Haringey Council

Agenda Item

Audit Committee On 28th January 2008

Report title: **Audit of Accounts 2006/07**	
Report of: **Chief Financial Officer**	
Ward(s) affected: All	**Report for**: Information

1. Purpose

1.1 To update the committee on the final outcome of the annual audit for 2006/07 and to report on issues raised by the Audit Commission

2. Recommendations

2.1 That the Committee note the contents of this report and the actions proposed that arise from the matters raised by the Audit Commission.

Report authorised by: Gerald Almeroth – Chief Financial Officer

Contact officer: Graham Oliver – Head of Finance –Accounting and Control
Telephone 020 8489 3725

3. Executive Summary

3.1 The statutory report of the Audit Commission on certain matters relating to the Council's governance responsibilities needs to be considered before a final opinion of the Council's financial statements for 2006/07 is given and a concluding statement on the Council's arrangements for securing economy, effectiveness and efficiency in the use of resources. The actions proposed arising from the report are detailed.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 None.

5. Local Government (Access to Information) Act 1985

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

Report of Acting Director of Finance to General Purposes Committee on 28 June 2007 – Statement of Accounts 2006/07

Report of Acting Director of Finance to General Purposes Committee on 11 September 2007 – Annual Governance Report

6. Background

6.1 At the General Purposes committee meeting of 11th September 2007 the Audit Commission presented to members the initial findings from their audit of the accounts for 2006/07. However at that stage the audit was incomplete and the auditors were not able to give a complete picture.

6.2 It was agreed that any final issue were agreed between the auditors and the Chief Financial Officer, in consultation with the Chair of GP Committee and that an update report would be brought back to a subsequent meeting of the General Purposes committee and the Audit committee.

6.3 The statutory deadline for the signing off of the accounts by the Authority's auditors was 30th September 2007 and the final audit certificate was issued by the District Auditor on 16th October 2007. The reason for this delay was some late additional testing around the area of capital expenditure that the auditors needed to carry out in order to assure themselves that appropriate expenditure was being classified as capital spend.

6.4 The Auditors delivered an unqualified audit opinion and concluded that the Council has proper arrangements in place to secure economy, effectiveness and efficiency in its use of resources.

7. Annual Governance Issues 2006/07

7.1.1 Detailed below are issues that were raised by the District Auditor in signing off the 2006/07 accounts. The Chief Financial Officer worked closely with the Audit Commission during the audit process to resolve the issues that arose. None of the issues reported on by the Audit Commission had any impacted on the net spend of the Council or the level of reserves. A direct response to the issues raised is shown in the table below:

Audit Commission issue	Chief Financial Officer response
HfH pre-transfer pension costs The management agreement between the Council and HfH stipulates that pre-transfer pension costs should be borne by the Council, not the ALMO. Pre-transfer costs in the draft accounts were overstated by £3m because the Council had used the value as at 1 April 2006 and not 31 March 2007. Income to the Housing Revenue Account was therefore understated by £3m and the Pension Liability Account correspondingly overstated. There was, however, no impact on the Housing Revenue Account Reserve, as local authorities are required by statute to charge pensions costs to the Pension Reserve. The accounts have been amended accordingly.	This is an issue that came to light shortly after the accounts were closed. As soon as the Council became aware of this issue it was raised with the auditors in order that the Council, HfH and the respective auditors could work together to ensure the correct accounting treatment was put into place. The accounts were then amended accordingly. The council is now working with HfH and the pension fund actuaries to ensure this issue is properly resolved for future years.
Calculation of gains/losses on disposal of fixed assets Our testing of two fixed assets disposed of in year found that the Council had not obtained a revaluation at or near the date of disposal. The calculation of the gain realised on disposal was in both cases £1.1m and was calculated based on a revaluation carried out two years prior to disposal when the original decision to dispose	This was a new requirement for the accounts in 2006/07. The sale of the 2 assets in question took place in June 2006 and the detailed CIPFA accounting guidance notes on how to present this information in the accounts was not issued until January 2007. The two sales in question took an exceptionally look time to conclude and therefore in normal circumstances a valuation would have taken place nearer the time of conclusion to the sale. However

of the assets was made. SORP guidance requires assets to be revalued to open market value prior to their disposal. In this case, where some considerable time passed between the initial decision to dispose and the actual disposal date, an updated valuation should have been obtained. No valuation was, however, obtained nearer the time of disposal (or retrospectively). The effect of such a revaluation would have been to take the gain direct to reserves rather than via the income and expenditure account. As such, the gains on disposal included in the income and expenditure account may be overstated by up to £2.2m, although there is no potential impact on the reported general fund balance carried forward. The Council market tested both disposals. As such, this is a technical accounting issue that does not highlight any failures in the Council's arrangements to agree a fair sale price for the assets concerned. However, officers have agreed to ensure that updated valuations are obtained for accounting purposes where appropriate in future.	procedures are now in place with the valuers to ensure any future sales have an up to date valuation.
Disclosures of related businesses and companies and related parties The Council's disclosure of related parties continues to require improvement. The note presented for audit did not include the value of income and expenditure between the Council and related parties. Our testing also found that HfH and Alexandra Park and Palace (AP&P) were not disclosed as related parties, and that the information disclosed in general with regard to these two interests could be improved. Whilst amendments have been made for these items, further improvements in	The Council's disclosures within this area are compliant with the requirements governing the production of accounts. This has also been improved from previous years accounts. However these disclosures will be reviewed as part of the closing process for 2007/08 and discussions held with our auditors in order to bring about further improvements.

disclosure can be achieved in future years. The Council should therefore review for 2007/08 the disclosures made in its accounts: - for related parties, in general, against the requirements of the SORP; and - for HfH and AP&P, specifically, to improve the consistency of the disclosures between information in different parts of the accounts and also with the information presented with the accounts (for example, the AP&P memorandum accounts).	
Group Accounts The purpose of the group accounts is to present a full picture of the Council's economic activities and financial position, including that of its subsidiaries. The Council is required to prepare group accounts for 2006/07 as a result of the creation of the ALMO on 1 April 2006. Our work found that aspects of the Council's group accounts could be improved. For example, no disclosure was made of the material items of income and expenditure included in the group accounts, but excluded from the Council's accounts. In addition, no disclosure was made of the acquisitions basis on which the group accounts were prepared. Amendments have been made that address these issues.	The omissions in the group accounts highlighted by the auditors are acknowledged and as stated the accounts were amended accordingly. The points raised will be incorporated into the action planning for the 2007/08 closure of accounts.
Single Status The Council has disclosed a contingent liability in the accounts in respect of single status. It is the Council's view that a provision under FRS 12 should not be made at this stage, having regard to the uncertainty in ascribing a value to the liabilities potentially arising at this time. For the same reason, it is the Council's view that it is also not possible to ascribe a reasonable value	As stated by the Audit Commission, the CFO had a different view on the interpretation of the accounting standard and therefore the disclosure in the accounts. Therefore the accounts were not changed for this issue. When the 2007/08 accounts are closed this issue will be re-examined in the light of the status of the on-going negotiations, which will have hopefully reached their conclusion, and the accounting treatment applied

to the disclosed contingency. From the evidence presented to us, we consider that the Council has made considerable progress in its negotiations on single status. From our review of that evidence, we do not consider that the Council has demonstrated its case that it is unable to ascribe a value to its potential liabilities having regard to the guidance set out in FRS 12, either with regard to the requirement to make a provision, or, if not, with the requirement to estimate and disclose the potential contingency. The Council has reviewed its approach, but remains of the view that the disclosure of a contingent liability, with no ascribed value, is correct. We have concluded that, whilst the amounts involved are potentially very large they do not of themselves preclude the issue of an unqualified opinion on our part having regard to the concept of materiality. Any liabilities would also only become chargeable to the general fund at the point at which they are paid, rather than when provided. We have, however, required specific management representations on this issue. The Council will also need to review its potential single status liabilities carefully for 2007/08.	accordingly.
Ownership of assets As a result of testing of ownership of a sample of fixed assets using the Land Registry, we identified two properties where title was not registered to the London Borough of Haringey, but to Middlesex County Council, a defunct body. The values of these properties, as shown in the balance sheet as at 31 March 2007, were £6.3m (a primary school) and £802k (a dwelling). We made enquiries of the Council's Legal Department and received further	As stated the two properties in question were transferred to LBH from one of its predecessor authorities, whose name is still on the title deeds. This is not an unusual occurrence and we would not expect title deeds to be amended, as a sale/purchase has not taken place. We are discussing with the Auditors what measures to put in place to properly address this issue.

information to support the validity of the inclusion of these assets in the Council's balance sheet. Nevertheless, the Council needs to undertake a full review of the information held to support the ownership of the assets carried in its balance sheet and, as in the case of the two properties identified at audit, ensure that that information is brought up to date where required.	
Fixed Assets – HRA additions Our testing of HRA fixed asset additions identified some items that did not initially appear to result in the acquisition, construction or enhancement of a fixed asset and as such did not meet the SORP definition of capital expenditure. This included the costs (including recharges) of some routine repairs to void HRA properties and the costs of repairs to fire-damaged HRA properties. Officers have provided further evidence to demonstrate that the repairs tested had been carried out as part of a larger programme of refurbishment that resulted in the enhancement of the assets concerned (and hence the capitalisation of the related costs). Officers have, however, agreed to keep the Council's processes for identifying capital expenditure under review in 2007/08 to ensure all such expenditure (including HRA recharges) is classified accurately and in accordance with SORP requirements.	The Council will be reviewing its procedures and guidance for the capitalisation of expenditure. Discussions will be had with the Council's new auditors to ensure they are satisfied that the Council's process is compliant with accounting regulations.

8. Revisions to the financial statements for 2006/07

9.1 Further to General Purposes Committee on 28 June 2007 when the Council's financial statements were approved it has been necessary to make some amendments mainly for non-trifling misstatements. None of these amendments materially effected the statements. These statements were formally published in December 2007 and are attached for information.

10. Financial Implications

10.1 There are no direct financial implications arising from the recommendations in this report; however, any adjustments to the accounts as a result of this process will be taken into account in the future financial planning process.

11. Recommendations

11.1 That the Committee note the contents of this report and the actions proposed that arise from the matters raised by the Audit Commission.

12. Head of Legal Services comments

12.1 There are no specific legal implications.