Property Services.	Finance – Budgets, Accounts and Systems December 2012
4	Medium	The Council should start planning for componentisation of Council dwelling as soon as possible as this is required under HRA self-financing. From our review of the asset register we noted that the entries on the register did not reflect the components included in the valuation report. In addition the useful economic lives of assets was recorded as a weighted average life of the components. Although this does not have an impact on the annual depreciation charge, each component should be included separately on the register.	Agreed. This work forms part of the review of the asset management system referred to in item 1 above.	Finance – Budgets, Accounts and Systems December 2012

	Assessment	Recommendation	Management comment	Implementation and responsibility
5	Medium	We noted that there were reports from systems such as the council tax and housing systems where listing of debtors were not run at year end. The Council should ensure that relevant debtors reports are run and saved from these systems where it is not possible to run these reports retrospectively.	Agreed. All reports required to be run at the year end will be included as part of the closing procedures note agreed with service managers as part of the annual closing programme.	Finance – Budgets, Accounts and Systems December 2012
6	Medium	We selected a sample of assets to verify they existed. The Council should ensure that assets included in their asset register can be easily identified and located to confirm existence.	Agreed. Again this work will form part of the review of the asset management system currently underway.	Finance – Budgets, Accounts and Systems December 2012
7	Medium	We noted that there is significant amount of debt that is over two years old which the Council is still pursuing in some cases but is not being collected. There is need for the Council to review its debtors to identify which of these are genuinely collectable and those which won't realistically be recovered. This is the case for areas such as HRA, Council Tax and Housing benefit debtors.	Agreed. A full review of the Council's debt write-off process has commenced.	Finance – Budgets, Accounts and Systems December 2012
8	Medium	Management should improve their processes for identifying and capturing accruals at year end to ensure creditors are not understated.	Agreed. The closure programme will be amended accordingly.	Finance – Budgets, Accounts and Systems December 2012

	Assessment	Recommendation	Management comment	Implementation and responsibility
9	Medium	The Council should maintain a detailed analysis of the individual grants movements in line with the Code requirements.	Agreed. This recommendation will be actioned as part of the review of the capital accounting arrangements referred to above.	Finance – Budgets, Accounts and Systems December 2012

5 Other reporting matters

5.1 Other assurance reviews

To support our audit opinion the following reviews have been undertaken as communicated as part of our audit planning:

VAT

Based on the findings of the review, there is a good level of VAT compliance at the Council. The Council's VAT group position is currently being investigated and further information is required on the background of the formation of the VAT group. Whilst most VAT matters investigated have not given rise to any material errors, it is important that this issue is resolved as soon as possible.

PAYE review

Based on the findings of the review, there is a good level of employment taxes compliance at the Council. The main area of concern involves the engagement of individuals on a self-employed basis. The Council does not currently have a process in place to establish the correct employment status of such individuals at the time they are engaged. This may result in both tax and employment law issues. From a tax perspective, this could lead to significant underpayments of tax and NIC. A recommendation has raised and agreed with management to address this issue.

We also recommended some minor amendments to the relocation policy document and comment on the Council's practice in respect of calculation of termination payments. We have separately reported our findings to the Council and agreed an action plan for recommendations raised.

Fraud

Based on the findings of the review, there appears to be a good awareness of anti-fraud and corruption procedures within the Council and effective governance arrangements are in place. Whilst anti-fraud and corruption activities are focused within the Audit and Risk Management Team, the Council's corporate approach to fraud and corruption enables skills and experiences to be shared and promotes a multi-disciplinary approach when issues arise. In similar reviews we have undertaken we have found this approach to be more effective than where responsibility is spread within separate departments.

5.2 Annual governance statement (AGS)

We have considered the Council's arrangements and processes for compiling the AGS and considered whether it is either misleading or inconsistent with other information known to us from our audit work.

We have reviewed the draft AGS and consider that the information contained within the document is a fair representation of Council operations during the year and complies with the requirements of the Code. However we did suggest improvement on the recording of assurances the Council receives to support its AGS.

We reviewed the Council's AGS and explanatory foreword against best practice and areas where the Council is performing well and areas where there is scope to improve to improve external reporting to move towards 'best in class'.

The revised AGS incorporates most of the improvements noted. We will continue to work with the Council to further improve its AGS next year.

5.3 Explanatory foreword

We have reviewed the Council's explanatory foreword to the accounts and noted some small improvements to aid clarity of the document. We have shared our findings with the Council and additional comments have now been added to the text. We will review the narrative content of the revised explanatory foreword and ensure that all agreed audit adjustments are appropriately reflected prior to the completion of our audit.

5.4 Public challenge matters

We received a formal question from the public regarding the debt outstanding on the disposal of Cranley Gardens and have since responded to this query.

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 2012 that prevent us from issuing our audit certificate

6 Value for Money

6.1 Value for money conclusion
The Code of Audit Practice 2010 (the Code) 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; and
- review regularly the adequacy and effectiveness of these arrangements.

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 robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we have considered the issues raised in the Internal Audit Annual Opinion, including the overall opinion that the 'system of internal control in operation during the year to 31 March 2012 is fundamentally sound based on the systems and areas reviewed during the year.

6.2 Overall conclusion
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we expect to present an unqualified Value for Money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. We set out the basis for this conclusion in this section of the report. This conclusion is subject to the audit deadline of 30 September 2012 being met.

6.3 Summary findings
Securing financial resilience
As part of the work informing our 2011/12 Value for Money (VFM) conclusion we have followed up of our detailed 2010/11 report on financial resilience and also included:

- a review of the responsiveness of the Council's MTFP, for example to changes to key assumptions such as the impact of demographic change and price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan
- a deep dive on the 2012/13 savings plans in selected areas to be agreed with management, testing out the robustness of the key assumptions and risk profile.
- a review of the financial management arrangements including investment decisions and savings plans in Children's Services drawing on internal audit and other assurance processes and using benchmarking where appropriate.

This work enables us to conclude whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial for the foreseeable future (12 months from the date of this report). Results were reported to the June 2012 Corporate Committee and are summarised below.

Our overall conclusion is that whilst the Council faces significant financial challenges in 2012/13 and beyond, its current arrangements for achieving financial resilience remain fit for purpose. We have assessed the key areas using a traffic light system to indicate risk as follows:

	2010/11	2011/12
Financial KPIs for 2011/12	● Green	● Green
Financial planning	● Amber	● Green
Financial governance	● Green	● Green
Financial control	● Green	● Green

Key:
- ● High risk area
- ● Potential risks and/or weaknesses in this area
- ● No causes for concern

Financial KPIs
Benchmarked key indicators of financial performance indicate that, in general terms, the Council is following recent trends of the London Borough comparator group for most indicators. These trends indicate reductions in liquidity, reserves, DSG balances and borrowing levels.

Overall, the Council's level of available reserves and contingencies provide adequate cover for known future financial risks.

The Council's 2011-12 net General Fund provisional revenue outturn underspent by £3.7m, during a year when £40.5m savings have been realised.

Financial Planning
The Council adopted a corporate approach to identifying savings, followed by the introduction of departmental targets, to ensure savings levels were achieved. Budgets and savings were agreed at a corporate level, by senior officers and Members.

Savings identification and approval was achieved at a much earlier stage of the financial planning cycle than for the previous year, which provides a more effective pre-implementation timescale for the delivery of savings during 2012-13. There is still some scope to RAG rate and undertake sensitivity analysis during the development of savings options.

Further work is required to meet the outstanding budget gap of £ 6.1m within the MTFP (for 2013/14) and to provide greater certainty of the financial position for 2014-15. There are significant financial challenges, such as in respect of welfare reform and business rate retention.

Financial Governance
The Council has a well-established approach to financial governance that has delivered solid results in recent financial years. Significant reductions to finance resource took place during 2011-12, and the concept of the Haringey Manager was rolled out. During our fieldwork there was a generally very positive response to these changes. However, behavioural change is still required and the Council continues to monitor the successful embedding of the changes.

The Council should consider if there is a need to better understand the skill and experience requirements for members with cabinet or governance roles. This is in the context of the generationally significant financial challenges facing the sector.

Financial Control
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.

Whilst key financial systems have historically been used to provide reliable financial monitoring information for the Council to manage financial risks in a timely way, the current procedures incorporate a number of labour intensive work around activities . The Council has introduced a new budget projection tool on SAP during 2011-12, but further system enhancements have been put on hold, pending the successful outcome of the current shared ERP platform procurement, which will see a new system go live in April 2014.

Challenging economy, efficiency and effectiveness
We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

To support our conclusion against this criterion we reviewed the Council's arrangements against a series of key risk indicators. The only issue we followed up in detail was in respect of the Council's procurement arrangements the results of which are summarised below

Review of the Council's arrangements for contract management
Our work is intended as a high level review of the overall adequacy of 'the Council's procurement organisation and its capabilities to support the Council in achievement of value for money:

- in evaluating the efficiency and effectiveness of the procurement organisation we believe the move toward a Central Procurement Unit (CPU), while still work in progress, has realised benefits of a more cost effective organisation and offers a more consistent and controlled approach to procurement across the Council
- there is an on-going challenges to ensure the CPU's role in ensuring procurement is both cost effective and compliant with legislation and internal policy acknowledged across the Council.
- limited resources make it difficult for the CPU to fully support the level of procurement activity across the Council
- the consideration of Value for Money in decision making process for large and complex procurements needs to be more clearly evidenced
- the Council has played a leading role in developing pan London arrangements for energy and now construction. In doing so the Council benefits from the sharing of good practice with partners and from the additional purchasing leverage of the group.

The draft report is being discussed with management and will be presented at the next Corporate Committee meeting.

Overall VFM conclusion
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. [Subject to the audit deadline being met.]

A ISA 260 reporting arrangements

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

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee of London Borough of Haringey and the Council's senior management team.

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 2012.

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

We would 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 to third parties without our prior written consent.

Responsibilities of Council officers and auditors

The Council's officers 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 memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of 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 Council that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit 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 Audit 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 our 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 Audit Committee.

Independence

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

- the appointed engagement lead and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and directors and the audit team have no family, financial employment, investment or business relationship with the Council; and
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead.

In accordance with best practice, we analyse our fees below:

	£
Statutory audit	454,500
Other assurance services - pension fund audit	35,000
Advisory services	41,600
Total	**531,100**

* Certification of claims and returns £90,500 (est)

Audit quality assurance

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

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

Grant Thornton