

AGENDA ITEM: 9

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Meeting	Audit Committee
Date	19 March 2008
Subject	Annual Audit & Inspection Letter 2006/07
Report of	Deputy Director of Resources & Chief Finance Officer
Summary	This report advises the committee of the Audit Commission report on the 2006/07 Audit of Accounts and Inspection.

Officer Contributors	Maria G. Christofi, Finance Manager (Projects), Strategic Finance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Annual Audit and Inspection Letter 2006/07
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Jonathan Bunt, Head of Strategic Finance on 020 8359 7249

1. RECOMMENDATIONS

- 1.1 That the Audit Commission Annual Audit & Inspection Letter for 2006/07 be accepted as a reasonable statement on the Council's position in respect to financial standing, and financial and performance management arrangements.**
- 1.2 That the Committee consider whether there are any areas on which they require additional information or action.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Annual Audit and Inspection Letter addresses fundamental aspects of financial standing and performance management in Barnet, which relates to the Council's 'More Choice, Better Value' priority.

4. RISK MANAGEMENT ISSUES

- 4.1 The Annual Audit and Inspection Letter has many positive things to say about the Council, but highlights areas of weakness that must be addressed over the coming year. Failure to do so carries the risk of further adverse comment and has the potential to reduce our Use of Resources or Service Block ratings.

5. EQUALITY AND DIVERSITY ISSUES

- 5.1 The Annual Audit and Inspection Letter covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community.

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 This report deals with the Council's financial standing. The external auditor's comment on balances should be noted.

7. LEGAL ISSUES

- 7.1 The relevant statutory provisions are referred to in the body of the report and in both the Annual Audit and Inspection Letter.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "To consider the external auditor's annual letter" and "To comment on the scope and depth of external audit work and to ensure it gives value for money".

9 BACKGROUND INFORMATION

- 9.1 The purpose of the Annual Audit and Inspection Letter is to summarise the conclusions of and significant issues identified by the Council's External Auditor, GT Grant Thornton UK LLP, during their audit and inspection.
- 9.2 The External Auditor is expected to attend the Committee meeting to introduce his report and respond to questions. In the meantime, this covering report extracts the key messages from within the Annual Audit and Inspection Letter 2006/07, which is attached.
- 9.3 The following is drawn to the attention of the Committee:
- 9.3.1 The Statement of Accounts were given an unqualified audit opinion.
- 9.3.2 The Council has continued to improve well this year moving to a four-star authority overall. Barnet is now amongst 37 per cent of councils who perform at the highest star rating.
- 9.3.3 Performance has improved in Adult social care and housing and sustained in all the rest of the services. This now mean all of the six service areas which contribute towards the overall Comprehensive Performance Assessment (CPA) rating are consistently performing well. Both adult social care and housing improved from level 2 (performing adequately) to level 3 (performing well) out of 4 this year.
- 9.3.4 Whilst children and young people, environment, culture and benefits services' all sustained their previous performance ratings, improvements within services were noted. In particular the enjoying and achieving element of children's services was graded as 'outstanding' (4 out of 4) this year.
- 9.3.5 The Council has sustained its good use of resources, with notable improvements in financial management and standing. All of the five themes which make up the overall use of resources now perform well (level 3 out of 4). Sixty seven per cent of all councils perform at this level.
- 9.3.6 Good value for money continues to be provided. Plans for further improvement, including the new customer access strategy, are clear, outcome focussed and linked to the medium term financial strategy. Good progress is noted in its ambitious regeneration programmes.
- 9.3.7 Performance indicators have improved from previous years, and are now above the single tier and county council (STCC) average.
- 9.3.8 There are notable reductions in crime and improved engagement with users and hard to reach groups. The alternative plans to finance the necessary long term public infrastructure to support the council's ambitious planned growth are also developing well.

- 9.3.9 Inspections published this year have returned positive results overall. The Council was judged to be administering a good 'two-star' supporting people programme that has 'promising' prospects for improvement, including a strong governance of the programme, a clear focus on value for money, and effective partnership working and performance management.
- 9.3.10 The Council should ensure that it is taking sufficient information to Cabinet regarding the amount of backlog maintenance and plans to address this. In addition, work should be conducted on the local performance indicators in relation to assets and how they are being used to meet corporate objectives.
- 9.3.11 Areas highlighted for improvement include engagement and involvement of service users in all aspects of the programme, more consistent working of providers and the lack of on-going contracts being issued which affects the ability of providers to plan their business developments effectively.
- 9.3.12 Further, areas highlighted for improvement included achievement of corporate plan targets, sustaining improvements in housing benefits and continued progress in the strengthening of scrutiny.
- 9.3.13 The one area that remains at level 2, which is adequate, is asset management. Specifically, Cabinet should be kept up-to-date regarding the amount of backlog maintenance and plans to address this. In addition, further work should be carried out on the local performance indicators in relation to assets and how they are being used to meet corporate objectives.
- 9.3.14 The Council has a short term and long term plan in relation to asset management. In the short term, whilst officers consider the majority of the asset management information is available it is currently not in one place or in a consistent format, so an exercise will be undertaken to address this in order to facilitate reporting to Members. In the longer term, the aim is to consolidate asset management information in SAP, or some other system necessary, and to address any maintenance backlogs as part of the 2009/10 budget process.
- 9.3.15 It has been recommended to Cabinet resources Committee on 25 February 2008 on the Hendon Town Hall Refurbishment, that Cabinet review the revenue base budget provision for buildings maintenance across the council as part of the 2009/10 budget process.
- 9.3.16 The Council has continued to make contributions to its reserves balances, which reached £12.1million at 31 March 2007. It has been noted that balances have increased by over £11 million since 2004. However, it was emphasised that balances still remain on the low side when compared to other councils of a similar size and risk profile.
- 9.3.17 Although, an unqualified opinion and value for money conclusion on the accounts was given we have been unable to certify the audit as closed due to outstanding objections from prior year accounts.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MM

CFO: JB

Annual Audit and Inspection Letter

Barnet London Borough Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 The Council has continued to improve well this year moving to a four-star authority overall. Barnet is now amongst 37 per cent of councils who perform at the highest star rating.
- 2 Improvements in adult social care and housing now mean all of the six service areas which contribute towards the overall CPA rating are consistently performing well. Both adult social care and housing improved from level 2 (performing adequately) to level 3 (performing well) out of 4 this year.
- 3 Whilst children and young people, environment, culture and benefits services' all sustained their previous performance ratings, improvements within services were noted. In particular the enjoying and achieving element of children's services was graded as 'outstanding' (4 out of 4) this year.
- 4 The Council has sustained its good use of resources, with notable improvements in financial management and standing. All of the five themes which make up the overall use of resources now perform well (level 3 out of 4). Sixty seven per cent of all councils perform at this level.
- 5 The extent of improvement in performance indicators has improved from previous years, and is now above the single tier and county council (STCC) average. The number of performance indicators in the best quartiles though remains at just below national averages.
- 6 Direction of travel continues to be good with notable reductions in crime and improved engagement with users and hard to reach groups. The alternative plans to finance the necessary long term public infrastructure to support the council's ambitious planned growth are also developing well. Areas highlighted for improvement included achievement of corporate plan targets, sustaining improvements in housing benefits and continued progress in the strengthening of scrutiny.
- 7 Inspections published this year have returned positive results overall. The Council was judged to be administering a good 'two-star' supporting people programme that has 'promising' prospects for improvement. The Physical and Sensory Disabilities inspection by CSCI found 'some' people were served well with 'promising' capacity to improve.

Action needed by the Council

- 8 The Council should ensure that it is taking sufficient information to Cabinet regarding the amount of backlog maintenance and plans to address this. In addition, further work should be carried out on the local performance indicators in relation to assets and how they are being used to meet corporate objectives.

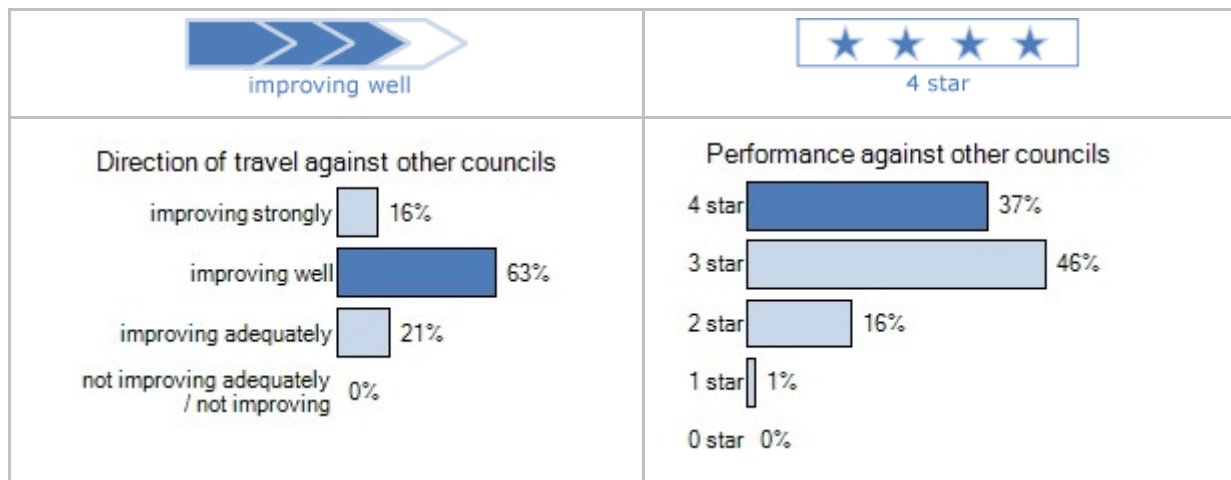
Purpose, responsibilities and scope

- 9 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 10 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 11 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. [In addition the Council is planning to publish it on its website].
- 12 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 13 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 14 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Barnet Council performing?

- 15 The Audit Commission’s overall judgement is that Barnet Council is improving well and we have classified Barnet Council as four-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis

Source: Audit Commission

- 16 The detailed assessment for Barnet Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	4 star
Corporate assessment/capacity to improve	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	3 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 17 Barnet Council is improving well. Over two thirds of performance indicators improved in 2006/07 comparing well with others, with good achievements in key priority areas. Housing and adult social care services increased their overall ratings. Educational attainment at all key stages remain above national expectations. Performance in housing benefits claims and aspects of street cleaning deteriorated, although improving during 2007/08. Partnership working is having a positive impact in delivering wider community outcomes. Crime has reduced with significant reductions in violent crime. Engagement with residents and hard to reach groups has improved. The Council continues to provide good value for money. Plans for further improvement, including the new customer access strategy, are clear, outcome focussed and linked to the medium term financial strategy. Implementation of improvement plans is mixed, meeting less than half of its own overall targets in 2006/07, but with good progress in its ambitious regeneration programmes. Financial management and standing has improved and the alternative approach to funding the infrastructure needed to support future growth is developing well. Plans to strengthen scrutiny are underway. The Council is well placed to deliver further improvements.

Service inspections

- 18 Audit Commission inspections published this year include the inspection of the Council's Supporting people programme. The Council was judged to be administering a good 'two-star' supporting people programme that has 'promising' prospects for improvement. The report highlighted strong governance of the programme, a clear focus on value for money, and effective partnership working and performance management. Areas highlighted for improvement include engagement and involvement of service users in all aspects of the programme, more consistent working of providers and the lack of on-going contracts being issued which affects the ability of providers to plan their business developments effectively. A copy of the full report can be accessed via the Commission's website, www.audit-commission.gov.uk.
- 19 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- An annual performance assessment of children's services.
 - An annual performance assessment of adult social care services.
 - An annual performance assessment of benefits services.
 - An inspection of physical and sensory disabilities.
- 20 A summary of the overall judgements for each assessment is included in the preceding paragraphs.
- 21 The annual performance assessment of Barnet's children's services judged the overall effectiveness of Children's Services at a grade 3 (out of a possible 4). The assessment found that Barnet Council consistently delivers good services for children and young people. The council's contribution to enjoying and achieving is outstanding; its contribution towards improving outcomes for being healthy, staying safe, making a positive contribution and achieving economic well-being remain good. The contribution of the council to the management of its services for children and young people and its capacity to improve them further is good. The full assessment can be access via the inspectorate's website at www.ofsted.gov.uk.
- 22 The Commission for Social Care Inspection's annual performance assessment of adult social care services judged there to be 'good' delivery of outcomes with 'promising' capacity to improve services, achieving an improved two stars (out of a possible three stars) rating overall. The full assessment can be access via the inspectorate's website, www.csci.gov.uk.

- 23 The Benefit Fraud Inspectorate's (BFI) Comprehensive Performance Assessment of the benefits service concluded that the Council achieved a rating of excellent against 6 of the 13 performance measures scored by the Department and met 62 out of the 65 enablers. This resulted in a sustained performance standards score of 'good' (level 3 out of 4). The full assessment can be accessed via the inspectorate's website at www.bfi.gov.uk.
- 24 The Commission for Social Care inspection of Physical and Sensory Disabilities concluded that 'some' people were being served well by services in the London Borough of Barnet, and that the council's capacity for improvement was 'promising'. The inspection looked at social care services for people with physical or sensory impairments which were commissioned or provided by the council, and an assessment of the council's joint working and jointly provided services. The full report can be accessed via the inspectorate's website at www.csci.gov.uk.

The audit of the accounts and value for money

- 25 Your appointed auditor has reported separately to the Audit Committee on the issues arising from the 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 26 September 2007; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 26 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 27 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 28 The 2006/07 financial year marked significant changes to the format and content of the accounts through the introduction of the 2006 SORP. We were pleased to note that the Council were proactive in their assessments of these changes and initiated discussions with us to reach an agreement on their proposed treatments. This approach reduced any impact on the overall completion of the audit, with the accounts approved before the 30 September deadline. Although we gave an unqualified opinion and value for money conclusion on the accounts we have been unable to certify the audit as closed due to outstanding objections from prior year accounts.
- 29 The overall quality of the Council's working papers to support the financial statements has improved, specifically in the areas that we had identified in our previous audits.
- 30 The Council has continued to make contributions to its reserves balances, which reached £12.1million at 31 March 2007. We have continued our focus on the adequacy of general fund balances and are pleased to note that balances have increased by over £11 million since 2004. However, we would emphasise that balances still remain on the low side when compared to other councils of a similar size and risk profile.
- 31 The Council was also required to prepare Whole of Government Accounts (WGA); the Council complied with this requirement with no significant changes subsequent to audit review.
- 32 We undertook our assessments of the Council's progress against the key lines of enquiry. This is the third year for these assessments and again the Council has been improving in individual areas such as financial standing, the assurance framework and the Council's Annual Report. Overall the Council remains at level 3, consistently above minimum requirements, which is a reflection of the work there has been to embed arrangements. There are now a number of key strengths including arrangements for the preparation of the Statement on Internal Control. The challenge going forward is to demonstrate that arrangements across the spectrum of Use of Resources categories drive improvement in process, that they have impact in outcomes, and can be considered best practice.
- 33 The one area that remains at level 2, which is adequate, is asset management. Specifically, the Council should ensure that it is taking sufficient information to Cabinet regarding the amount of backlog maintenance and plans to address this. In addition, further work should be carried out on the local performance indicators in relation to assets and how they are being used to meet corporate objectives.
- 34 An area which still has some scope for improvement is the preparation of grant claims. The Council needs a consistent approach to the preparation of these claims to ensure that errors and/or qualifications are reduced in the future. We are pleased to note however that the Council has implemented new measures and training as a result of the findings from these reviews.

Looking ahead

- 35 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 36 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 37 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 38 This letter has been discussed and agreed with the chief executive. A copy of the letter will be presented at the audit committee on 19 March 2008. Copies need to be provided to all Council members.
- 39 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of Resources Report	November 2007
Supporting People Inspection	May 2007
Annual audit and inspection letter	February 2008

- 40 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the year.

Availability of this letter

- 41 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Claire Bryce-Smith
Relationship Manager

March 2008