



Haringey Council

Agenda Item

General Purposes Committee

On 11th March 2008

Report title: **Audit Opinion Report 2006/07 and Action Plan**

Report of: **Chief Financial Officer**

Ward(s) affected: All

Report for: Information

1. Purpose

1.1 To present to committee the Audit Commission's Audit Opinion report 2006/07 and resulting action plan.

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.

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3. Executive Summary

3.1 As part of the annual audit process the council's auditors produce a detailed report on the year end audit and recommendations for improvement coming out of this. The Audit commission report is attached along with a detailed action plan that contains the officers' responses.

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

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

Report of the Chief Financial Officer to the General Purposes Committee on 3rd December 2008 – Audit of Accounts 2006/07

6. Background

6.1 At the committee meeting of 3rd December 2007 the Chief Financial Officer presented to members the principal findings and issues raised by the Audit Commission during their audit of the accounts for 2006/07.

6.2 Subsequent to this, the Audit Commission has provided a detailed report with recommendations on the findings of their audit and have made recommendations to further improve the process. This report and the associated action plan is attached.

6.3 The report outlined that the Council continued to make progress in its year-end procedures and processes in 2006/07 but suggested that this change and improvement process needs to continue further in 2007/08 in order to ensure overall standards continue to go up and to enable the Council to achieve the enhanced requirements of the Comprehensive Performance Assessment (CPA).

- 6.4 Officers have met with the Audit Commission to agree the report and have commented on each recommendation.
- 6.5 The actions arising from this report are being included within the Council's action plan and timetable for the closure of accounts 2007/08 to ensure they are all acted upon. In addition, discussions are being held with the Council's new auditors; Grant Thornton, to ensure agreement is reached with them in relation to implementing any of these recommendations.

7. Recommendations

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

8. Head of Legal Services comments

- 9.1 There are no specific legal implications.

Audit Detailed Report

February 2008



Opinion Audit Report

Haringey London Borough Council

Audit 2006/07

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Summary report

Introduction

- 1 The Audit Commission Act 1998 requires external auditors to give an opinion on the Council's financial statements. The Code of Audit Practice requires that the audit opinion should state whether the financial statements present fairly the financial position of the Council and its income and expenditure for the year then ended, and whether they have been properly prepared in accordance with appropriate regulations and proper professional practices.
- 2 The purpose of this report is to provide the Council with details of the more significant issues arising from our opinion audit, and provide recommendations for further improvements to the Council's financial reporting arrangements.

Audit approach

- 3 Our work has been tailored to meet the requirements of the International Standards on Auditing (UK and Ireland) and the Code of Audit Practice. Our work was undertaken in two stages. In our pre-statements audit, we assessed whether or not the key controls in the Council's material systems were working effectively. Our findings from this work then fed into the testing strategy for our post-statements audit of the financial statements. This two-stage process includes:
 - identifying and testing the adequacy of key controls within the Council's material financial systems in order to identify whether there are any risks of material misstatement in the financial statements;
 - assessing compliance with CIPFA's local government statement of recommended practice (the SORP);
 - the agreement of balances to the general ledger;
 - the agreement of opening balances to previous years' audited statements;
 - analytical review procedures;
 - substantive testing; and
 - proposing amendments to the accounts to correct errors identified during the course of the audit.

Main conclusions

- 4 The Council's accounts were submitted for audit on time and did not contain any material errors although some non-trivial errors were identified and subsequently amended during the audit process. Working papers were of a satisfactory standard although there were gaps which delayed the start of some audit work. Overall, we saw an improvement in the audit process as a whole, but there were still issues around delays in receiving information and responses to queries. The Council remains over-reliant on its key contact to respond to audit queries, in some cases slowing the process of clearance. Both accounts and audit staff worked to resolve issues arising, but an opinion could not be issued by the 30 September deadline. An unqualified opinion was, however, issued on 16 October 2007. As a result of the late submission of the Whole of Government Accounts return on 17 October 2007 and errors identified in it by audit testing, we were not able to give an opinion on the return until 30 November 2007, two months after the deadline of 1 October.
- 5 Areas in which we found positive changes this year include:
 - the Council's preparation of a thorough year-on-year analytical review of significant balances in the accounts;
 - a more detailed closedown timetable to plan and monitor progress;
 - improvements in the overall standard of working papers compared with the previous audit, although scope for improvement remains in some areas;
 - the Council's re-drafting of the 2005/06 comparators in the new format required by the 2006 SORP in advance of the draft accounts; and
 - expansion of the Council's own cut-off testing of revenue and capital payments.
- 6 In accordance with International Standard on Auditing (UK and Ireland) 260, we provided the General Purposes Committee with our Annual Governance Report on 11 September 2007 and also provided the Committee with an update on the significant findings arising from our audit at that date. Significant issues identified after this date were raised in a letter to the Chief Financial Officer in accordance with the delegated arrangements agreed at the 11 September 2007 meeting. That letter was copied to the Chairs of the General Purposes and Audit Committees. The Chief Financial Officer reported the actions the Council is taking to address these issues to General Purposes Committee on 3 December 2007.

6 Opinion Audit Report | Detailed report

7 The issues reported are summarised below.

- The evidence provided to support HRA fixed assets additions was weak in a number of instances. The audit opinion was delayed while the Council provided sufficient additional evidence to demonstrate that the treatment as capital was reasonable.
- The disclosure of the Council's single status as a contingent liability did not appear consistent with proper practices, in particular the requirements of FRS12. We concluded that, whilst the amounts involved were potentially very large, they did not of themselves preclude the issue of an unqualified opinion on our part having regard to the concept of materiality.
- The disclosure of Alexandra Park and Palace and Homes for Haringey as related parties required improvements to ensure the users of the accounts were provided with sufficient information to understand fully the nature of the Council's relationship with these bodies.
- The draft group accounts did not contain certain disclosures required by the SORP and the group accounts were not consistent with the single entity accounts in one instance.
- The Council failed to notify the pension fund actuary of the Council's arrangements for funding Homes for Haringey's pre-transfer deficit, resulting in a non-material amendment to the accounts and in delays to the audit process.
- Up-to-date revaluations were not obtained to support the gains on disposal of fixed assets.
- Additional evidence was required to support the Council's ownership of two assets shown in the accounts.

8 Our detailed report sets out matters arising from the audit and an action plan containing recommendations for further improvement is provided at Appendix 1.

Detailed report

Material systems

- 9 We identified a number of information systems that we considered material to the financial statements. These were as follows.
- Debtors.
 - Creditors.
 - General ledger.
 - NNDR.
 - Council tax.
 - Payroll/pensions payroll.
 - Treasury Management.
 - Pension Fund Investments.
 - Budget setting and monitoring.
 - Housing Rents.
 - Benefits.
 - Fixed asset register.
- 10 We completed walkthrough testing of the above systems, except for the fixed asset register, where full reliance was placed on post-statements testing. We reviewed work performed on these systems by Internal Audit (IA) and incorporated, where appropriate, their findings and conclusions into our assessment of the adequacy of key controls.
- 11 During our review we noted that IA had identified control weaknesses in some systems on which it has reported separately. In these areas, we performed further substantive testing on the associated balances within the financial statements. IA identified the following areas for improvement:
- the ledger system should be configured to require independent authorisation of journals over £50k;
 - periodic data integrity checks of employees on the payroll should be performed to confirm they continue to be employed by the Council;
 - investment and debtors reconciliations were not always authorised by a senior finance officer; and
 - not all outstanding sundry debtors were followed up, including those that were more than six months overdue.
- 12 We support Internal Audit's recommendations in these areas and encourage the Council to implement them.

Closedown processes

- 13 The Council prepared a more detailed closedown plan than in previous years and used project management software to produce the plan and monitor progress against it. Overall, this resulted in an improved closedown process and improvements to some supporting working papers. The draft accounts were submitted by the agreed deadline. However, we identified the following areas where further improvements to the Council's closedown processes could be made.
- There was limited evidence that the accounts had been formally reviewed by the Chief Financial Officer. For example, no schedule was retained showing the queries raised by the Chief Financial Officer on reviewing the draft accounts.
 - Weaknesses in the audit trail supporting various items of account were noted, including fixed asset additions, provisions, the cashflow statement, the collection fund and the group accounts. For example, the fixed asset additions audit trail contained a large number of adjustments to remove items miscoded to capital codes, hindering the sampling process.
 - There was no formal policy in place for liaising with and delegating closedown tasks to Homes for Haringey (HfH) officers. Further, the closedown plan provided limited detail as to what information was required from HfH as part of the closedown process, nor who was responsible for providing this.
 - Working papers supporting the Whole of Government Accounts (WGA) return were not submitted until 17 October 2007. This meant audit work did not start on the return until well after the CLG's 1 October deadline for WGA audit opinions. We were not able to sign the WGA opinion until 30 November 2007, two months after the deadline. WGA is covered in more detail, with related recommendations, on pages 19 and 20.

Recommendations

R1 Improve evidence of the Chief Financial Officer's review of the draft accounts.

R2 Provide robust audit trails to support the accounts, in particular for fixed asset additions, provisions, the cashflow statement, the collection fund and the group accounts.

R3 Establish a formal communications policy between the Council and Homes for Haringey which sets out the tasks relating to the production of the HRA and group accounts, the officers responsible for completing these tasks and the deadlines by which they should be completed.

- 14 During the audit a number of requests for additional information were made. The Corporate Finance team was able to address many of the more routine queries promptly, and information requested by Corporate Finance from other departments was also generally provided on a more timely basis than in previous years. However, there were a number of areas where delays were experienced, in particular in the working papers provided to support pension costs, single status, fixed asset additions, payroll analytical review and pooled budgets.
- 15 We noted that the Head of Accounting and Control was directly responsible for dealing with a number of audit queries. In our view there is scope for other members of the Accounting and Control team to be more involved in dealing with audit queries directly. This approach may help empower members of the team to gain the knowledge required to manage the closedown and audit process.

Recommendation

R4 Review the delegation of tasks within the Corporate Finance team to allow team members to gain a greater knowledge of the closedown and accounts preparation process.

Key issues arising from the accounts audit

Changes to the 2006/07 SORP

- 16 The 2006 SORP made some significant changes to the format of local government accounts in order to bring them more closely into line with UK Generally Accepted Accounting Practice (UK GAAP). These included the replacement of the Consolidated Revenue Account with an Income and Expenditure account and a Statement of Movement on the General Fund Balance which includes amounts and transfers required in the calculation of the General fund balance.
- 17 The Council prepared for the changes by restating the 2005/06 comparators in the format required by the 2006 SORP. This was provided to audit so that any significant areas of non-compliance could be corrected in advance, which we welcome as good practice in helping to ensure the changes in SORP requirements were addressed at an early stage. Our review found that the restated 2005/06 figures complied with the 2006 SORP, although we did note that the re-stated prior year comparators had been incorrectly disclosed as prior period adjustments. The Council amended the accounts in this respect.

Fixed assets additions testing

- 18 Our testing of HRA capital expenditure identified a number of instances where the level of evidence initially provided was not sufficient to allow us to conclude the expenditure was fairly stated. The audit opinion, due to be signed by 30 September 2007, was delayed until 16 October 2007 while additional testing was performed and additional evidence gathered. In total, we tested 20 HRA capital additions and had to request significant additional evidence in respect of 12 of these items. More details are set out below.
 - Nine items tested, totalling £10,394k, related to repairs work carried out on void HRA properties where significant enhancement work had been undertaken at the same time. The Council was able to provide sufficient evidence to demonstrate these repairs costs had been incurred as part of a larger programme of work designed to enhance the asset.
 - One item tested, totalling £758k, related to salaries of the Homes for Haringey asset management team. The Council was unable to provide sufficient evidence to demonstrate that all costs associated with this team related directly to the acquisition, construction or enhancement of fixed assets in accordance with the SORP definition of capital expenditure.
 - Two items tested, totalling £39k, related to the repair of HRA fire-damaged properties. This expenditure was incurred to reinstate assets to an existing standard and should therefore not have been treated as capital.

- 19 Given the high value of capital expenditure reflected in the Council's accounts, this will remain a high risk area going forward. It is vital the Council secures improvements in the quality of evidence retained in support of capital expenditure. In all instances, evidence must be sufficient to provide a clear understanding of the nature of the expenditure and why it is appropriate to treat it as capital.

Recommendation

R5 Improve evidence provided to support fixed asset additions to ensure that, in all cases, it is sufficient to provide a clear understanding of the nature of the expenditure and why it is appropriate to treat it as capital.

Fixed assets existence testing

- 20 Our audit work this year included the testing of a sample of fixed assets back to the Land Registry database to confirm that the Council continued to hold the ownerships rights of those assets. Our testing of a sample of 22 assets identified two properties, with values of £6.3m (a primary school) and £802k (an HRA dwelling) not registered to Haringey Council, but to Middlesex County Council, a defunct body. The Council was able to provide advice from its legal department indicating that the assets were in practice in the Council's ownership. However, it is important the Council notifies the Land Registry of any instances like this where there are inconsistencies between its data and the Council's.
- 21 We are aware of some authorities where cyclical reviews of fixed assets to Land Registry data or title deeds are carried out. This is good practice. The Council should consider carrying out a similar exercise with the aim of covering the entire asset base on a cyclical basis.

Recommendations

R6 Carry out a cyclical review of fixed assets to Land Registry data or title deeds to confirm the Council holds the ongoing rights to the use of these assets. This should aim to cover the entire asset base on a cyclical basis.

R7 Notify the Land Registry where inconsistencies between fixed assets data and Land Registry data are identified.

Gains and losses on disposal of fixed assets

- 22 The 2006 SORP required local authorities to calculate gains/losses on the disposal of fixed assets for the first time. We tested a sample of assets disposed of in year and identified two assets, both with gains on disposal of £1.1m, where the most recent valuations available were carried out in 2004. These values were used as the basis for calculating the gain on disposal.
- 23 The SORP requires that, when an asset is disposed of, the first step is to determine whether the carrying amount in the Balance Sheet is up to date, normally by revaluing the asset. This is designed to ensure that the calculation of gains/losses is based on current data and are fairly stated. By using 2004 valuations, the Council may have overstated the gains realised on the disposal of the two assets tested. The Council did not amend its accounts in respect of this finding as, whilst significant, it was not deemed material in impact. However, it is important the Council reviews its approach to calculating gains/losses to ensure that the accounts are fairly stated in future years.

Recommendation

R8 Review procedures for calculating gains and losses on the disposal of fixed assets to ensure they are fully compliant with the SORP.

Single status

- 24 The Council disclosed a contingent liability in the accounts in respect of single status. It was 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 that time. For the same reason, it was the Council's view that it was also not possible to ascribe a reasonable value to the disclosed contingency.
- 25 From the evidence presented to us, we considered that the Council had made considerable progress in its negotiations on single status. From our review of that evidence, we did not consider that the Council had demonstrated its case that it was 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 reviewed its approach, but remained of the view that the disclosure of a contingent liability, with no ascribed value, was correct.
- 26 We concluded that, whilst the amounts involved were potentially very large, they did 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. However, we also required specific management representations on this issue.

- 27 It is vital that the Council accounts for single status liabilities correctly going forward. For 2007/08, the Chief Financial Officer should review the Council's Single Status liabilities carefully and ensure that these are treated properly in accordance with FRS12. The basis of any significant judgments should be documented and provided as part of the working papers supporting the accounts.

Recommendations	
R9	<i>Single Status liabilities should be reviewed by the Chief Financial Officer to ensure they are treated properly in accordance with FRS12.</i>
R10	<i>The basis of any significant judgments supporting the treatment of Single Status should be documented and provided as part of the working papers supporting the accounts.</i>

Related parties

- 28 The Council's relationship with Alexandra Park and Palace charitable trust (AP&P) is a complex one, and requires a comprehensive disclosure as both a related party and as a trust fund. In discussion with audit, the Council made improvements in the way it disclosed its relationship with AP&P this year. However, considerable audit and officer time was spent ensuring the disclosures made were as clear and complete as possible. In particular:
- AP&P was not disclosed as a related party at all in the draft accounts;
 - the Council agreed to include a related party disclosure but did not initially make reference to the Council's indemnification of AP&P against £34m of Council debt. The Council subsequently amended the accounts to include this;
 - whilst the number of councillors sitting on AP&P's board was disclosed, the names of the councillors were not. The Council did not amend the accounts in this respect. Similarly, the disclosure of Homes for Haringey as a related party did not disclose the names of the councillors on HfH's board;
 - the purpose of AP&P was not disclosed in the trust funds note in the draft accounts, as required by the SORP. The Council subsequently agreed to amend the accounts to include this; and
 - for HfH and AP&P, specifically, there was considerable scope 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); the Council also needs to ensure that information presented with its accounts is accurate (for example, the AP&P memorandum accounts incorrectly disclosed the date on which the Trust board approved AP&P's accounts).

Recommendation

R11 Ensure all aspects of the Council's relationship with Alexandra Park and Palace are reviewed annually and are adequately disclosed in the accounts. In particular:

- disclose the names of the councillors who sit on the boards of Homes for Haringey and Alexandra Park and Palace; and*
- check the consistency of the information disclosed in relation to Alexandra Park and Palace and Homes for Haringey in different sections of the accounts, and the accuracy of information presented with the accounts (for example, the AP&P memorandum accounts).*

Homes for Haringey pension costs

- 29 The Council transferred responsibility for the day-to-day management and maintenance of its housing stock to Homes for Haringey (HfH) on 1 April 2006. The management agreement between the Council and HfH stipulates that pre-transfer pension costs should be borne by the Council, not HfH. However, the Council did not notify its actuary of this when it initially submitted data to inform the 2006/07 actuarial report. As a result, the draft accounts were prepared without reference to all the actuarial data required to ensure that this agreement was properly reflected in the accounts. This resulted in the omission of the following entries in the draft accounts:
- interest costs of £3.0m;
 - expected return on assets of £2.6m; and
 - actuarial gains of £4.1m.
- 30 As a result, the HRA deficit was understated by £400k (the net of the £3.0m interest costs and the £2.6m expected return on assets). The pension liability account and pension reserve were both overstated by £3.7m (the net of the above £400k and the £4.1m actuarial gain). There was no impact on the Housing Revenue Account Reserve, as local authorities are required by statute to charge pensions costs to the Pension Reserve. The Council worked closely with audit to ensure that the appropriate amendments were made to the accounts in respect of the above.
- 31 Going forward, it is important that the Council builds on what was learnt in 2006/07. In particular, it should ensure that any further changes to the HfH management agreement in respect of pension costs are identified, and that this and all other relevant information is provided to the actuary on a timely basis.

Recommendations

<i>R12 Continue to review the management agreement with Homes for Haringey to ensure that any changes in respect of pension liabilities are identified.</i>

<i>R13 Provide all relevant pensions data, including arrangements for funding Homes for Haringey's pensions liabilities, to the actuary on a timely basis.</i>
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- 32 Our audit work also identified that the Council had made payments of £700k to HfH during the year to fund the additional contributions payable by HfH in order to reduce its pre-transfer pensions deficit. The Council treated this as part of the management fee payable to HfH. However, in future years, the Council should consider treating this cost as an employer's pension contribution as it relates to pension liabilities accruing to periods where HfH employees remained employees of the Council.

Recommendation

<i>R14 Consider treating contributions in respect of Homes for Haringey's pre-transfer pension deficit as employer's pension contributions.</i>

Group accounts

- 33 The creation of Homes for Haringey (HfH) on 1 April 2006 required the preparation of group accounts for 2006/07. Whilst our work concluded that the group accounts were fairly stated, we requested additional working papers and also asked the Council to make a number of amendments to the presentation of the group accounts. The key areas where the Council should look to secure further improvements in 2007/08 are as follows.
- Providing a reconciliation of Homes for Haringey's figures in the group accounts to HfH's audited accounts, in addition to the reconciliation to the unaudited accounts already provided as these become available.
 - Ensuring consistency between the group accounts and the single entity accounts, in particular by ensuring that any late changes to the draft single entity accounts are also reflected in the group accounts.
 - Disclosing the material items of income and expenditure included in the group accounts but excluded from the single entity accounts.
 - Ensuring that all SORP disclosure requirements are complied with, in particular by disclosing the basis on which the group accounts were prepared, the purpose of the subsidiary, where the subsidiary's audited accounts can be found and whether these accounts were qualified, and the share of the subsidiary's assets and liabilities owned by the Council.

Recommendation

R15 Improve the process by which the group accounts are prepared by:

- *ensuring that the reconciliation of the group accounts to the unaudited Homes for Haringey accounts is updated when the audited accounts become available;*
- *reviewing the group accounts to ensure they are consistent with the single entity accounts prior to submission for audit. In particular ensure that late changes to the draft single entity accounts are reflected in the group accounts;*
- *disclosing material items of income and expenditure included in the group accounts but excluded from the single entity accounts; and*
- *ensuring that the group accounts include all disclosures required by the 2007 SORP.*

Other findings from the accounts audit

Statement on Internal Control

- 34 Our review of the draft statement on internal control found that it was consistent with our knowledge of the Council and was prepared in accordance with CIPFA guidance. From 2007/08, the Statement on Internal Control will be replaced by a more wide-ranging Annual Governance Statement. We recommend the Council takes steps to review and understand the implications of the Annual Governance Statement at an early stage. It will need to assess its arrangements against the new framework carefully and produce a statement that complies with the new requirements.

Recommendation

R16 Review the guidance for the preparation of the Annual Governance Statement at an early stage and ensure a statement that meets the new requirements is prepared in 2007/08.

Statement of total recognised gains and losses

- 35 The 2006 SORP required authorities to prepare a statement of total recognized gains and losses (STRGL) to show the movement in net assets between the opening and closing balance sheets. Our work found that the Council's STRGL had been prepared in accordance with SORP requirements. However, the working papers provided to support other gains and losses of £14,790k did not identify the individual gains and losses making up this amount, or how these amounts had been calculated. Additional audit time was spent identifying the significant items included in other gains and losses to determine whether they were fairly stated.

- 36 To ensure this is avoided in 2007/08, the Council should provide working papers to support the STRGL that clearly show how all gains and losses shown on the face of the STRGL are made up. It may also be appropriate to annotate this working paper to show how the gains and losses are derived from figures disclosed elsewhere in the financial statements.

Recommendation

R17 Provide working papers that show how all gains and losses shown on the face of the STRGL are derived from the accounts. It may also be appropriate to annotate this working paper to show how gains and losses are derived from figures disclosed elsewhere in the financial statements.

Debtors

- 37 Our audit found that the Council's bad debt provision was fairly stated. However, the Council does not have a formal policy for bad debts to ensure that provisions are set consistently and transparently across all categories of debt. The Council should consider establishing a formal policy for bad debts in 2007/08.

Recommendation

R18 Establish a formal policy for bad debts to ensure that provisions are set consistently and transparently across all categories of debt.

Housing Revenue Account

- 38 The Council showed a £1,287k difference between the £2,050k deficit shown on the HRA and the £763k deficit shown in the HRA line on the Income and expenditure account. When queried, the Council advised this arose because of differences in accounting practice between the two statements and provided a reconciliation to confirm the figures were consistent. If this continues to be the case in 2007/08, the Council should provide a reconciliation and an explanation for the differences as part of the working papers supporting the draft accounts.

Recommendation

R19 Where differences exist between the HRA and the HRA line in the income and expenditure account, provide a reconciliation and an explanation for the difference as part of the working papers supporting the draft accounts.

Pension fund

- 39 The Council prepared the pension fund accounts on the basis of reports provided by Northern Trust, the fund's custodian. To confirm investment figures were fairly stated, we agreed them to fund manager report as part of our audit work. This required additional audit time as the Council had not prepared its own reconciliation to fund manager reports.

Recommendation

R20 Reconcile all pension fund investments to the fund manager reports and provide the reconciliation as part of the Pension Fund working papers.

Disclosures

- 40 Our audit work identified a number of instances where there was scope to improve the quality of disclosures made in the accounts, as summarised below.
- Fixed asset revaluations (£151,606k) and write-offs (£94,637k) were not disclosed separately, despite being material in value.
 - There was no analysis of in-year movements on the Capital Financing Account, Fixed Assets Restatement Account or earmarked reserves, which is not in accordance with the SORP.
 - The value of transactions between the Council and its related parties was not disclosed, which is not good practice.
 - The disclosure of pooled budgets was not fully in accordance with the SORP, which requires that information about the services that the partnership provides, its geographical reach and a summary of its objectives be disclosed.
 - The Pension Fund accounts did not show a complete reconciliation of movements in investment assets during the year, which is not in accordance with the SORP.

Recommendations

R21 Disclose fixed asset revaluations and write-offs separately.

R22 Disclose in-year movements on reserves, as required by the SORP.

R23 Disclose the value of transactions with related parties during the year.

R24 Disclose information about the services provided by pooled budgets, their geographical reach and a summary of their objectives.

R25 Disclose all movements in Pension Fund investments in year, including sales and purchases of investments as well as changes in market value.

Whole of Government Accounts

- 41 The Whole of Government Accounts (WGA) consolidation pack was not provided to audit until 17 October 2007, although the recommended submission date was no later than 31 August. The Council's delayed submission and the number of errors identified by the audit meant that our opinion could not be given until 30 November, almost two months after the audit opinion deadline of 1 October set by the CLG.
- 42 Significant additional time was spent by audit and officers before we were in a position to give an unqualified opinion. The Council should take steps, as outlined below, to ensure this does not recur in 2007/08:
- the return should be prepared and submitted at the same time as the draft financial statements;
 - the return should be checked for consistency with the draft accounts before it is submitted, as our audit identified a number of inconsistencies and omissions when compared to the accounts, the most significant of which was the omission of Dedicated Schools Grant of £144m from the counter-party data;
 - validation warnings should be reviewed and cleared prior to submission of the return for audit. The 2006/07 WGA return showed three validation errors that required amendments to the return to resolve; and
 - the Council should consider whether it is appropriate for the Head of Accounting and Control to be responsible for producing the entire return as this task adds to his workload during the accounts closedown and audit periods and thus increases the risk of late submission.

Recommendation

R26 Improve the process for preparing and submitting the WGA return by:

- *submitting the WGA return to audit at the same time as the draft accounts, in line with good practice;*
- *ensuring the WGA is consistent with the draft accounts and the general ledger before it is submitted to audit;*
- *reviewing validation warnings in the WGA return before it is submitted to audit to ensure that errors due to incorrect entries can be identified and corrected; and*
- *reviewing the arrangements for preparing the WGA return to ensure the responsible officer has sufficient time to produce and check the return alongside the closedown and preparation of the accounts.*

Accounting developments

- 43 Further changes to the financial reporting framework for local authorities are expected in 2007/08 and beyond and are considered in more detail below.

CIPFA 2007 SORP

- 44 The 2007 SORP will require changes to the way in which authorities prepare their accounts, including the replacement of the Fixed Asset Restatement Account with a Revaluation Reserve. This is likely to have an impact on the way authorities account for capital expenditure not adding value, as well as revaluation and impairment losses in 2007/08. The Council should ensure it familiarises itself with the requirements of the new SORP and takes appropriate action to prepare the 2007/08 accounts in accordance with it.

The move to international financial reporting standards

- 45 In the March 2007 Budget report, HM Treasury announced its intention for the UK public sector to move from preparing annual financial statements under UK Generally Accepted Accounting Practice to preparing statements under International Financial Reporting Standards (IFRS) as adapted for the public sector.
- 46 The provisional timetable announced by HM Treasury suggests that local government accounts will move to IFRS for 2010/11. However, Whole of Government Accounts submissions from 2008/09 will be on an IFRS-compliant basis.
- 47 The probable accounting issues include:
- the establishment of opening balances;
 - PFI accounting;
 - leases;
 - property, plant and equipment; and
 - employee benefits.
- 48 To assist the Council as it considers the implications of IFRS, Appendix 2 contains some key questions to consider in preparing for this move to IFRS.

The Way Forward

- 49 We would like to thank officers for their cooperation during the audit process. An action plan is provided at Appendix 1 to this report.

Appendix 1 – Action plan

Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
8	R1 Improve evidence of the Chief Financial Officer's review of the draft accounts.	Medium	Head of Finance – Accounting and Control	Yes	A review is currently undertaken by the CFO before he signs off the accounts. We will enhance this and put in place a process of tracking the changes the CFO requires and ensure this is including in the working paper files.	June 2008
8	R2 Provide robust audit trails to support the accounts, in particular for fixed asset additions, provisions, the cashflow statement, the collection fund and the group accounts.	High	Head of Finance – Accounting and Control	Yes	Discussions have been held with audit to ensure the specific areas of improvement required are understood. These will be incorporated into general improvements of working papers that will be undertaken as part of the 2007/08 year end process.	June 2008
8	R3 Establish a formal communications policy between the Council and Homes for Haringey which sets out the tasks relating to the production of the HRA and group accounts, the officers responsible for completing these tasks and the deadlines by which they should be completed.	Medium	Head of Finance – Accounting and Control	Yes	This did take place for the 2006/07 closure but only at a high level and the protocols and discussions were not properly documented. This will be built into the planning for the 2007/08 year end.	June 2008
9	R4 Review the delegation of tasks within the Corporate Finance team to allow team members to gain a greater knowledge of the closedown and accounts preparation process.	High	Head of Finance – Accounting and Control	Yes	As part of the planning process a review of the allocation of duties will be undertaken to ensure the appropriate distribution of tasks. Training will be given where required.	March 2008

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Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
11	R5 Improve evidence provided to support fixed asset additions to ensure that, in all cases, it is sufficient to provide a clear understanding of the nature of the expenditure and why it is appropriate to treat it as capital.	High	Head of Finance – Accounting and Control	Yes	Discussions are already underway with the Housing services to improve on the evidence available to support expenditure. In addition capitalisations are being reviewed to ensure they continue to fall within the accounting regulations.	June 2008
11	R6 Carry out a cyclical review of fixed assets to Land Registry data or title deeds to confirm the Council holds the ongoing rights to the use of these assets. This should aim to cover the entire asset base on a cyclical basis.	High	Head of Finance – Accounting and Control	Yes	Discussions will be held with Corporate Property Services to action this on a cyclical basis.	February 2008
11	R7 Notify the Land Registry where inconsistencies between fixed assets data and Land Registry data are identified.	High	Head of Finance – Accounting and Control	Yes	Discussions will be held with Corporate Property Services to action this on a cyclical basis.	February 2008
12	R8 Review procedures for calculating gains and losses on the disposal of fixed assets to ensure they are fully compliant with the SORP.	High	Head of Finance – Accounting and Control	Yes	The procedures have been reviewed and amended and these will be discussed with the Auditors to ensure compliance with the accounting regulations.	June 2008
13	R9 Single Status liabilities should be reviewed by the Chief Financial Officer to ensure they are treated properly in accordance with FRS12.	High	Head of Finance – Accounting and Control	Yes	The year end timetable includes a specific task to review all contingent liabilities and ensure correct accounting treatment.	June 2008
13	R10 The basis of any significant judgments supporting the treatment of Single Status should be documented and provided as part of the working papers supporting the accounts.	High	Head of Finance – Accounting and Control	Yes	Full working papers will be provided to support any actions required due to the single status agreement.	June 2008

Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
14	<p>R11 Ensure all aspects of the Council's relationship with Alexandra Park and Palace are reviewed annually and are adequately disclosed in the accounts. In particular:</p> <ul style="list-style-type: none"> disclose the names of the councillors who sit on the boards of Homes for Haringey and Alexandra Park and Palace; and check the consistency of the information disclosed in relation to Alexandra Park and Palace and Homes for Haringey in different sections of the accounts, and the accuracy of information presented with the accounts (for example, the AP&P memorandum accounts). 	High	Head of Finance – Accounting and Control	Yes	A review of all related party transactions is included as part of the closing timetable. Specific discussions will be held at an early stage with our auditors to ensure a collective agreement on disclosures is agreed before the accounts are signed off.	June 2008
15	R12 Continue to review the management agreement with Homes for Haringey to ensure that any changes in respect of pension liabilities are identified.	High	Head of Finance – Accounting and Control	Yes	This review is underway and discussions have been held with the Council's pension actuaries.	June 2008
15	R13 Provide all relevant pensions data, including arrangements for funding Homes for Haringey's pensions liabilities, to the actuary on a timely basis.	High	Head of Finance – Accounting and Control	Yes	This review is underway and discussions have been held with the Council's pension actuaries.	June 2008
15	R14 Consider treating contributions in respect of Homes for Haringey's pre-transfer pension deficit as employer's pension contributions.	Low	Head of Finance – Accounting and Control	Yes	This review is underway and discussions have been held with the Council's pension actuaries.	June 2008

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Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
16	R15 Improve the process by which the group accounts are prepared by: <ul style="list-style-type: none"> ensuring that the reconciliation of the group accounts to the unaudited Homes for Haringey accounts is updated when the audited accounts become available; reviewing the group accounts to ensure they are consistent with the single entity accounts prior to submission for audit. In particular ensure that late changes to the draft single entity accounts are reflected in the group accounts; disclosing material items of income and expenditure included in the group accounts but excluded from the single entity accounts; and ensuring that the group accounts include all disclosures required by the 2007 SORP. 	High	Head of Finance – Accounting and Control	Yes	More specific tasks in relation to group accounts will be included in the closing timetable for 2007/08 and the improvements required built into the working papers for the group accounts.	June 2008
16	R16 Review the guidance for the preparation of the Annual Governance Statement at an early stage and ensure a statement that meets the new requirements is prepared in 2007/08.	High	Head of Audit and Risk Management	Yes	The work required for the completion of the Annual Governance Statement is underway.	June 2008

Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
17	R17 Provide working papers that show how all gains and losses shown on the face of the STRGL are derived from the accounts. It may also be appropriate to annotate this working paper to show how gains and losses are derived from figures disclosed elsewhere in the financial statements.	Medium	Head of Finance – Accounting and Control	Yes	These improvements will be built into the working paper preparations for 2007/08 closing.	June 2008
17	R18 Establish a formal policy for bad debts to ensure that provisions are set consistently and transparently across all categories of debt.	Medium	Head of Finance – Accounting and Control/ Head of Income and Debt Management	Yes	This will be actioned and will be in line with the Council's debt management policy.	June 2008
17	R19 Where differences exist between the HRA and the HRA line in the income and expenditure account, provide a reconciliation and an explanation for the difference as part of the working papers supporting the draft accounts.	Medium	Head of Finance – Accounting and Control	Yes	These improvements will be built into the working paper preparations for 2007/08 closing.	June 2008
18	R20 Reconcile all pension fund investments to the fund manager reports and provide the reconciliation as part of the Pension Fund working papers.	High	Head of Finance – Accounting and Control	Yes	The information received from the investment managers will be reviewed and additional information and reconciliation will be actioned as required.	June 2008
18	R21 Disclose fixed asset revaluations and write-offs separately.	Low	Head of Finance – Accounting and Control	Yes	The statement of accounts is currently being reviewed in the light of SORP 2007 and we will ensure the 2007/08 accounts are fully compliant.	June 2008

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Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
18	R22 Disclose in-year movements on reserves, as required by the SORP.	Low	Head of Finance – Accounting and Control	Yes	The statement of accounts is currently being reviewed in the light of SORP 2007 and we will ensure the 2007/08 accounts are fully compliant.	June 2008
18	R23 Disclose the value of transactions with related parties during the year.	Medium	Head of Finance – Accounting and Control	Yes	The statement of accounts is currently being reviewed in the light of SORP 2007 and we will ensure the 2007/08 accounts are fully compliant.	June 2008
18	R24 Disclose information about the services provided by pooled budgets, their geographical reach and a summary of their objectives.	Low	Head of Finance – Accounting and Control	Yes	The statement of accounts is currently being reviewed in the light of SORP 2007 and we will ensure the 2007/08 accounts are fully compliant.	June 2008
18	R25 Disclose all movements in Pension Fund investments in year, including sales and purchases of investments as well as changes in market value.	Low	Head of Finance – Accounting and Control	Yes	The statement of accounts is currently being reviewed in the light of SORP 2007 and we will ensure the 2007/08 accounts are fully compliant.	June 2008

Page no.	Recommendation	Priority Low Medium High	Responsibility	Agreed	Comments	Date
19	<p>R26 Improve the process for preparing and submitting the WGA return by:</p> <ul style="list-style-type: none"> submitting the WGA return to audit at the same time as the draft accounts, in line with good practice; ensuring the WGA is consistent with the draft accounts and the general ledger before it is submitted to audit; reviewing validation warnings in the WGA return before it is submitted to audit to ensure that errors due to incorrect entries can be identified and corrected; and reviewing the arrangements for preparing the WGA return to ensure the responsible officer has sufficient time to produce and check the return alongside the closedown and preparation of the accounts. 	High	Head of Finance – Accounting and Control	Yes	The completion of the WGA and the procedures required are currently being reviewed in order to ensure that the deadlines are adhered to in 2007/08 and that appropriate supporting evidence is provided. This review will include ensuring the responsibility for the task is allocated at the correct level. A peer review of the draft return will be incorporated into procedures for the 2007/08 and subsequent returns.	June 2008

Appendix 2 - Are you prepared for IFRS?

No.	Question	Priority 1 = Low 2 = Med 3 = High	Responsibility	Comments
1	Has a project been established for IFRS conversion?			
2	Where a project has been established for IFRS, is there clear leadership guidance and instructions with central coordination?			
3	Have resources been allocated for the IFRS conversion project?			
4	Has the impact of IFRS on the Council been analysed and assessed?			
5	Have all new data requirements been quantified and system sources identified?			
6	Have accounting policies been reviewed and final accounting policy decisions made in all areas?			
7	Have the restatement of historic comparatives under IFRS been considered?			
8	PFI Has the Council considered the impact of the IFRS on accounting for PFIs in particular noting that there is no directly applicable IFRS?			

No.	Question	Priority 1 = Low 2 = Med 3 = High	Responsibility	Comments
9	<p>Leases Have all of the Council's arrangements been reviewed to determine whether they will fall into the new wider definition of a lease?</p>			
10	<p>Property, Planet and Equipment Has the Council considered whether:</p> <ul style="list-style-type: none"> • any property, plant or equipment is composed of significant parts, each of which must be depreciated separately; and considered whether; or • the current system of recording property, plant and equipment is sufficient to record to the details of revaluations on an asset by asset basis? 			
11	<p>Employee Benefits Has the Council considered whether their payroll/HR system is capable of capturing the information required by IAS 19 which requires that leave that has been accrued for but not taken at year end be recognised in the balance sheet?</p>			