LONDON BOROUGH OF HARINGEY

Annual Audit Letter

Year ended 31 March 2020

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2020.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

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

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the Council's and Pension Fund's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

BDO LLP

30 April 2021

Audit conclusions

Audit area	Conclusion
Financial statements Council (and Group)	Unmodified opinion but with emphasis of matter over property valuations
Financial statements Pension Fund	Unmodified opinion
Use of resources	Unmodified conclusion
Audit certificate	We are unable to issue our audit certificate until we have completed our review of the Whole of Government Accounts return

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

FINANCIAL STATEMENTS

Council

Audit opinion on the Council's and Group's financial statements

We issued an unmodified audit opinion on the Council's and Group's financial statements on 30 April 2021. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

We included an emphasis of matter in our audit report in relation to the material uncertainty around property valuations.

Materiality

Financial statements materiality was determined based on 1.5% of gross expenditure at £14.8 million for the Council and £16.4 million for the Group.

Audit differences and misstatements

There were a significant number of audit differences and misstatements identified by our audit work principally related asset valuations and capital accounting.

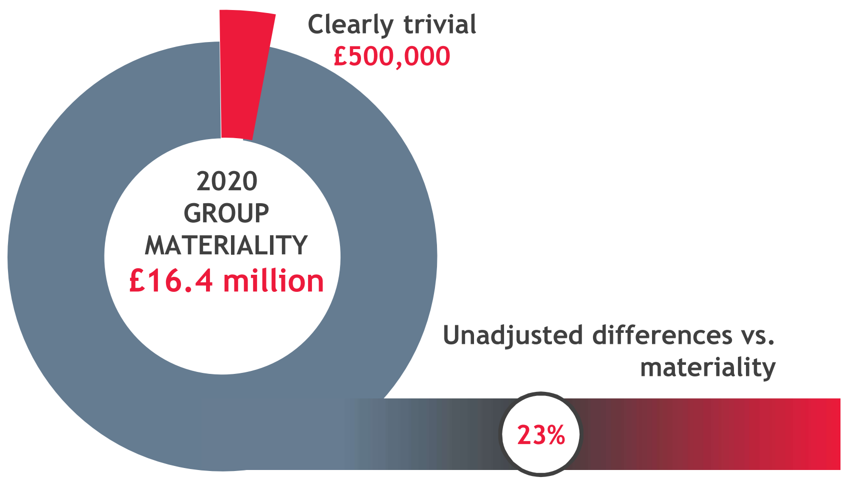
Management has corrected the financial statements for the larger misstatements and this has increased the deficit on the provision of services for the Council by £8.3 million (to £15.1 million) and increased the Group deficit by £14.6 million (to £26.9 million). Net assets for the Council increased by £3.5 million (to £1,597 million) and decreased for the Group by £1.7 million (to £1,661 million).

The corrections relating to asset valuations and capital accounting had no impact on the General Fund or HRA balances. However, the HRA balance reduced by £6.9 million (to £8.7 million) after accounting for the provision to refund water charges to tenants following the legal judgement against the Thames Water scheme.

Unadjusted audit differences

Other audit differences that have not been corrected by management would increase the deficit on the provision of services for the Council and the Group by £3.8 million. Net assets for the Council and Group would increase by £2.4 million.

These adjustments would also decrease the Council's General Fund and HRA balances by £2 million where these relate to revenue items not subject to statutory adjustments.



FINANCIAL STATEMENTS
Pension Fund

Audit opinion on the pension fund financial statements

We issued an unmodified audit opinion on the pension fund financial statements on 30 April 2021. This means that we consider that the financial statements:

- Give a true and fair view of financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

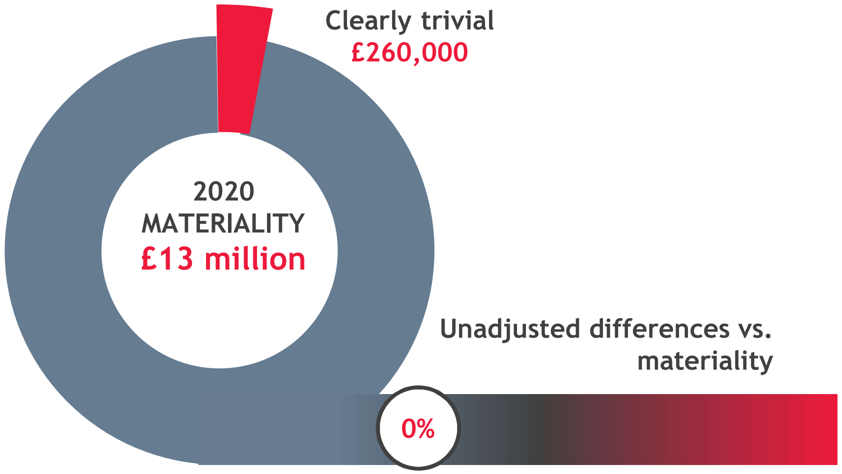
Materiality

Materiality for the pension fund financial statements as a whole was calculated at £13 million based on a benchmark of 1% of the value of the fund's investment assets.

Specific materiality for the fund account of £2.3 million was based on 5% of contributions.

Audit differences

We did not identify any audit differences that required correction.



FINANCIAL STATEMENTS

Audit Risks

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

Risk description	How the risk was addressed by our audit	Results
Management override of controls	We carried out the following planned audit procedures in response to management override risks: • Reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation; • Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and • Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias. Management has corrected for the larger audit differences identified and the remaining uncorrected audit differences are not indicative of management bias or deliberate misstatement of the financial statements.
Revenue recognition	We carried out the following planned audit procedures in response to the fraudulent revenue recognition risk: • Tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria had been met.	Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Expenditure recognition and cut off	We carried out the following planned audit procedures in response to the fraudulent expenditure recognition risk: • Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.	Our testing found that expenditure had been recorded in the correct financial year. However, we found instances where the estimated final costs for services received differed to the final invoice raised by the suppliers and that an additional £85,921 should have been accrued and charged to 2019/20. We extrapolated this error rate against year-end creditors and accrued expenditure and projected that expenditure may be understated by £1.1 million for 2019/20.
Impairment allowance for non collection of receivables	We carried out the following planned audit procedures in response to management's estimate of losses from non collection of receivables: • Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears, and for financial assets within the scope of IFRS 9 that this also reflects expected credit losses; and • Checked that information has been accurately extracted from systems to support the modelling of collection rates by age.	Management had applied historic collection rates with an adjustment to reflect the increased risks of non-collection arising from the impact of Covid. However, we noted that allowance rates used by management to calculate sundry debts, HRA housing rents and housing benefit overpayment provisions had not been revised for a number of years and we recommend that management regularly refresh data on current collection rates. We found that the methodology for calculating the losses on sundry debt was not appropriate and the impairment allowance was understated by £3 million. We consider that the adjustment to reflect increased risks on housing benefits overpayments losses to be excessive and the impairment allowance may be overstated by £1.5 million. We found that the business rates arrears impairment calculation had used net arrears (after deducting overpayment ratepayer balances) but should have used gross arrears. This resulted in an understatement of the impairment allowance of £1.3 million.

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of land, dwellings, buildings and investment properties	We carried out the following planned audit procedures in response to the valuation of land, dwellings, buildings and investment properties: • Reviewed the instructions provided to the valuers and reviewed the valuers' skills and expertise in order to determine if we can rely on the management expert; • Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage; • Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; • Assumptions used by the valuer in light of the prevailing market conditions to support the valuations including any material uncertainty for classes of assets; and • Followed up valuation movements that appeared unusual or outside of our expectations.	Our review of instructions to the valuer and assessment of their skills and expertise did not identify any issues. Our work on the accuracy and completeness of asset information used as the basis of valuation identified a number of significant errors and also found that some assets were misclassified by asset type. This included: • The headlease for one property was transferred to another organisation but the disposal at £1.9 million million had not been accounted for; • Pendarren House valuation required write down by £3.7 million due to significant improvement works required; and • We continue to identify errors in gross internal area measurements used in school valuations and projected total valuation errors of £21.3 million. We have reported a significant deficiency in controls for maintaining complete and accurate asset data. Our review of dwelling valuations also noted some concerns over the quality of the valuations where there had been a large change since the previous valuation, where we noticed in some instances only one similar property sale had been used and there was limited assessment of the change in values since that sale or adjustments to account for differences between that property and the beacon property being valued. The valuer has reported that his valuations as at 31 March 2020 was subject to material uncertainty, in line with the RICS guidance issued to valuers, due to the impact of Covid and reduced market activity. We have referred to this in our audit report.

FINANCIAL STATEMENTS
Audit Risks

<table>
<tr><th>Risk description</th><th>How the risk was addressed by our audit</th><th>Results</th></tr>
<tr><td>Accounting for Alexandra House property acquisition</td><td>We carried out the following planned audit procedures in response to the acquisition on Alex House Wood Green Limited by the Council and that entity’s purchase of Alexandra House office property:
• Reviewed supporting documentation and completion documents to ensure the assets were acquired before the year-end;
• Reviewed managements consideration of entity structures and accounting in the financial statements; and
• Critically evaluated the classification of the related non-current assets and revaluations.</td><td>The Council purchased the share capital of Alexandra House Wood Green Ltd for £6 million. This entity had no assets or liabilities but did have the right to acquire Alexandra House from Workspace plc for £15.5 million. The Council provided a £16.6 million loan to the entity to allow it to complete the freehold acquisition of Alexandra House including stamp duty and other associated cost, and this allowed the Council to continue to use this building for Council office accommodation.

We have reviewed the acquisition of the entity and agree that this is an asset acquisition, rather than a business combination under IFRS 3, and the Council had correctly recorded the £6 million investment in the entity at cost and then impaired this to £0 to reflect the recoverable amount from the net assets held in the entity at fair value.

The loan to the entity is secured against the property and at some future date the entity will transfer the freehold ownership to the Council to settle the loan.

When consolidating Alexandra House Wood Green Ltd into the group accounts the Council had included Alexandra House at £16.6 million cost. The group accounting policy requires that the asset should be carried on an existing use valuation and this resulted in a further valuation adjustment down to £10.1 million.</td></tr>
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FINANCIAL STATEMENTS
Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liabilities	We carried out the following planned audit procedures in response to the valuation of pension scheme liabilities: • Reviewed the competence of the management expert (actuary); • Checked the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the LGPS; • Reviewed the controls for providing accurate cashflow data (contributions, benefits paid and fund returns) to the actuary for 2019/20; • Checked whether any significant changes in membership data had been communicated to the actuary; and • Reviewed the reasonableness of the assumptions used by the actuary (management's expert) for the calculation of the liability against other local government and actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by our consulting actuary (auditor's expert).	Our review of the competence of the actuary did not identify any issues. The actuary concluded that after the data validation stage, the membership data submitted by the Fund for the 2019 valuation was suitable for the purpose of the funding valuation. This membership data is rolled forward for use in the 31 March 2020 accounting valuation. Our sample testing of member records found no errors in this data. The benefits paid disclosed in both the reconciliation of scheme assets and liabilities was overstated by £5.6 million but this did not impact the net pension liability. We noted that the actuary's estimated closing pension fund investment valuation (and the share of the net loss for the year allocated to the Council) appeared to be significantly higher than the actual fund closing investments value. Further enquiries established that the actuary had allocated an 'experience gain' on asset allocations following the triennial valuation that had been offset against the net return (loss) on investments allocated to the Council. The pension liability includes an estimate of the costs in respect of the McCloud (age discrimination) case and GMP indexation, but does not include the costs in respect of the recent Goodwin (spousal benefits) case. We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability that falls within a reasonable range. Our actuary has provided an estimate of the overall strength of assumptions and this indicates that the estimate had tended towards a slightly prudent (higher) liability mainly due to using the CMI 2018 mortality gains rather than the latest available CMI 2019 tables.

FINANCIAL STATEMENTS
Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of unquoted pension scheme investment assets	We carried out the following planned audit procedures in response to the valuation of unquoted infrastructure, property funds and private equity pension scheme investment assets: • Obtained direct confirmation of investment valuations from the fund managers; • Confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds since the last audited financial statements; and • Assessed whether the impact of Covid 19 had been taken into account by the fund managers at 31 March 2020 and if there is material uncertainty over the valuation of the underlying assets or infrastructure projects.	Updated March 2020 valuations were provide by fund managers. We agreed cash contributions and distributions between the pension fund and the fund managers. Two pooled property fund managers, with a focus on UK property, suspended the funds in late March 2020. Although the fund managers continued to provide fund prices, these were subject to material uncertainty in accordance with the RICS valuation guidance. The private equity valuations were agreed to the December valuations through to the audited financial statements and updated at March 2020 to take account of the impact on asset valuations as a result of the lockdowns in various economies. This resulted in an overall fall in value of private equity of 7.4%. The renewables funds did not suffer any losses from lockdowns and one increased in value in the final quarter following the completion of the development phase for a major project.
Reconciliation of bank accounts	We carried out the following planned audit procedures in response to the large number of unmatched clearing suspense item in cashiers and banking system: • Reviewed and evaluated the controls introduced this year to reduce unreconciled differences on the bank reconciliation; and • Tested unreconciled items on the bank reconciliation to ensure reconciling items are appropriately cleared after the year-end.	The bank reconciliation included unmatched suspense items totalling £10.36 million and we were able to verify that £9.6 million related to intra-account transfers on 31 March 2020 not cleared to the receiving cashbook until 1 April. However, there was a further £66,000 of current year and £737,000 of remaining prior year unmatched items to be investigated and resolved by the cashiers team. Whilst there has been an improvement in clearing suspense cash book items and a significant decline of the number and value of large and old unmatched items compared to the prior year, there remains a significant deficiency in control where a full and complete bank reconciliation has not been prepared as unmatched entries are still to be resolved.

USE OF RESOURCES
Audit Risks

Audit conclusion on use of resources

We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	We carried out the following planned audit procedures in response to the financial sustainability risk: • Reviewed the assumptions used in the Medium Term Financial Strategy and assessed the reasonableness of the cost pressures, the level of Government grant reductions applied and income generation proposals; • Monitored the delivery of the budgeted savings in 2019/20 and the plans to reduce services costs from 2020/21; and • Review the strategies to close the budget gap after 2020/21.	The revenue outturn for 2019/20 was in line with the forecast outturn deficit of £5.5 million. The People Directorates continued to face challenges with their agreed budgets albeit at a much reduced level to the previous year. The MTFS 2020-2025 approved by Cabinet in February 2020 had a balanced budget for 2021/22, £2 million funding gap from 2021/22, and increasing to £15.6 million in 2024/25. The Council identified £14.5 million savings to be delivered in 2020/21 in order to balance the budget. This is £5 million lower than savings required in 2019/20 and does not rely on drawdown of reserves. Even though there has been an improved realisation of savings by the Council over the last couple of years there is pressure in achieving savings set out in the MTFS especially as demand-led services such as adult and children's social care continue to overspend. The Council needs 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, particularly in light of significant financial pressures which will be placed on the Council as a result of the COVID-19 pandemic. We concluded that the Council has adequate arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.

OBJECTIONS AND LEGAL POWERS

The following objections have been resolved and the fees approved by PSAA in 2019/20.

Objection	Findings	Action taken	Fees
Schools PFI payments for performance and availability	Following the suspension of the services and facilities management element of the PFI contract in 2008, the Council did not made any payments in 2016/17 to the contractor in respect of availability and performance contract requirements. The Council (or succeeding Academy school) remains responsible for the running of these schools. Therefore, there is no matter for investigation since there were no payments made to the contractor in respect of availability and performance under the PFI contract for these schools. We have seen evidence that confirms that the Council had consulted on this proposal to the extent that it was required to do so and therefore we do not accept the assertion that the Council did not consult on this matter as required under the Best Value duty on the decision to provide the school major work project through the PFI contract, or that the decision making process was unreasonable in using the public sector comparator of the HM Treasury Green Book to assess value for money, or that consultants engaged by Council were conflicted. Statement of reasons issued 30 October 2020	No action taken	£4,788
HDV joint venture arrangement	While the High Court found that the Council did have a duty to consult certain representatives at the formative stages in developing the HDV, we have concluded that this procedural breach is not of such significance that the expenditure is unlawful. The High Court also found that the Cabinet decision to approve the HDV was within its powers and the resulting expenditure was not unlawful. Furthermore, the Council decided not to proceed with the regeneration scheme through the HDV. Statement of reasons issued 30 October 2020	No action taken	£12,065

OBJECTIONS AND LEGAL POWERS

Objection	Findings	Action taken	Fees
Penalty costs for late payment of council tax	The Council may recover costs reasonably incurred in obtaining a summons and liability order for non-payment of council tax. The basis of the calculation was reviewed by Grant Thornton with regards to the setting of the 2013/14 costs and concluded, through their previous Statement of Reasons, that these were reasonable and included only those costs that may be recovered. The Courts have also stated that it is appropriate to include overhead costs in the total costs when calculating costs. The Council has continued to apply the same methodology for calculating these costs for 2016/17 and 2017/18. Statement of reasons issued 30 October 2020	No action taken	£7,084

We have yet to complete our review in respect of the following objections:

- Property maintenance and management of housing repairs
- Acquisition of 106 Woodside Avenue and payments under Land Compensation Act 1973 to tenants.

REPORTS ISSUED AND FEES

Fees summary

	2019/20 Final £	2019/20 Planned £	2018/19 Final £
Audit fees:			
• Council and Group	(2) 300,000	(1) 188,986	206,986
• Pension Fund	24,170	(3) 24,170	16,170
Total audit fees	324,170	213,156	223,156
Objections concluded in 2019/20:			
See previous pages for each objection	23,937	--	15,039
Non-audit assurance services:			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	In progress	46,223	46,223
• Pooling of housing capital receipts return	3,500	3,500	3,500
• Teachers' pensions return	In progress	3,500	3,500
Fees for other non-audit services	In progress	53,223	53,223

(1) The PSAA initial scale fee for the Council audit in 2019/20 was £158,986 and we increased this to £188,986 in the Audit Plan to reflect increased risks and audit issues in recent years. The 2018/19 scale fee was increased from £158,986 by £48,000.

(2) Significant further audit costs have been incurred this year due to issues on property valuations, group consolidation and the impact of Covid. We propose further overrun fees of £111,014 and final costs of £300,000. This fee variation is subject to PSAA review and approval.

(3) The PSAA initial scale fee for the pension fund audit in 2019/20 was £16,170 and we increased this to £24,170 in the Audit Plan to reflect increased risks and testing of the triennial data submission. This fee variation is subject to PSAA review and approval.

Communication

Reports (dated)	Presented to Committee
Council Audit Plan (28 Feb 2020) / Updated Audit Plan (28 July 2020)	Corporate Committee 18 March / 30 July 2020
Pension Fund Audit Plan (21 Feb 2020)	Pension Committee and Board 5 March 2020
Council Report (10 Mar 2021) / Final Completion Report (30 Apr 2021)	Corporate Committee 17 March 2021
Pension Fund Progress Report (9 Nov 2020) / Completion Report (4 Mar 2021)	Pension Committee and Board 23 Nov 2020 / 4 March 2021

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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