



London Borough of Haringey

Annual Audit Letter 2008/09

21 December 2009

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1 Introduction and key messages

Purpose of this Letter

- 1.1 This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at the London Borough of Haringey ('the Council') during our 2008/09 audit. The Letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The Letter will be published on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our Code conclusions.
- 1.5 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.
- 1.6 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. We have considered how the Council is fulfilling these responsibilities.

What this Letter covers

- 1.7 This Letter covers the audit work we have carried out in 2008/09, including key messages and conclusions from our work in:
- auditing the 2008/09 year end accounts (Section 2)
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3)
 - certifying claims and returns (Section 4).

- 1.8 We have not repeated recommendations agreed with the Council during the year in this Letter. A list of the reports issued can be found at Appendix A. Appendix B sets out our actual and budgeted fees for 2008/09.
- 1.9 The findings of our work in 2008/09 contribute towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Haringey. The results of this work will be reported separately to the Council by the Audit Commission.

Key conclusions and areas for Council action

- 1.10 The key conclusions from our 2008/09 audit are as follows:
- We issued an unqualified opinion on the Council's 2008/09 accounts by the required deadline. The Council engaged in the accounts audit in a very positive and responsive fashion.
 - Although the Council performed well overall in the new use of resources assessment, our VFM conclusion contained an "except for" qualification in respect of the Council's use of data, based on a number of weaknesses identified with the Council's data quality.
 - Our review of the Council's treasury management arrangements demonstrated that the Council has put sound arrangements in place and, following its exposure from the Icelandic banking crisis, has taken decisive action to deal with the nationally and locally identified areas for improvement.
- 1.11 We highlight the following key areas, where the Council should take action in 2009/10:
- The Council should continue its preparations for the introduction of accounting under International Financial Reporting Standards (IFRS), including ensuring that asset valuation procedures are sufficiently robust and accounting for fixed assets is further strengthened.
 - The Council should address, as a matter of priority, the identified weaknesses in data quality, including in the child protection and housing and council tax services, in order to achieve an "adequate" assessment in future.
- 1.12 The context for these key messages can be found in this Letter.
- 1.13 This Letter was agreed with the Chief Financial Officer on 4 December 2009 and will be presented to Cabinet.
- 1.14 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
21 December 2009

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008/09 accounts on 25 September 2009, ahead of the statutory certification deadline. Our opinion confirms that the financial statements 'present fairly' the financial position of the Council.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (for the purposes of accounts approval, the General Purposes Committee is designated as "those charged with governance"). We presented our Annual Report to those Charged with Governance to the General Purposes Committee on 24 September 2009 and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 The Council produced an initial set of draft 2008/09 accounts on 5 June 2009 (prior to submission of full draft accounts on 24 June), which enabled an initial team and technical review of the accounts to take place and be fed back, prior to production and approval of the formal draft accounts. This enabled audit work to begin early and was useful for the client in obtaining timely feedback on its accounts. We have submitted the closedown process used by the Council to the Audit Commission as an example of good practice.
- 2.4 Closedown was well managed by the Council this year and there is clear corporate commitment to producing good quality accounts. This resulted in a smooth audit process and a reduced level of proposed adjustments. Additionally, the Council has already engaged effectively in taking forward planning for accounting under International Financial Reporting Standards (IFRS).
- 2.5 Our audit identified a small number of misstatements within the accounts, which had no net effect on the income and expenditure account or the General Fund balance. Management agreed to process all accounting adjustments and the majority of proposed amendments to classification and disclosure to improve presentation.

Financial performance

- 2.6 The Council reported a £0.75m revenue surplus at March 2009 and has set a balanced budget for 2009/10 and for the period of the current Medium Term Financial Strategy (MTFS). General fund reserves reduced from £11.9m to £7.5m in year due to planned support for the MTFS. Overall, the Council maintains a healthy level of reserves, including a £10.1m risk reserve and a £14.1m financing reserve.
- 2.7 The Council has begun its preparations for the anticipated funding reductions from 2011. Officers are addressing this as part of a strategic approach through the financial planning process.

- 2.8 The Council is experiencing some financial pressures in 2009/10, notably through increased service volume from demand led children's services. The Council is pursuing plans for mitigating the impact of the financial pressures in these areas and continues to closely monitor the position each month.

Financial systems

- 2.9 We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.10 Our accounts audit work identified some areas where the Council should continue to work to improve its systems, primarily around valuation and accounting for fixed assets. Further details of these matters are set out in our Annual Report to those Charged with Governance, which contains a schedule of actions agreed with management to resolve the identified issues.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2008/09 accounts.
- 2.12 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact our audit of the accounts. We reported our findings in July 2009 and agreed actions with management to resolve the minor control issues identified.

Annual Governance Statement

- 2.13 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. As the AGS must be reviewed and, as necessary, updated as at the date of signing our audit opinion, we reviewed the final version of the AGS as part of our audit completion procedures.
- 2.14 We concluded that the AGS was consistent with our knowledge of the Council, subject to a proposed adjustment to update the AGS for our recent assessment of the Council's 'use of data', which management incorporated into the final version of the document. It will be important for the Council to ensure timely and robust action is taken to implement the required control improvements identified in the AGS.

Icelandic Banks - the Council's Response

- 2.15 The Council held £37m investments in the three Icelandic banks that went into administration in October 2008. Accounting standards require councils to make their best estimate of any impairment of financial assets. The Council calculated the impairment on its investment in accordance with relevant guidance and, following receipt of updated forecast recoverability information in September 2009, recognised a net impairment of £8.2m (including future loss of interest) in 2008/09.
- 2.16 In light of the Icelandic bank crisis, auditors were requested by the Audit Commission to review the treasury management arrangements in place at councils. Our review of the Council's treasury management arrangements demonstrated that the Council has put sound arrangements in place and has taken decisive action to deal with the nationally and locally identified areas for improvement.

Members' expenses and allowances

- 2.17 Due to the high profile coverage of Parliamentary expenses during 2008/09, we looked at members' and senior officers' allowance and expenses in greater detail than in previous years. Our review of the arrangements in place, found appropriate procedures and controls are currently in operation at the Council.

Looking ahead

- 2.18 We would like to draw to the attention of those charged with governance further significant changes that will happen to the statement of accounts in future years, the most significant of which is the full implementation of IFRS into the 2010/11 accounts. Although this may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well planned for the transition to IFRS have fewer amendments to their accounts and are less likely to be charged additional audit fees, than those who are not well prepared.
- 2.19 We recognise that the Council has already carried out a lot of work in starting to address IFRS and is well placed to go forward although, as our audit suggests, there are some significant challenges around fixed asset accounting and valuation. In addition, the Council will need to consider and manage the group accounting implications of the likely required consolidation of Alexandra Park and Palace under IFRS.

3 Use of resources

Introduction

- 3.1 We issued our annual VFM conclusion on 25 September 2009, at the same time as our accounts opinion, ahead of the required deadline. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, except for producing relevant and reliable data and information to support decision making and manage performance.
- 3.2 Prior to giving our VFM conclusion, we summarised the basis of this conclusion in our Annual Report to those Charged with Governance, which we presented to the General Purposes Committee on 24 September 2009. We provided further detail and set out the results of our assessment of the Council against the use of resources framework in our Use of Resources 2009 report, which was presented to Audit Committee on 5 November 2009. In this Letter we summarise the key messages from this work alongside relevant current findings, and look forward to forthcoming challenges for the Council.

2008/09 VFM conclusion and use of resources assessment

- 3.3 Our VFM conclusion was informed by our use of resources work which, in councils, is based on the Audit Commission's new use of resources (UoR) assessment. The new framework emphasises **outcomes** over **processes**, and brings new areas into the assessment such as environmental management. It presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect an objective change in performance.
- 3.4 In order for us to provide an unqualified conclusion, the Council needed to achieve an 'adequate' assessment (score of at least 2) for each component of the UoR assessment. Failure to achieve an 'adequate' assessment in any one area results in an "except for" conclusion.
- 3.5 Our UoR assessment concluded that the Council had at least adequate arrangements in all areas, with the exception of an assessment of 'inadequate' (score of 1) for "use of data". This reflects the findings of the joint area review, the Ofsted review of safeguarding children and mixed results within our own data quality spot-checking work.
- 3.6 Therefore, our VFM conclusion contained an "except for" qualification in respect of the Council's use of data.

- 3.7 Aside from the "use of data" component of the assessment, we would like to emphasise that the Council performed well to achieve a number of level 3 scores, as the prevailing score nationally is 2. In the context of London, the Council's overall performance was similar to others, reflecting the stronger performance of London councils in the new assessment.
- 3.8 The 2008/09 scores by Key Line of Enquiry (KLoE) area are shown in the table below.

Table 1: UoR scores 2008/09

Theme / KLoE		Score
Theme 1 - Managing finances		3
1.1	Financial planning	3
1.2	Understanding costs	2
1.3	Financial reporting	3
Theme 2 - Governing the business		2
2.1	Commissioning and procurement	2
2.2	Use of data	1
2.3	Good governance	2
2.4	Internal control	2
Theme 3 - Managing resources		3
3.1	Managing natural resources	3*
3.2	Asset management	2
3.3	Workforce management	N/A*

Scoring scale:

1 - Below minimum requirements - inadequate performance
 2 - Only at minimum requirements – adequate performance
 3 - Consistently above minimum requirements – performing well
 4 - Well above minimum requirements – performing strongly

* Within the Managing Resources theme, in 2008/09, environmental management has the greater weighting and workforce management is not assessed

- 3.9 We assessed the Council as performing well (level 3) in the areas of managing finances and managing resources. The managing finances assessment reflects particular strengths in the areas of integrated financial and service planning, financial reporting and stakeholder consultation.
- 3.10 The overall score of 3 for managing resources is largely attributable to the underlying score of 3 for managing natural resources, which is an area of strength for Haringey. Apart from the score of 1 for "use of data," we assessed the Council as performing adequately in all areas of the governing the business theme.
- 3.11 The high priority recommendations arising from our UoR assessment were for the Council to ensure that it:
- continues to demonstrate outcomes across its key areas of activity in order to deliver its strategic priorities and, thus, retain its "performing well" assessment for managing finances
 - is able to clearly articulate and quantify the financial and non-financial benefits arising from all areas of the Haringey Forward and core efficiency programmes, including showing how service review and analysis activity, such as that undertaken for the benefits service in 2008/09 and planned for corporate support functions in 2009/10, is leading to the targeted levels of improvement

- can demonstrate that arrangements for inter-agency child protection practice are improving in line with the action plan submitted to Ofsted in response to the joint area review
- is addressing identified weaknesses in data quality management and reporting in relation to child protection, in line with its existing action plan, in particular reducing the need for manual checking and manipulation in performance reporting
- continues to develop data quality checking mechanisms for housing and council tax benefit claims in order to minimise the high level of errors in a number of payment categories when compared to other councils.

3.12 We agreed a number of recommendations management to implement these improvements and we will review progress with implementation during the 2009/10 audit.

Follow-up of prior year local VFM work

Health inequalities

- 3.13 As part of our 2007/08 external audits of the Council and Haringey Teaching PCT ('the PCT'), we carried out a joint risk based review of Health Inequalities, to support our 2007/08 use of resources conclusions at both bodies.
- 3.14 In June 2008 we issued "Tackling Health Inequalities in Haringey", a joint performance report across local government and the health economy in the borough. This raised a number of recommendations around the Joint Strategic Needs Assessment (JSNA), the structure of the Health and Wellbeing Partnership Board (HWBPB) and the need to address capacity issues.
- 3.15 In April-June 2009, we followed up on progress made to date against the recommendations raised within our June 2008 report.
- 3.16 In general, good progress has been made in implementing our recommendations, with eight of the original eleven recommendations either implemented or on track to be implemented by the agreed deadlines.
- 3.17 However, there are some areas where progress has not been made as quickly as planned and the Council and PCT will need to work together, with other partners, to ensure implementation to agreed timescales. We recognise that other pressing challenges faced by the PCT and Council may have played a part in delaying some of the actions in this area. The key messages are summarised in the table overleaf.

Table 2: Health inequalities - summary of progress on implementation

Areas of good progress	Areas where more action is needed
The JSNA has been progressed, with the Phase 1 report being circulated to stakeholders in August 2008 and Phase 2 is underway and due for completion by December 2009	The PCT, Council and other partners will need to ensure that the new partnership structures are finalised as soon as possible and, subsequently, kept under review to ensure that they are working effectively.
Capacity issues have been addressed, with the PCT having now recruited four public health consultants	Partners will need to ensure the effective implementation of current plans for better involvement of the acute sector in the health inequalities agenda.
The Wellbeing Scorecard is now reviewed on an exception basis which avoids unnecessary detail being presented to the HWBPPB	More training on HI issues is needed to support the further development of the JSNA.

- 3.18 We agreed a revised action plan with Council and PCT management to implement the remaining recommendations and will seek updates on progress during the 2009/10 audit.

Probity and propriety

- 3.19 As part of our 2007/08 audit, we carried out a review of the Council's arrangements for probity and propriety, the results of which fed into our annual VFM conclusion. Our work covered the following areas:
- ethical governance
 - the Standards Committee
 - counter fraud and corruption
 - confidential reporting procedures
 - managing the risk of fraud
 - responding to proven cases of fraud.
- 3.20 We concluded that the Council's arrangements were generally robust and no serious issues were identified from our work. We did, however, identify some areas where the Council could further improve arrangements to move towards best practice and we agreed an action plan with the Council in November 2008.
- 3.21 We followed up on progress in November 2009 and found that the Council has made good progress in implementing the recommendations made in our initial report and target dates have been agreed for those not yet implemented.

3.22 Key recommendations implemented by the Council include:

- the introduction of a training programme for all Standards Committee Members
- agreement of a revised Anti-Fraud and Corruption Strategy that is explicit in its application not only to Council employees but also to contractors of the Council
- the corporate risk register being updated to include the risk of fraud and corruption occurring as a risk to the Council
- declarations of interest are now included as a standard agenda item for all committee meetings
- with the exception of the Vice-Chair of the Audit Committee, there is now separate membership of this Committee and the Council's Scrutiny Committees.

3.23 There are a small number of areas for further action to help support further improvement in the Council's governance arrangements:

- the Council should improve its evidencing of how it proactively raises standards of ethical conduct.
- there remains some scope for the Council to raise the profile of the Standards Committee and its role in improving ethical standards, including implementing recommendations made by the Monitoring Officer
- as set out in our Use of Resources report the Council has not yet completed its assessment of governance arrangements for its significant partnerships, although this is planned to take place by March 2010.

3.24 We will review progress in implementing these remaining matters as part of our 2009/10 use of resources audit.

National Fraud Initiative

3.25 We have recently completed a mandatory National Fraud Initiative (NFI) RAG risk assessment for the Audit Commission, based on the Council's progress in investigating potential data matches. It is expected that the Commission will carry out NFI spotchecks in a sample of bodies assessed as "red." In common with most of our audited bodies, we assessed the Council as "amber" on the basis of progress made to date and we will continue to monitor progress as part of our 2009/10 plan.

Questions from the public

3.26 We have experienced an increase in the level of communications from local electors and other interested parties and we are currently discussing a number of matters with the Council, including a land sale issue, leaseholder service charges, CCTV, grant awards and special educational needs funding. We will consider these issues in the context of our audit responsibilities, including our use of resources conclusion, and will report any matters to the Council as required.

Looking ahead

- 3.27 We agreed our indicative 2009/10 audit fee with the Council in March 2009. The letter set out our initial assessment of the local risk based use of resources work we plan to carry out to support our VFM conclusion. This comprised:
- additional risk based work on data quality
 - a partnership working project carried out jointly with the PCT
 - early work in assessing workforce management arrangements
 - ongoing review of treasury management arrangements.
- 3.28 We confirm that these assumptions remain relevant and we will build these into the risk assessment for our 2009/10 plan, along with specific follow up of our 2008/09 recommendations and any new risks emerging between now and when we agree our full plan in December 2009.

4 Certification of claims and returns

Introduction

- 4.1 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.
- 4.2 The Audit Commission prescribes our work in this area. Each year, it agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instructions (CIs).
- 4.3 Certification work provides important and valuable assurances to taxpayers over public funds:
- each year, auditors certify £43 billion of public funds
 - since 2004, auditors have found errors of over £0.5 billion in the claims and returns prepared by local authorities
 - the level of the errors found by auditors and corrected by authorities since the new arrangements were introduced in 2004 is almost five times the cost of auditors' certification work
 - 10 per cent of claims and returns have been adjusted for errors and 37 per cent have been qualified over the past five years
 - significant amounts of overpaid subsidy are recovered from authorities by grant-paying bodies when action is taken to follow up auditors' qualifications – one grant-paying body has recovered over £63 million in the past three years.
- 4.4 In its national report, "Review of arrangements for certifying claims and returns" (September 2009), the Audit Commission identified that further improvements in performance in preparing and auditing claims and returns are achievable:
- local authorities need to attach greater importance to the preparation of claims and returns to reduce the volume and value of errors made
 - grant-paying bodies should improve their understanding of the certification process
 - auditors need to do more to raise the profile of certification work at the local level and encourage authorities to improve their use of resources.

Key messages

- 4.5 Each year, following certification of the programme of claims and returns we produce a summary report for the Council and agree an action plan in respect of any identified improvement areas. We presented our Grants Report 2007/08, to the Audit Committee in February 2009 and are nearing completion of the certification of 2008/09 claims and returns.
- 4.6 In February 2009, we reported that the Council had improved performance against key targets, including levels of qualifications and amendments and timeliness of submission, compared to the previous year:
- 4.7 Our work on certification of 2008/09 claims and returns is nearing completion and we can confirm that, overall, the Council's performance has improved from 2007/08 in terms of timeliness of submission, and levels of qualification and amendment.
- 4.8 The exception to this was the Council's Housing and Council Tax Benefit claim. This was qualified due to a number of issues with the quality of data. We identified more issues with the claim at Haringey than at the other councils that we audit. An amendment of £18k was made to the claim (total value £259m), which decreased the amount due from the Council to the Department for Work and Pensions. We have already made a recommendation, in our Use of Resources report, to improve the quality of housing and council tax benefit data.
- 4.9 We will report comparative performance measures along with our views on how well the Council has implemented previously agreed actions in our forthcoming Certification of 2008/09 claims and returns report.

Appendix A 2008/09 reports issued

Report	Date issued
Audit Plan	May 2008
Review of probity and propriety	November 2008
Use of Resources and Data Quality 2008	December 2008
Grants Report 2007/08	January 2009
Review of Data Quality Arrangements in Adult Social Care	March 2009
Audit Strategy Document	June 2009
Information Technology controls	July 2009
Health Inequalities follow-up	September 2009
Annual Report to those Charged with Governance	September 2009
Use of Resources 2009	October 2009
Annual Audit Letter	December 2009

Appendix B Audit fees 2008/09

Audit area	Budget 2008/09	Actual 2008/09
Financial statements, including WGA	327,200	327,200
VFM conclusion/Use of resources/Data Quality	143,920	143,920
Total Code of Practice fee	471,120	471,120
Certification of claims and returns (2007/08)	*100,000	107,248
Total fees	571,120	578,368

* Represents the initial estimate of the cost of certification work, which is billed on a cost incurred basis.



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