



LONDON BOROUGH OF HARINGEY COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

- the Council and pension fund financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
19 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued unqualified true and fair opinions on the Council and pension fund financial statements on 29 September 2016.

We reported our detailed findings to the Corporate Committee on 15 September and Pension Committee on 20 September. The majority of audit differences identified were corrected in the final published financial statements and the remaining misstatements did not have a material impact on our opinions.

USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2016.

Whilst there are uncertainties around future grant funding, demographics and demand pressures the Council's future planning and assumptions appear to be adequate. We concluded that the Council understands the financial challenges that it faces and has adequate arrangements in place to manage the financial position moving forward.

EXERCISE OF STATUTORY POWERS

We received objections regarding the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans. Our work remains ongoing although we were satisfied that this does not impact on the financial statements or on our value for money conclusion.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of the housing benefit subsidy claim for 2015/16 is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued unqualified true and fair opinions on the Council and pension fund financial statements on 29 September 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's and pension fund's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and the pension fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

REVENUE RECOGNITION	RESPONSE	FINDINGS
Risks of fraud in revenue recognition may arise from the use of Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Our review of revenue recognition focused on testing completeness and existence of fees and charges income and whether any conditions attached to grants have been met.	No issues were identified from our testing.
For the pension fund, this included contributions income from employees and employers.	<p>A sample of contributions during the year were vouched to member payroll records.</p> <p>Our work also included a detailed analytics comparing movement in employer and employee normal contributions based on changes in active members and member grade bandings.</p>	<p>No issues were identified from our testing of a sample of contributions to payslips.</p> <p>However, we identified discrepancies between the contributions received in the pension fund bank account and the total contributions per Haringey Council payroll for the months tested. The differences were not material but should be investigated by management to confirm that the correct amounts have been paid to the pension fund.</p>

FINANCIAL STATEMENTS

Continued

LAND AND BUILDINGS VALUATIONS	RESPONSE	FINDINGS
<p>The valuations for land and buildings included in Property, Plant and Equipment is estimated based on market values for existing use or depreciated replacement cost (DRC). The valuations for investment property is based on the highest and best use method.</p> <p>We identified a risk that the basis of valuation for these assets may not be appropriate or may not be supported by available valuation data.</p> <p>The Council engaged an external valuer to value its council dwellings, offices, car parks, public conveniences, surplus assets and investment properties as at 1 April 2015, and a further review to identify any further material movements during the year.</p> <p>This resulted in a net upwards revaluation movement of £158.243 million in the year for PPE and a loss of £9.724 million for investment properties.</p>	<p>We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.</p> <p>We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.</p> <p>We compared the outputs of the valuation exercise to benchmarking information made available to us by a consulting valuer engaged by the National Audit Office.</p>	<p>We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.</p> <p>We noted that the valuer informed the Council that housing indices suggested that local prices had increased by 11.5% from the 1 April 2015 valuation to 31 March 2016. However, the Council indexed dwellings by only 11% suggesting that the valuations may be overly prudent. We accept that the estimate is within a tolerable range.</p>

FINANCIAL STATEMENTS

Continued

PENSION LIABILITIES	RESPONSE	FINDINGS
<p>An actuarial estimate of the pension fund liability to pay future pensions, and the Council's share of the local government pension scheme, is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>At 31 March 2016 the total liabilities for the pension fund decreased by £118 million to £1,590 million.</p> <p>The Council's share of the total liabilities decreased by £113m to £1,391 million. The Council's share of the net liabilities decreased by £116 million to £529 million.</p> <p>These reductions were mainly as a result of the lower discount rate applied to the liabilities.</p>	<p>We reviewed the assumptions used by the actuary for reasonableness by reference to a consulting actuary's report commissioned by the National Audit Office.</p> <p>The key changes to the financial assumptions related to:</p> <ul style="list-style-type: none"> • A reduction in future salary increases from 4.3% to 4.2% • A reduction in future pension increases from 2.4% to 2.2% • An increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). 	<p>The main assumptions used by the actuary to calculate the present value of future pension liabilities was generally consistent with the consulting actuary's report commissioned by the National Audit Office.</p> <p>The only exception was the longevity at 65 for female future pensioners at 26.5 years, which compared with an expected range of 26.6 - 27 years. The actuary stated that this lower mortality reflected local factors for female scheme members.</p>

FINANCIAL STATEMENTS

Continued

ALLOWANCE FOR NON-RECOVERY OF RECEIVABLES	RESPONSE	FINDINGS
<p>The Council's provision for estimated non-recovery of aged debt is determined for each income stream using available collection rate or write off data. The largest areas of provision include council tax arrears, non-domestic rates arrears, housing rent arrears and PCNs (parking).</p> <p>We identified a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p>	<p>We reviewed provision rates applied by management with collection rates and write off data available.</p>	<p>Overall we concluded that the impairment allowances for receivables are reasonable and based on observable collection rates.</p> <p>The provision for housing benefit overpayments was calculated at 100% for balances over three years, 90%, 70% and 55% for two, one and current year balances. However, limited information could be provided to support the collection rates used by management.</p>

FINANCIAL STATEMENTS

Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Council's financial statements as a whole was set at £17.2 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.5 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

The materiality for the pension fund's financial statements as a whole was set at £10 million. This was determined with reference to a benchmark of net assets (of which it represents 1 per cent) which we consider to be one of the principal considerations for the pension fund in assessing the financial performance.

We agreed with the Corporate Committee that we would report all individual audit differences in excess of £500,000. We agreed with the Pension Committee that we would report all individual audit differences in excess of £200,000.

Audit differences - Council

We identified a number of presentational audit differences that were corrected by management in the published financial statements, mainly covering netting off internal recharges.

The following audit differences were not corrected that impact on the reported surplus in the Comprehensive Income and Expenditure Statement:

- (£4.35) million understatement of depreciation expenditure on housing dwellings
- +£2.01 million understatement of housing benefit debtors

Correcting for these remaining misstatements would result in the Council reporting a £2.34 million lower surplus for the year.

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Audit differences - pension fund

Our audit found one difference that was not corrected in the final financial statements that impacts on the reported net assets:

- (£0.2) million error on valuation reports on investment assets.

Correcting for this remaining misstatement would result in the pension fund reporting £0.2 million lower net assets.

We consider that this misstatement did not have a material impact on our opinion on the financial statements.

FINANCIAL STATEMENTS

Continued

Other matters we report on

Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Internal controls

We identified two significant deficiencies in internal controls during the course of our audit:

- Manual journals posted in the general ledger with no header description
- Bank reconciliation process is incomplete and does not fully reconcile the ledger control account through the cash book to the bank statements.

A number of other areas for improvement were identified which we have discussed with management:

- Records of signed contracts of employment
- Evidence of approving transactions and reconciliation of cash balances held for others
- Regular checks for Single Person Discounts
- Amending the declaration of interests form to include company directorships.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

We have completed our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The DCT was amended as a result of the audit and our assurance statement was submitted on 21 October 2016. We reported that the Council had not been accurately coding a number of counter party transactions in accordance with the Treasury's schedule of coding, and therefore these were not being correctly recorded in the DCT. As a result our overall audit opinion was that the DCT was consistent with the audited financial statements, except for completeness of CPIDs.

USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by information obtained from your previous auditor, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

USE OF RESOURCES

Continued

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>We identified a risk over the sustainability of the Council's financial position due to the reductions in government funding and inflationary and pay pressures.</p> <p>The Council had an overspend compared to budget of £6.8 million in 2015/16. This was mainly due to demand-led services such as Adults, Children's and the need for Temporary Accommodation.</p>	<p>We carried out a review of the MTFS to assess the key assumptions and the plans in place to deliver the necessary savings over the medium term.</p> <p>The Council is half way through the Corporate Plan 2015-2018 that was jointly prepared by the Executive Team and Members. It is recognised that there are challenges with managing the demand-led services, but the Corporate Plan and the aligned Medium Term Financial Strategy (MTFS) are providing the Council with direction and planning processes are continuing to improve.</p> <p>The Council identified £70 million of savings needed to be achieved in the period to 2017/18. It has already made savings of £100 million since 2010 and management is conscious further savings will be challenging especially in the demand-led areas. Savings estimated over the life of the Corporate Plan in the MTFS are 2015/16 £19.8m, 2016/17 £24.7m and 2017/18 £24.2m.</p> <p>Plans are in place to deliver these savings and the MTFS makes reasonable assumptions about increasing cost pressures due to population growth and increased demand for services, along with the amount of Government grant reductions that are expected to be applied.</p> <p>The Council is currently working on producing an updated MTFS that will cover the period from 2017/18 to 2020/21 that will be approved by the Cabinet and Council as part of the 2017/18 budget setting process in February 2017.</p>	<p>Whilst there are uncertainties around future grant funding, demographics and demand pressures the Council's future planning and assumptions appear to be adequate.</p> <p>The Council is looking further ahead and has strong capital programmes with the aim of bringing additional income in future years and has moved away from a year to year financial planning cycle. Future plans are focused on achieving the best use of resources for residents.</p> <p>The Council need to continue to monitor the control of demand led services, the delivery of the savings necessary to meet the MTFS and the impact of the changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes.</p> <p>We concluded that the Council understands the financial challenges that it faces and has adequate arrangements in place to manage the financial position moving forward.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have received objections regarding the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans.

Use of statutory powers

Local electors submitted objections regarding the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans.

Our work remains on going although we were satisfied that this does not impact on the financial statements or on our value for money conclusion.

We will formally respond to the objectors upon completion of our work.

Audit certificate

The audit certificate for the previous year has not yet been certified by your predecessor auditor as there remains on going review of an objection regarding the lawfulness of certain parking income included in the financial statements. Your predecessor auditor will continue to investigate this matter.

We are unable to issue the audit certificate to close the audit for 2015/16 until we have completed our investigations and responded to the objectors with regard to the LOBO objection and the predecessor auditor issues the audit certificate for the 2014/15 audit.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of the housing benefit subsidy claim for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

The audit of the 2014/15 housing benefits subsidy claim, completed by your predecessor auditor, found a significant number of errors in relation to calculations for benefit entitlement. This resulted in the Council not being able to recover the full amounts for benefits paid out through the subsidy system.

The Head of Benefits and the Finance department agreed to address many of the concerns including:

- Strengthening the governance framework and quality assurance processes
- Appointing Team Leaders to improve performance monitoring and support assessors
- Improved training and guidance with focus on high-risk and complex areas of work
- Re-establish quality monitoring and random sampling reviews of assessor's work.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

APPENDIX

Reports issues

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit Plan - Council	19 February 2016
Audit Plan - pension fund	29 February 2016
Final audit report - Council	15 September 2016
Final audit report - pension fund	20 September 2016
Annual Audit Letter	19 October 2016

Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit - Council	206,475	206,475
Code audit - pension fund	21,000	21,000
Certification of housing benefits subsidy	33,190	33,190
Fee for audit services	260,665	260,665
Audit related services:		
- None	-	-
Non audit related services:		
- None	-	-

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

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