LONDON OF BOROUGH OF HARINGEY

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017

13 September 2017

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	The following have been heightened to significant risks during the course of our audit procedures subsequent to our issue of our Audit Plan: • Land, buildings, dwellings and investment property valuations has been increased from a normal risk to a significant risk due to volatility and uncertainty over market prices in the year. • Pension liability valuation has been increased from a normal to a significant risk because significant judgements and estimation is used by the actuary for the valuation of the present value liability to pay future pensions. This reflects recent guidance within the audit profession that valuations subject to a higher degree of judgement and estimation that could have a material impact on the varying value should be classified as significant audit risks.
Materiality	Our final materiality is £16 million for the Council and £16.227 million for the Group financial statements which we have not required reassessment since our Audit Plan dated 10 March 2017, but have been updated to reflect the gross expenditure reported in the draft financial statements presented for audit. We set triviality threshold at £500,000.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified one prior period material misstatement relating to Tottenham Green Leisure Centre's value which was stated as £329,940 in the 2015/16 valuation report but, upon further investigation due to a significant increase in value this year, should have been reported by the valuer at £26,371,890 last year. This resulted in PPE being undervalued by £26,041,949 last year and the gain incorrectly recorded this year. We identified one material misstatement in the current year in respect of enhancements to existing assets which do not increase the value of the assets amounting to £47,322,920 that were not written off during the year. This resulted in PPE being overstated by £47,322,920. Management are in the process of correcting these misstatements in the revised set of financial statements. Our audit identified other non-trivial misstatements which management are in the process of correcting. Details of these misstatements are set out within the key audit and accounting matters section of the report.
Unadjusted misstatements	Our audit identified 5 unadjusted audit differences in respect of Housing Capital Receipts expense, bank reconciling items, schools expenditure and adjustment for nine HRA dwellings owned by the Council for several years which were recognised for the first time in 2016/17. These would decrease net assets by £2.2 million and decrease the surplus on the provision of services by £1.7 million if corrected.

SUMMARY

KEY AUDIT AND ACCOUNTING MATTERS	
Control environment	We identified two instances where non purchase order invoices were coded and approved by the same person. This means that one person can commit the Council to expenditure and approve the invoice subsequently. We consider the coding of invoices and their subsequent approval as incompatible duties which should be segregated. We have selected a sample of non PO expenditure transactions to test in detail to ensure that expenditure disclosed in the accounts is valid given the control issues identified. No issues were identified from our testing. In 2015/16 we identified journals where there were no descriptions in the header text. We are in the process of testing the validity of journals and to determine if this is still an issue in 2016/17.

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable finances	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 changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes. We are currently assessing the plans being put in place to address the funding gap which remains over the period of the MTFS.
Haringey Development Vehicle	We are satisfied that the Council has undertaken sufficient review of the proposed governance, financial risks and financial modelling to support its proposal to enter into the Haringey Development Vehicle joint venture. We will continue to monitor the development of this proposal.

AUDIT OPINION	
Financial statements	We anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Use of resources	We anticipate issuing an unmodified opinion on the use of resources for the year ended 31 March 2017.

SUMMARY

OTHER MATTERS FOR THE ATTENTION OF THE CORPORATE COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements. We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Objections received from members of the public	We have received objections regarding the legality of transactions in the financial statements or the reasonableness of a decision made by the Council regarding the following matters: • Decision to enter into the schools PFI contacts and the on-going expenditure associated with these contracts • Income received from the cost of summons issued for non-payment of council tax • Decision to enter into the Haringey Development Vehicle joint venture proposed. Investigations into these transactions will continue. However, work completed to date does not suggests that there will be a material impact on the financial statements or use of resources and is unlikely to result in delay to the audit opinions on the financial statements or use of resources.
Audit certificate	We will issue our audit certificate to formally conclude and close the audit for the 2016/17 financial year after we have completed our work on the financial statements, use of resources, whole of government accounts and concluded on the objections received noted above.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion Report to the Corporate Committee, which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which 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 and use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Corporate Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

OUTSTANDING MATTERS

The following matters are outstanding at the date of this report. We will update you on their current status at the Corporate Committee meeting at which this report is considered:

1	Clearance of outstanding issues on the audit queries tracker currently with management including: • 8 tenancy agreements for temporary accommodation • Post year bank statement for Northumberland Park School to confirm two reconciling items • Users listing for i world system • Review of journals
2	Clearance of manager and partner review points
3	Internal quality control review process
4	Subsequent events review
5	Final review and approval of the financial statements
6	Management representation letter, as attached in Appendix VI, to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks. Since we issued out Audit Plan on 10 March 2017, we have amended the risk from normal risk to significant risk in respect of property, plant and equipment and investment property valuations and the pension liability valuation.

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Under auditing standards there is a presumed significant risk of management override of the system of internal controls in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.	Our audit work in relation to journals is ongoing.
			We reviewed significant accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.	We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.
			We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual	No unusual or transactions outside of the normal course of business were identified.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition	Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges recorded in the CIES.	We tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES. We tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	Our audit testing has not identified any issues in respect of the recognition of grant income. Our audit testing has not identified any issues in respect of the recognition of fees and charges income.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Land, buildings, dwellings and investment property valuations** (continued)	Management uses external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at year-end. Higher value operational properties and other land and buildings and dwellings are revalued annually to provide assurance that carrying values are materially stated. We consider there to be a risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions. This has been increased from a normal risk to a significant risk due to volatility and uncertainty over market prices in the year.	We reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. We confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost. We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual.	We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert. 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. However, we identified one material misstatement in the current year in respect of enhancements to existing assets which do not increase the value of the assets amounting to £47,322,920 that were not written off during the year. Guidance requires that, where component depreciation has not been applied, local authorities should estimate the remaining carrying value of replaced assets and to report this as a disposal. This resulted in PPE being overstated by £47,322,920. We have challenged the valuer in respect of a number of property valuation movements which appeared unusual in comparison to general indices. Further information about our assessment of the estimates applied can be found on the following pages. We identified one prior period material misstatement relating to Tottenham Green Leisure Centre's value which was stated as £329,940 in the 2015/16 valuation report instead of £ £26,371,890. This resulted in PPE being undervalued by £26,041,949. (continued)

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Land, buildings, dwellings and investment property valuations (continued)			We noted a number of other non-trivial errors in the accounting of PPE valuations: • The valuer originally provided an incorrect figure for New River Leisure Centre. The valuer confirmed a revised valuation during the audit. This has had the effect of decreasing PPE and the valuation gain by £1,134,000. • Alexandra Palace had not been depreciated. This had an effect on the year end net value. Asset overstated and expenditure understated by £1,396,000. • Investment assets and revaluation gain were over-stated due to a duplication of assets on the fixed assets register caused by a revaluation upload error. This has had the effect of decreasing Investment Assets and the valuation gain by £1,160,000. • The revaluation report relating to garages was not originally provided so 2015/16 values were used for preparing the draft accounts. The report was obtained at the request of the auditors and it showed the assets have increased in value as a result of a rent increase. This has had the effect of increasing PPE and increasing the revaluation gain by £2,314,000. • Some new shared ownership assets were double counted as they had been recorded both as additions and as revaluation gains. This has had the effect of decreasing PPE by £240,000 and the revaluation gain by £240,000. (continued)

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Land, buildings, dwellings and investment property valuations** (continued)			• An asset that had been disposed of some years ago was treated as an addition due to an error. This has had the effect of increasing expenditure by £325,000 and decreasing PPE additions by £325,000. Management are correcting the misstatements noted above in the revised set of financial statements. Additionally, nine HRA dwellings owned by the Council for several years were recognised for the first time in 2016/17. This resulted in both a brought forward error as PPE was understated by £0.519 million and a current year error as the revaluation gain has been overstated but the same amount. This has been included as an unadjusted difference in Annex I. (continued)

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations		
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
Land and buildings are valued by reference to existing use market values Dwellings are valued by reference to open market value less a social housing discount Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost by reference to building indices	We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations. 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 2016, and a further review to identify any further material movements during the year. This resulted in a net upwards revaluation movement of £171.668 million in the year for PPE and of £1.791 million for investment properties after adjusting for errors identified in the above section. Our work on comparing valuations to expected market movements is on-going.	PRUDENT AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Pension liability assumptions** (continued)	The net pension liability comprises the group and Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability 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. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. There is a risk that the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability. This has been increased from a normal risk to a significant following a review of assumptions used by the actuary for the valuation of the present value liability to pay future pensions.	We agreed the disclosures to the information provided by the pension fund actuary. We checked whether any significant changes in membership data were communicated to the actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We did not identify any issues regarding the accuracy of the disclosures in the financial statements. As part of the pension fund audit we identified that 32 active members recorded on the Altair system had actually left the Council (in some instances a number of years ago). We are currently discussing with the actuary whether this could have a material impact on the 2016 triennial membership data that has been rolled-forward for the 31 March 2017 pension liability calculation. Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

HOW RISK WAS ADDRESSED BY OUR AUDIT

The actuary has used the following assumptions to value to future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	3.0%	--	Reasonable
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.6%	2.5-2.7%	Reasonable
Mortality:			
- Male current	23.8 years	23.5-26.6	Reasonable
- Female current	26.0 years	26.5-28.3	Lower than the bottom end of the expected range
- Male retired	21.8 years	21.4-24.4	Reasonable
- Female retired	24.1 years	24.2-26.0	Reasonable
Commutation			
- Pre-April 2008	50%	25-75%	Reasonable
- Post-April 2008	75%	25-75%	Reasonable

PwC concluded:

“We are comfortable that the methodologies used to establish assumptions will produce reasonable assumptions at 31 March 2017 for all employers.”

Conclusion

We have compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

AUDIT CONCLUSION

PRUDENT AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Changes in presentation of the financial statements	The Code requires a change to the presentation of some areas of the financial statements. This includes: • change to the format of the Comprehensive income and Expenditure Statement (CIES) • change to the format of the Movement in Reserves Statement • new Expenditure and Funding Analysis (EFA) note • change to the Segmental Reporting note • new Expenditure and Income analysis note. These changes will require a restatement to the 2015/16 CIES. There is a risk that these presentational changes are not correctly applied in the financial statements.	We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements. We confirm that the analysis by service in the CIES is consistent with the internal reporting within the Council. We reviewed the restatement of the comparative 2015/16 information to ensure that this is presented consistently with the current year basis.	When restating the prior year CIES, the HRA income and expenditure do not reconcile to the prior HRA statements. The net position is correct but the income and expenditure vary by around £3 million. An adjustment has been made to the accounts on the CIES and HRA but only affecting the face of the CIES in terms of classification and not affecting the surplus / deficit made. Other than the need to more clearly indicate that the new Expenditure and Funding Analysis is not a primary statement, which has been proposed on other disclosures, no other issues were identified by our audit.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Housing Revenue Account (HRA) asset componentisation	Historically, the Council has not componentised its HRA dwellings on the grounds that this does not have a material impact on the financial statements. In the prior year, we applied benchmark component allocations and useful lives, and reported a potential significant (but not material) understatement of the depreciation charge. We understand that the Council is considering increasing the percentage allocation of the overall value as land (not depreciated) and reducing the allocated value to the buildings this year. There is a risk that the revised allocation of the overall value between land and buildings, and not further componentising the buildings, may result in a misstatement of the depreciation charge for HRA dwellings.	We reviewed the assumptions that underpin the basis of the HRA land and building component split. We reviewed DCLG housing valuation guidance for a reasonable range for allocation of components and estimated useful economic lives and the life-cycle replacement capital programme for the HRA.	Our audit work is in progress.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Minimum Revenue Provision (MRP) charge (continued)	Regulations require that a local authority “shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent”. Guidance issued by DCLG suggests four ready-made options for calculating MRP. The options are those likely to be most relevant for the majority of authorities but other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent provision. Authorities must always have regard to the guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified. That could involve taking account of detailed local circumstances, including specific project timetables and revenue-earning profiles. The Council changed its calculation of MRP from 1 April 2016. There is a risk that the Council may not apply a prudent MRP provision resulting in insufficient funds being set aside for future debt repayments to cover current capital expenditure.	We reviewed the Council’s draft MRP strategy and considered whether it is prudent in respect of future debt requirements and funding availability. The Council’s policy includes five different MRP calculations depending upon the type of debt held: • pre-2008 debt will be charged at a straight line 2% rather than a 4% reducing balance (forecast saving in 2016/17 £3.46 million) • post-2008 debt charged using an annuity curve method rather than straight line over the life of the asset (forecast saving in 2016/17 £1.49 million) • debt for assets not yet in operation to only commencing MRP charge once operational (no forecast savings in 2016/17) • finance leases will be charged over the life of the contract (no change to policy) • PFI debt charged using an annuity curve method and over the life of the asset rather than straight line over the life of contract (forecast saving in 2016/17 £0.25 million). Management has calculated that the application of the revised policy on previous amounts set aside as MRP for pre-2008 debt to date would suggest that excess MRP has been set aside totalling £20.76 million. Management will apply £3.46 million of this over the next 6 years to reduce for forecast pre-2008 dent MRP to £0.	The revised MRP policy has resulted in a reduced charge for 2016/17 of £2.833 million compared to the £13.211 million charged in 2015/16 under the previous policy. In recent years, many other local authorities have calculated what they believe to be excess MRP set aside and have used this to reduce their current MRP charge until the excess has been fully utilised. The Council has obtained a legal interpretation from counsel that suggests that this is acceptable. We have reported some concerns over the use of the annuity curve method of charging MRP on post-2008 and PFI debt rather than using a straight line charge, as this will result in the proportion of MRP being charged in the early years being significantly lower than what will be charged in the latter years. Over the life of the debt, the Council will still put aside that same total amount, but this weights the profile towards future years that may not necessarily reflect the benefits consumed by the asset by the current service users compared to the tax payer in the future. We acknowledge that the CLG guidance does allow this method of charging MRP but this tends to be applied where the asset acquired through borrowing will earn rentals or income on a matching annuity curve (with upward rent reviews or income generation) rather than being consumed in providing services. (continued)

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Minimum Revenue Provision (MRP) charge			The guidance also allows an annuity method MRP charge where you are seeking to reflect the future time value of money. For example, where inflation allows for greater amounts to be charged through general taxation (council tax) this would suggest putting aside higher amounts of MRP in the future. However, we have noted concerns that headroom available through future council tax increases may be severely restricted under current Government policy. While we are content that there is not a material understatement of an appropriate and prudent MRP charge for 2016/17, the revised policy serves to defer repayment of debt charges from current service users to future tax payers that may not reflect the utility or benefits received from the assets funded from debt. We are also aware that CLG has noted similar concerns across the sector and has proposed to consult on revised guidance next year that may restrict some of the options currently used by local authorities to reduce the MRP charge.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA		RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards. There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.	We reviewed the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions. We also carried out Companies House searches for undisclosed interests. We discussed with management and reviewed member's and senior management declarations to ensure there are no potential related party transactions which have not been disclosed.	Our testing identified 10 undeclared company directorships. This did not result in the identification of any additional related party transactions that needed to be disclosed in the financial statements. We also identified two related parties which were not disclosed in the accounts but declared on the declaration of interest. These had total transactions of £78,000. As a result of this note 30, total value of payments made and the total value of receipts in 2016/2017 and number for charitable or voluntary organisations the council has provided financial support to, or purchased services from was amended.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	Bank reconciliation	As part of the prior year audit we reported the difficultly in testing reconciling items within the bank reconciliation. We reported that a large number of reconciling items within the bank reconciliation had cleared on the bank statement but were netted off the cash book on different clearing codes. This made it very difficult to trace the items and determine if they had been accounted for correctly.	We obtained year-end bank reconciliation for each bank account and tested a sample of reconciling items to ensure that the transactions have been accounted for the in the correct period of accounts.	We note that efforts have been made during the year to reduce the outstanding balances on clearing codes but this matter has not been entirely resolved. In addition we note that due to the way an automated process is setup, there is a delay of one working day in posting bank transactions to the ledger. We appreciate it is not always practical for the posting of banking transactions to take place on the day they occur but the accounting date used should reflect actual activity on bank accounts. This has not had a significant impact on the accounts this year but could potentially result in a material misstatement in future years. The effect of this is an understatement of cash and bank by £680,000. Management hase opted not to adjust for this error so we have noted it in Annex I.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
10	Allowances for non-collection of receivables	The Council's bad and doubtful debt impairment provision on aged debt is determined for each income stream using available collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rent arrears and parking PCNs. There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates for that income stream.	We reviewed management's calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.	We did not identify any material issues regarding the recoverability of receivables. Our review of the reasonableness of management's calculations is noted in the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**AUDIT CONCLUSION**
Allowances for non-collection of receivables	Overall we have concluded that the impairment allowances for receivables are reasonable.	
	Housing benefit overpayments The impairment allowance at 31 March 2017is £24,956,000, an increase of £13,880,000 from the prior year, against an overpayments balance of £31,574,000. This is due to the recognition in 2016/17 of the gross debt owed by current tenants which was not previously recognised within debtors. The bad debt provision 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. Our audit work indicated that the average recovery rates for the Housing Benefit overpayments were lower than the Council's estimation, and therefore, the Council's impairment allowances could potentially be understated by £1.5 million. Management should review and revise, if appropriate, the impairment allowances as more collection rate information becomes available.	PRUDENT AGGRESSIVE
	Council tax arrears The total impairment allowance for the Collection Fund at 31 March 2017 is £21,899,000, an increase of £350,000 from the prior year, against total arrears of £26.8 million, due to a slight increase in the value of outstanding debt at year end. The Council has an 81.63% share in these balances. The impairment calculation is based on the expected collection rates for Council Tax arrears, with the provision increasing in line with the age of the debt. Our testing has indicated that the collection rate for arrears has improved in recent years following an increased focus by the Council to collect arrears owed; this would suggest that the Council may potentially have overstated its Council Tax arrears provision by £1.6 million. In light of the improved recoverability of the Council Tax arrears, management should review the provision percentages applied and consider the impact of the improved recoverability.	PRUDENT AGGRESSIVE
	Housing rent arrears The impairment allowance at 31 March 2017 for Housing Rent arrears is £8,142,000, an increase of £185,000 from the prior year, against a debtor balance of £10,700,000. The impairment allowance calculation is split by current and former tenants, with greater provisions applied for tenants no longer occupying Council dwellings. Our audit findings suggest that the Council's impairment allowance for Housing Rent arrears could potentially be understated by £1.2 million due to a lower than expected recovery rate of previous years rent arrears. We would encourage management to review and revise, if appropriate, their impairment allowances using more recent collection rate information.	PRUDENT AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
11	**School bank balances**	In the prior year there was a £3.535 million overstatement of bank mentioned in the prior year Audit Completion Report. This related to expenditure incurred by schools that had not been recognised in the accounts. Cash & bank in the accounts exceeded the bank totals reported by schools on their returns. We understand management do not wish to make a prior period adjustment for this error as it is not material. This year, £1.989 million of this was written off to expenditure in the draft accounts and the remaining £1.546 million is still under investigation by management. We are of the view that this should also be written off to expenditure, an unadjusted error has been raised on appendix 1. Unadjusted brought forward error between bank and expenditure and an unadjusted current year error against expenditure and reserves shown in Appendix I. There is a misstatement of £618,000 between bank and creditors for schools. This is caused by the accounting packages some schools use not having the functionality to produce accurate balance sheet reports and the year-end cash balance being manually calculated based on unpresented payments and receipts. This has an impact of understating bank and creditors by £618,000. An unadjusted error has been raised on Appendix I.
12	**Cash Flow Statement**	We identified a number of disclosure issues within the cash flow statement. These were as follows: • £5 million of impairment was misclassified within Depreciation rather than the Impairment line in Note 20. • Assets acquired under financial leases amounting to £1.1 million were not originally included in PPE purchased during the year under investing activities.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
13	**Other disclosures**	We identified a number of other disclosure issues within the draft financial statements as follows: • Error in the previous year identified that the Council was only recognising a debtor for the invoiced element of the overpayment for former tenants and did not include "live" claimants in the debtor balance. The Council has recognised £20.2 million income (and a bad debt provision) within grants and contributions. As this is material, we have recommended that it is disclosed separately as a material item of income and that there is a split to show the 2016/17 income element and then the prior year element in note 5.3. • Note 1 of the Housing Revenue Account (HRA) states that the difference between the vacant possession value and the balance sheet value is £4,155 million. Upon recalculation, this was found to be £4,255 million. • Council Tax and business rate income on the Collection Fund was stated as £66.237 million when it should be £66.312 million and income collectable in respect of business rates supplements was stated as £1.494 million when it should be £1.419 million. • Note 16 short-term investments was renamed to short-term deposits. Short-term investments would usually be a separate line on the balance sheet. We are satisfied these assets meet the requirements of cash equivalents. • NDR VOA schedule showing rateable value at year end which did not agree to the amount in the daft accounts. VOA report show £164,555,770 and draft accounts £164,521,271 a difference of £34,499. • Grant income per note 29 and government grants and other income per note 5b did not agree by £40.569 million. Of this £20.218 million relates to Housing Benefit recovery which should be disclosed separately as material item of income. The remaining £20.350 million was moved from fees and charges column on note 5b to grants column. • In Note 26, Officers' Remuneration, Zina Etheridge's employer pension contribution is disclosed separately between her two roles in the year. However, the contribution to her role as Interim Chief Executive from March 2017 (£3,604) has been double counted in both lines. • Note 2 depreciation of HRA assets: 'Flats/maisonettes: 46% Land/54% building' needed to be changed to 55%/45%. • Four general ledger codes relating to corporate income recharges were excluded from the calculation of the Support Services Income/Expenditure figure. The resulting effect was an understatement of £10.026 million for both the Income and Expenditure figures. • On note 5c HRA employee benefits expenses has been disclosed as £38.828 million yet only £1.728 million of this relates to costs related to employee expenses. • When restating the prior year CIES, the HRA income and expenditure do not reconcile to the PY HRA statements. The net position is correct but the income and expenditure differ by £3 million. • The accounts did not clearly indicate that the new Expenditure and Funding Analysis is not a primary statement. • Housing Benefit & Council tax Admin Subsidy was included in the Grant note within the credited to services section. This was moved to above the line. Management are in the process of correcting these disclosure issues in the revised set of financial statements.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
14	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 22 June 2017. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	We have no matters to report.
15	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	Our work is in progress.
16	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our work is in progress.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Our audit has identified the following significant deficiencies, which are included in the action plan at Appendix II:

AREA	OBSERVATION	IMPLICATION
Authorisation of non-purchase order payments	During our testing we identified two instances where the invoice was coded and approved by the same person.	We consider the coding of invoices and their subsequent approval as incompatible duties which should be segregated. There is a risk that an individual can commit the Council to an expenditure which he will approve on himself.

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
17	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. The Council met this deadline. Our review of the Council's WGA Data Collection Tool (DCT) is in progress. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.

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 (value for money). This is 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.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2016/17 Audit Plan issued in March 2017. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

USE OF RESOURCES

Key: ■ Significant risk ■ Normal risk

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	**Sustainable finances**	In our Audit Plan we identifying the required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and alternative delivery models. We reviewed the reasonableness of the Medium Term Financial Strategy (MTFS), assessed budgeted to actual savings in 2016/17 and the plans to reduce services costs and increase income from 2017/18. **Financial outturn 2016/17** The 2016/17 General Fund revenue budget for the year was £255.6 million compared to a final outturn of £271.7 million, which represents a net overspend of £16.1 million. Within this net figure there are a number of key overspends totalling £27.2 million: • £7.8 million on Children's services - mainly due to mitigating actions to address £5.1 million overspend could not be put in place by the year-end, £2.8 million overspend in increased payments to providers and £1.8 million overspend due to a delay in implementing a planned service restructure • £12.4 million on Adults social services - mainly due to a delay in implementing planned efficiencies • £7.0 million for temporary accommodation - mainly due to cost pressures from having to provide temporary accommodation for households in the borough. These overspends have been mitigated by a number of underspends: £3 million in respect of recognition of housing benefit overpayments; £6.0 million on non-service revenue budgets and £1.8 million pension auto-enrolment provision that was not required in year. The net General Fund overspend position is £16.1 million, but there are a number of services that have underspends, where the service has submitted requests for unspent budgets to be carried forward. A total of £6.9 million has been requested for carry forward as expenditure relating to these budgets will be incurred in 2017/18. (continued)	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 changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes. We are currently assessing the plans being put in place to address the funding gap which remains over the period of the MTFS.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	The Council collected 96.15% of council tax in 2016/17 which is slight improvement compared to 2015/16. This performance along with a reduction in single person discount resulted in a surplus of £6.6 million available for distribution in 2017/18. Business rate collection underperformed expectation in 2016/17 resulting in £0.4 million which will be recognised in 2017/18. The Housing Revenue Account (HRA) underspent by £10.7 million against the budget due mainly to increased rental income, reduced debt financing charges and depreciation, savings on leaseholder charges and a delay in the Estate Regeneration Programme. **MTFS assumptions** The update to the Medium Term Financial Strategy (MTFS) covers a five year period from 2017/18 to 2021/22. The MTFS makes reasonable assumptions in respect central government funding (finance settlement), council tax increases, inflationary increases, such as pay rises, and demographic changes. Given the overspend in the Children's, Adults and temporary accommodation budget over the last two years budgets have been aligned and increased in these areas to better reflect the actual demand. The capital programme has also been re-modelled which means there are plans to acquire more land, sell less of their assets to finance new projects and be active partners in the future developments and regeneration plans that in the long term will deliver future income streams. The MTFS shows a deficit of £45.6 million over the five years to 2021/22 and, assuming that all savings proposals are implemented (£23.6 million), a residual shortfall of £22 million over the MTFS period. (continued)	

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	For 2017/18, the £8.8 million deficit will be funded from the use of reserves in order to set a balanced budget. The Council recognises that reliance on reserves is not sustainable in the long term and the MTFS will be refreshed during 2017/18 and options developed to fund later years' residual shortfalls. We are currently assessing the plans being put in place to address the funding gap which remains over the period of the MTFS. The key to ensuring that savings proposals are implemented and shortfalls are addressed will be to carry out detailed assessments in demand-led services such as Children's, Adults and temporary accommodation which constitute approximately 70% of the Council's net expenditure to clearly understand what drives these costs. Based on 2015/16 data collated by Public Sector Audit Appointments (PSAA), spend in these areas are ranked in the highest percentile when compared to other London Boroughs. Total net spend per head is £2,746.51 compared to an average of £2,334.38 per head for all London Boroughs. This ranks the Council in the highest 20 percent and is mainly as a result of: • Spend on adult social care: £480.69 compared to an average of £383.86 per head • Spend on all children and young people services: £4,483.52 compared to an average of £4,160.36 per head • Spend on homelessness services: £187.39 compared to an average of £90.06 per head. Management has confirmed that plans to transform these demand-led services are being put in place.	

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Haringey Development Vehicle (HDV)	After completing the initial feasibility review of the project the Council identified significant governance issues such as concerns over democratic accountability, transparency and contingency plans. In order to address this risk we reviewed the work undertaken by the Council to address the issues identified and that appropriate plans around governance, performance management and risk management are put in place. **Due process for decision making** The Council has obtained external legal advice to confirm that Cabinet has the appropriate powers to make the decision whether or not to proceed with the Haringey Development Vehicle as this is within the scope of the Council's budgetary framework. We note that a number of individuals have raised concerns regarding the amount of published information on the business case and financial projections made available, and we acknowledge that the Council has sought to provide transparency through the decision making process but have had to withhold certain information during the procurement process. **Reasonableness of proposed decision** Under public law, any decision may be challenged through the courts where it is determined that a decision taken is unreasonable. The key tests are: • in making the decision, the Council took into account factors that ought not to have been taken into account, or • the Council failed to take into account factors that ought to have been taken into account, or • the decision was so unreasonable that no reasonable authority would ever consider imposing it. Nothing has come to our attention to date that would suggest that the proposed decision is unreasonable. (continued)	We are satisfied that the Council has undertaken sufficient review of the proposed governance, financial risks and financial modelling to support its proposal to enter into the Haringey Development Vehicle joint venture. We will continue to monitor the development of this proposal.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Haringey Development Vehicle (HDV)	**Due diligence and financial modelling** We were pleased to note that the project team had a clear understanding of the proposal, were appropriately experienced and have obtained appropriate external legal, financial and taxation due diligence advice. The risk assessment has been developed through the project and the Chief Internal Auditor has worked with the project team to develop risk mitigation planning.	

OBJECTIONS AND INFORMATION FROM MEMBERS OF THE PUBLIC

A local elector may inspect, ask questions and object to the accounts on the basis that an item in them is unlawful or there are matters of wider concern arising from the Council's finances. The elector can ask the auditor to apply to the High Court for a declaration that an item of account is unlawful or to issue a report on matters which are in the public interest.

We decide if the matter raised needs investigation and whether a High Court declaration should be sought or a public interest report be issued. If the matter does not warrant either of these outcomes, it may still be a matter that we may wish to raise with the Council.

We issue our audit certificate to close the audit only following the completion of this work. We can issue an opinion on the statement of accounts before the audit is completed if we believe that if the objection were resolved in the objector's favour, this would not affect the accuracy of the statement of accounts.

	OBJECTION	NATURE OF OBJECTION AND WORK PERFORMED	FINDINGS AND CONCLUSION
OBJECTIONS REMAINING WITH YOUR PREVIOUS AUDITOR			
1	Income generated from parking penalties on housing land	An objection was received by your previous auditor regarding the lawfulness of the income raised from PCNs on housing land that had not been adopted under a Traffic Management Order.	The Council continues to work with Grant Thornton to resolve this issue.
OBJECTIONS OUTSTANDING FROM 2015/16			
2	Lender Option Borrower Option (LOBO) Loans	An objection was received regarding the lawfulness of the Council's decision to take borrow in the form of Lender Option Borrower Option loans in previous years.	We have completed our review of these loans and have drafted a 'Provisional view' setting out our conclusion that we believe that the decision to take these loans was not unreasonable based on the information available to the Council at that time.

OBJECTIONS AND INFORMATION FROM MEMBERS OF THE PUBLIC

	OBJECTION	NATURE OF OBJECTION AND WORK PERFORMED	FINDINGS AND CONCLUSION
OBJECTIONS RAISED IN 2016/17			
3	Lawfulness of schools PFI contacts	An objection was received regarding the lawfulness of the Council's decision some years ago to enter into a PFI scheme for the redevelopment of schools and the lawfulness of on-going payments under the contract.	The Council terminated the PFI service concession some years ago and the remaining obligation relates to the outstanding debt incurred by the PFI partner in the construction of the schools. Our initial view is that the on-going payments are lawful.
4	Income received from the cost of summons issued for non-payment of council tax	An objection was received regarding the lawfulness of the basis for setting the summons costs for non-payment of council tax.	Our initial view is that the basis for estimating costs to be recovered using historic costs and current year estimated summons issued is appropriate.
5	Decision to enter into the Haringey Development Vehicle joint venture proposed	An objection was received regarding the reasonableness of the decision to proceed with the Haringey Development Vehicle joint venture.	As noted in the use of resources section above, we are satisfied that management had all relevant information to hand and had not inappropriately discounted relevant information in making its decision to proceed with the joint venture. Due diligence has been undertaken on the legal issues and financial modelling to support the decision. Management obtained counsel's advice that it was appropriate for Cabinet to take this decision rather than full Council. However, we are aware that pre-notice judicial review letters have been received and this may be subject to legal review.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Corporate Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

We identified the following material misstatements in the draft financial statements, which management has amended:

- Tottenham Green Leisure Centre's value was stated as £329,940 in the 2015/16 valuation report instead of £ £26,371,890. This resulted in PPE being undervalued by £26,041,949. This has been corrected as a prior period error.
- Enhancements to existing assets which do not increase the value of the assets amounting to £47,322,920 were not written off during the year. This resulted in PPE being overstated by £47,322,920

Management is working on the above adjustments and other non-trivial adjustments to determine the impact on surplus on provision of services.

UNADJUSTED AUDIT DIFFERENCES

There are 5 unadjusted audit differences identified by our audit work which would if corrected would decrease the surplus on the provision of services by £1.7m. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£m	£m	£m	£m	£m
Surplus on the provision of services before adjustments	TBC*				
DR Housing Capital Receipts expense	(865)	865			
CR Creditors					865
(1) Being an adjustment for housing capital receipts pooling expenditure which was understated at year end as confirmed by the final returns.					
DR Bank				680	
CR Income	680		680		
(2) Being an adjustment for bank reconciling items which are mis-posted and reconciling items caused by a one day delay in recording bank transactions.					
DR Bank				618	
CR Creditors					618
(3) Being an adjustment for misstatement between bank and creditors for schools arising from the fact that the accounting packages some schools use do not having the functionality to produce proper balance sheet reports and the year -end cash balance being manually calculated based on unpresented payments and receipts.					
DR expenses	(1,546)	1,546			
CR Bank					1,546
(4) This related to expenditure incurred by schools that had not been recognised in the accounts of £3.5m identified in prior year. £1.989m of this was written off to expenditure in the draft accounts and we are recommending writing off the remaining £1.546m.					
Continued					

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£m	£m	£m	£m	£m
DR expenses	(1,546)	1,546			
CR Bank					1,546
(5) This related to expenditure incurred by schools that had not been recognised in the accounts of £3.5m identified in prior year. £1.989m of this was written off to expenditure in the draft accounts and we are recommending writing off the remaining £1.546m					
DR Revaluation gain (CIES)		519			
CR Revaluation reserve (B/L)					519
(6) Being adjustment for nine HRA dwellings owned by the Council for several years which were recognised for the first time in 2016/17.					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(1,731)	2,930	680	1,298	3,548
Deficit on provision of services if adjustments accounted for	TBC*				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £000s	HRA BALANCE £000s
Balances before adjustments	TBC*	TBC*
Adjustments to CIES above	(1,731)	
Adjustments via movement in Reserves Statement:		519
BALANCES AFTER ADJUSTMENTS	**TBC***	**TBC***

*- This will be updated once we receive the second draft set of accounts. Management is working on agreed adjusting misstatements.

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Aproval of non-purchase order invoices in SAP	We identified two instances where non purchase order invoices were coded and approved by the same person. This means that one person can commit the Council to expenditure and approve the invoice subsequently. We consider the coding of invoices and their subsequent approval as incompatible duties which should be segregated.	We recommend that SAP be segregated to ensure that one person cannot code and approve an invoice	Agreed	SAP Application Specialist	Dec 2017
Unrecorded assets	Some assets owned by the Council for several years had not previously been recorded in the fixed assets register or recognised in in the accounts. These were recognised for the first time in 2016/17 as a revaluation gain.	We recommend that management should carry out an exercise to identify all the Council's assets and update the fixed asset register.	Agreed - action incorporated as part of closure of accounts plan	Chief Accountant	Mar 2018
Valuation report errors	We noted numerous errors in the valuation report including: New River Leisure Centre, investment assets had duplicated assets caused by a revaluation upload error and Tottenham Green Leisure Centre was undervalued in 2015/16 as a result of the WHE stating an incorrect amount.	We recommend that management review the valuer's report to identify errors and understand significant movements.	Agreed - action incorporated as part of closure of accounts plan	Chief Accountant	Mar 2018
Signed employment contracts (prior year recommendation)	Of the 37 employees tested as part of our sample, signed employment contracts were not available for three Council employees.	We recommend that management undertake a review of all staff (including schools personnel) to ensure that there is a signed contract in place.	Agreed	Head of HR	Mar 2018

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING (COUNCIL)		
	FINAL	PLANNING
Materiality	£16,000,000	£16,600,000
Clearly trivial threshold	£500,000	£500,000

Planning materiality of £16,000,000 was based on 1.5% of gross expenditure, using the draft accounts

We had no reason to revise our final materiality level.

MATERIALITY - FINAL AND PLANNING (GROUP)		
	FINAL	PLANNING
Materiality	£16,227,000	£16,700,000
Clearly trivial threshold	£500,000	£500,000

Planning materiality of £16,227,000 was based on 1.5% of gross expenditure, using the draft accounts

We had no reason to revise our final materiality level.

APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
Senior team members	Number of years involved
Leigh Lloyd-Thomas - – Audit engagement lead	2
Kerry Barnes – Audit manager	1

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

Other than the items identified above and in Appendix V, we have not identified any potential threats to our independence as auditors.
Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	206,475	206,475	206,475	
Objections	TBC	TBC	TBC	
Housing benefits subsidy claim	38,223	38,223	33,190	
TOTAL AUDIT AND CERTIFICATION FEES	244,698	244,698	239,665	
Reporting on government grants:				
• Pooling of Housing Capital Receipts return	3,500	3,500	3,500	
• Teachers' Pension return	3,500	3,500	3,500	
NON-AUDIT ASSURANCE SERVICES	7,000	7,000	7,000	
TOTAL ASSURANCE SERVICES	251,698	251,698	246,665	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

[XX] September 2017

Dear Sirs

Financial statements of London Borough of Haringey for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2017 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

APPENDIX VI: DRAFT REPRESENTATION LETTER

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 3%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.6%
- LGPS commutation take up option:

  Pre-April 2008 50%

  Post-April 2008 75%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

APPENDIX VI: DRAFT REPRESENTATION LETTER

b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as TBC on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax arrears, NDR arrears, housing benefit overpayments, housing rent arrears and parking charges are reasonable, based on collection rate data.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Clive Heaphy, Chief Financial Officer

[date]

Cllr Barbara Blake, Corporate Committee Chair

[date]

Signed on behalf of the Corporate Committee

FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS
Engagement lead

T: +44 (0)20 7893 2616

leigh.lloyd-thomas@bdo.co.uk

KERRY L BARNES
Manager

T: +44 (0)20 7893 3837
M: +44 (0)7583 099 795
E: kerry.l.barnes@bdo.co.uk

www.bdo.co.uk