AGENDA ITEM: 4

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Meeting	Audit Committee
Date	25 September 2008
Subject	**External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2007/08**
Report of	Chief Finance Officer
Summary	To consider the detailed reports from the external auditor on matters arising from the audit of the 2007/08 accounts. This includes the pension fund accounts.

Officer Contributors	Head of Strategic Finance Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	ISA260 report – Statement of Accounts 2007/08 (to follow)
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Andrew Filby, Finance Manager (020 8359 7114) or Jonathan Bunt, Head of Strategic Finance (020 8359 7249)

1 RECOMMENDATIONS

1.1 That the matters raised by the external auditor relating to detailed aspects of the 2007/08 accounts, including the pension accounts, audit be noted.

1.2 That the officer response to matters raised by the external auditor be noted.

1.3 That the Committee notes that at this stage in the audit there are no adjustments identified by the External Auditor that will not be processed by officers.

2. RELEVANT PREVIOUS DECISIONS

2.1 The Statement of Accounts for 2007/08 were approved, subject to audit, by the Audit Committee on 30 June 2008.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Review of reports made under the International Standard on Auditing (ISA)260 are an integral part of corporate governance.

3.2 The Corporate Plan includes an objective for a ‘enhancing and further developing corporate governance’ within ‘More Choice, Better Value.

4 RISK MANAGEMENT ISSUES

4.1 A positive external audit opinion on Barnet’s Statement of Accounts plays an essential and key role in providing assurance that Barnet’s financial risks are managed in an environment of sound stewardship and control.

5 EQUALITIES AND DIVERSITY ISSUES

5.1 Accurate financial reporting is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet’s diverse communities.

6 USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

6.1 External Audit’s opinion on the Statement of Accounts, as summarised in the ISA260, is the main factor that determines the Council’s score in the Financial Reporting theme of the Use of Resources assessment. As a result, it plays a key role in determining the Council’s overall Use of Resources score.

6. LEGAL ISSUES

6.1 None other than what may be contained in the body of the report.

7. CONSTITUTIONAL POWERS

7.1 Within the Council's Constitution, the functions of the Audit Committee are detailed and include "To consider the external auditor's annual letter, relevant reports and the report to those charged with governance".

8 BACKGROUND INFORMATION

8.1 In accordance with International Standard on Auditing (ISA) 260, the External Auditor is required to issue detailed reports on matters arising from the audit of the Council accounts and pension fund accounts.

8.2 The ISA 260 report has to be considered by "those charged with governance" before the External Auditor can sign the accounts, which legally has to be done by 30 September 2008. As the ISA 260 shows the outcome of the audit it cannot be circulated with this report as the audit has yet to be finalised. Officers will be meeting with Grant Thornton the week commencing 8th September to agree any account audit issues that need to be reported.

8.3 The ISA 260 report contains matters raised by the auditor, his recommendations on the issues, and the management response. Any further update on these items will be given verbally at the meeting. To assist members in reviewing the external auditor's comments the Statement of Accounts 2007/08 are attached for information.

9 LIST OF BACKGROUND PAPERS

9.1 None

Legal: MM
CFO: JB

Grant Thornton

London Borough of Barnet

Annual report to those charged with governance 2007/08

September 2008

Draft

Contents Page

Introduction

Background and purpose of the report

London Borough of Barnet ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.

Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.

The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full in Appendices A and B and reflects the scope of our audit.

This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Assistant Director of Resources (Strategic Services) and his team and other officers as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the Audit Committee at its meeting on 25 September 2008.

The Pension Fund audit was undertaken by pensions specialists within the Firm, this was subject to a separate audit plan and report which was presented to the Pensions Committee on the 10 September 2008. We anticipate being able to provide an unqualified opinion on the Pension Fund within our overall audit opinion to the Council. Findings from our work are included in Appendix C, D and E, and the full report is included for information as Appendix H. Although our report has been acknowledged by the Pension's Committee we note that the overall approval of those accounts rests with the Audit Committee and as such needs to be considered alongside the contents of this report.

The accounts opinion

We have performed our audit of the 2007/08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach is as set out in the Audit and Inspection Plan 2007/08, agreed with the Council.

At the time of reporting to the Audit Committee, the audit is substantially complete and we expect to issue an **unqualified opinion on the Council's accounts** by the 30 September deadline. However, the following items remain outstanding at the time of writing this report:

- final receipt and review of the accounts post audit adjustments
- final review of the annual governance statement
- receipt of the management representation letter

- a final review of post balance sheet events
- clearance of outstanding audit queries
- completion of audit work in relation to fixed assets and debtors

As was the case in 2006/07, the Council continues to prepare good quality accounts which are supported by generally good quality working papers. We recommend, however, that going forward the accounts are provided to us in advance of the 30 June deadline to ensure feedback can be given prior to approval of the Audit Committee. This should result in a reduction in a number of disclosure adjustments required during the audit.

We have reviewed the Annual Governance Statement ("AGS") and have provided feedback to the necessary officers. We did not have any significant concerns over the level of disclosure in the AGS.

Further details of our accounts audit are given in section two. We note that management have agreed to process some of the adjustments we have recommended, these are detailed in Appendix D. Management has not agreed to process the accounts adjustments described in Appendix E, and we would ask the Committee to record if they agree, or not with management on this matter.

Finally, 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 International Financial Reporting Standards ("IFRS") into the 2010/11 accounts. Although this may seem a long way a way, it is important that Council's start planning now, as there will be significant changes to the accounts, and 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 would not be charged additional audit fees, compared with those that are not well planned. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group, who are specialists in planning for IFRS.

Value for Money Conclusion

We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

In giving our VFM conclusion, we have also considered emerging findings from our 2008 use of resources key lines of enquiry (KLoE) assessment. Following national submission of our KLoE scores and Audit Commission quality assurance, we will write to the Council confirming 2008 Use of Resources scores, in November 2008.

Key messages from this year's Use of Resources opinion work are summarised in section three.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards, and should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of management representation.

This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix C) and other reports issued during the year (see Appendix F).

Independence

We are able to confirm our independence and objectivity as auditors and note the following:

- we are independently appointed by the Audit Commission
- the firm has been assessed by the Audit Commission as complying with its required quality standards
- the appointed auditor and client service manager are subject to rotation after a period of no longer than five years
- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council in 2007/08 (Appendix H).

Acknowledgements

We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management, officers and members during the course of our audit.

Grant Thornton UK LLP
September 2008

The accounts opinion

Introduction

We summarise in this section matters arising from our audit of the Council's 2007/08 accounts which we are required, under auditing standards, to report to those charged with governance.

Approach to the audit

We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SoRP').

Our approach to the audit was set out in the 2007/08 Audit and Inspection plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.

Other key factors to highlight include:

- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors
- we have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes
- we have been able to place reliance on the work of internal audit in respect of the key accounting systems covered by their review
- no significant changes have been made to our audit approach in the year

Financial Performance

The Council has reported a deficit on the Income and Expenditure account of £77m, and a net under spend against the budget by £0.095m (excluding central expenses) in 2007/08. However, this relatively small variation comprises larger offsetting variations within individual services. Of significance were under spends in both children's service (£1,027k) and Housing (£2,237k) and an overspend in Resources of (£2,403k). During the year the Council has made £5.2m contributions to general fund balances, with the overall general fund balance as at 31 March 2008 of £17.4m. Earmarked reserves have also increased to £18.2m to take the total level of reserves and balances, excluding balances held by locally managed schools to over £35m. We have continued to focus on the level of reserves as compared to other neighbouring authorities and note that these balances are now above the average levels. This is encouraging as in past years we have commented that the level of revenue reserves has been relatively low.

Key audit findings

Accounting policies and practices

The Council has adopted appropriate accounting policies, in accordance with the 2007 SoRP.

There was one key area in which the draft accounts did not, in our view, fully comply with the SoRP, relating to financial instruments disclosures, specifically the absence of accounting policies for financial instruments and the impairment of debtors. Management have enhanced the disclosures in the Statement of Accounts so that they comply with the SoRP.

Annual Governance Statement (AGS)

The Council produced an Annual Governance Statement (AGS) for the first time in 2007/08, as required by the CIPFA/SOLACE framework. The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities. We provided feedback from our initial review of the AGS and the Council have subsequently adjusted the AGS for final approval by the Audit Committee. We have reviewed this statement and are satisfied that the disclosures made satisfy the requirements made within the Accounts and Audit regulations 2003 and that the contents of the statement are consistent with our knowledge of the Council. However we have noted in Appendix C a recommendation regarding the contextual nature surrounding the various actions the Council are taking in relation to section 5 of the AGS titled 'Significant Governance Issues'.

Financial Instruments

Adoption of the presentation and accounting requirements for financial instruments of FRS 25, 26 and 29 was required for the first time in 2007/08. The presentation requirements are more onerous than in previous years, with more detail to be disclosed in the Statement of Accounts.

We have reviewed the accounts balances and are satisfied that the Council's processes for identifying financial instruments are adequate and in accordance with the SORP. We have also reviewed the Council's accounts disclosures against the CIPFA disclosure checklist and, although we have made some minor recommendations to ensure full SORP compliance, we are satisfied that the initial disclosures submitted for audit were of a good standard.

Revaluation Reserve

2007/08 is the first year in which a UK GAAP compliant revaluation reserve is to be incorporated into the accounts of local Councils. We further note that the opening balance needs to be nil to comply with CIPFA guidance. We have reviewed the implementation of the new requirements and confirm that the Council has complied with these.

Statement of Total Recognised Gains or Losses

During 2006/07, we noted that the Council had £8m included within its 'other' line within the Statement of Total Recognised Gains or Losses (STRGL), this was considered a balancing item and the Council could not reconcile this balance. It was expected that for 2007/08 the Council would not have significant balances included within the 'other' line, except for the collection fund and first year implementation of financial instruments adjustments account. However the Council has £16m included within this line in the STRGL. These balances included within 'other' are analysed below:

£4.9m capital grants received in advance - this represents monies that have been accounted for directly through reserves. It is debatable whether these grant monies should be accounted for through liabilities, specifically grants and contributions unapplied (liability account), and once applied transferred to the government grants deferred account and written off over the

assets useful life. The Council has agreed to process this change and it is therefore included in Appendix D.

£5.6m capital receipts not relating to disposal of fixed assets - £4.1m of this relates to an old balance sheet item that has been written off directly to the Capital Adjustment Account (CAA) rather than being accounted for through the Income & Expenditure account. This was a result of the balance being carried forward for the past two years as a result of the merge in accounting systems, and the Council had previously assured us that this balance was being reconciled. The Council wrote off the balance to the CAA as a result of not being able to match this to another balance sheet item. As the original entry was over two years ago we do not see that this would require adjustment to the accounts however we note that this treatment is considered to be unnecessary going forward. An additional £1.5m has been included within this line in relation to capital receipts relating to a donated piece of land, which had been pending resolution as to who the capital receipt belonged to, once it was found to be the Council's this has been transferred to the Capital Adjustment Account. This gain on disposal has not previously been recognised through the income and expenditure account and should be in this instance, as such we have included this in unadjusted variance in Appendix E.

Assets previously excluded from the balance sheet (£8m) and duplicate assets (-£1.7m) - During 2007/08 the Council continued to review its asset register throughout the year for accuracy purposes. The result of this review found that there were a number of assets that were previously not included within the asset register and there were a number of duplicate assets. The Council added and removed these assets through direct movements through the CAA, and as such they did not go through the income and expenditure account, and as these affected the net worth of the Council they had to be reflected through the STRGL. The SoRP suggests that the recognition of assets through reserves can be appropriate but it is silent on duplicate assets. We consider that duplicate assets should have been derecognised through the income and expenditure account and reversed through the Statement of Movement of General Fund Balances (SMGFB), we have included the £1.7m in Appendix E.

Other balance sheet items £1.6m - this represents money received in relation to a sale of an asset previously where the Council's ownership was disputed. When the sale went through a creditor was created pending final receipt of ownership documentation. During 2007/08, it was transferred to the Capital Adjustment Account as the ownership was determined to be the Council's. Upon investigation with the Council this item appears to be the same item included under capital receipts not relating to fixed assets for £1.4m. As the Council have been unable to reconcile this other balances we have included this item under Appendix E as a reduction of the deficit by £1.6m which would the be reversed through the Statement of Movement of General Fund Balances.

From analysis of the above 'other' line we consider that the income and expenditure account should have been credited with the £3.1m and debited with the £1.7m (net effect £1.4m), these items have been included within unadjusted variances in Appendix E. Further we consider that £4.9m should be accounted for under liabilities rather than included within reserves prior to being transferred to the Government Grants Deferred Account, the action has been agreed with the Council and has been included in Appendix D. We recommend that the Council reviews it's accounting procedures prior to closedown and ensure that the going forward the amount of balance included under 'other' with the STRGL be kept to a minimum.

Explanatory Foreword

We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts. However ,we found that there was some wording within the Explanatory Forward, which was inconsistent with our knowledge of the Council and have recommended that these be adjusted.

Additional comments on the accounts are included as follows:

Area	Key messages
Material risks and exposures	We have requested that the Council confirms in its draft letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts. We will undertake audit procedures to identify any significant risks and exposures to the Council, which should be reflected in the accounts prior to our audit opinion being formed.
Audit adjustments	We recommended a number of adjustments, mainly to correct classifications and presentational matters, including the disclosure of intangibles, which had been reclassified into tangible fixed assets during the year. However documentation could not be provided to justify this reclassification.
Unadjusted errors	We have included a number of unadjusted errors detailed in Appendix E, which management have not agreed to process. The Audit Committee are required to consider these unadjusted errors and determine if they agree with management decision not to adjust.
Other matters	The overall quality of the Council's working papers to support the 2007/08 accounts remained good. We were presented with draft accounts on 30 June 2008. The Audit Committee approved the draft accounts on 30 June 2008. The appointed day for electors to ask the auditor questions on the accounts this year was 21 August 2008. We have to date, received no questions or objections from the public in relation to the accounts. We have however during the course of our audit received correspondence from members from the public. One elector is considering further action or objection against the Councils accounts for 2007/08, and we will consider the impact that the issues raised have on our assessmernt of the Council's overall Use of Resources score. Having considered the Council's medium term financial strategy and 2008/09 budgets, it is appropriate for the Council to account on a going concern basis. We have not identified any matters, that we have not already reported, that require the attention of the Audit Committee. We have discussed these and other matters arising with the Assistant Director of Resources (Strategic Services) and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix C.

Next steps

We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2008.

Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts**.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

The Audit Committee should monitor implementation of the recommendations arising from this report.

The VFM conclusion

Introduction

Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code of Audit Practice.

Approach to the audit

The following pieces of work have informed our assessment against the Code criteria:

- review of relevant findings from the Council's Direction of Travel Statement issued in February 2008
- assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission
- assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE)

The key findings from each of these pieces of work are summarised in this section of the report.

VFM conclusion

We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

Our conclusions for each of the 12 Code criteria are set out in the table below:

Code area	Source of evidence	Arrangements adequate?
Setting, reviewing and implementing strategic and operational objectives	Direction of travel statement	Yes
Communication with service users and other stakeholders and partners	Direction of travel statement	Yes
Management of performance against strategic objectives	Direction of travel statement	Yes
Monitoring the quality of published performance information	Data quality audit	Yes
Maintaining a sound system of internal control	Use of Resources audit	Yes
Managing significant business risks objectives	Use of Resources audit	Yes
Managing and improving value for money	Use of Resources audit	Yes
Maintaining a medium-term financial strategy	Use of Resources audit	Yes
Ensuring that spending matches available resources	Use of Resources audit	Yes
Managing performance against budgets	Use of Resources audit	Yes
Managing the asset base	Use of Resources audit	Yes
Promoting and ensuring probity and propriety in the conduct of business	Use of Resources audit	Yes

Direction of travel statement

We are required to review the Council's latest direction of travel statement in order to satisfactorily conclude on three of the Code criteria (see table above). In completing this work, we are not required to re-perform the work of the corporate assessment team and the Relationship Manager rather we are looking to place reliance on this work.

Our assessment is based on the latest direction of travel statement covering the 2007 calendar year. Based on this work, we assess the Council as having at least adequate arrangements for objective setting, consultation and performance management.

Data quality audit 2007

The audit work that we have used to reach our conclusion in respect of Code criterion on published performance information is our audit of the Council's corporate management arrangements for data quality.

Our review of data quality management arrangements supports our conclusion that the Council's arrangements are adequate for monitoring the quality of published performance information. We will report more fully on data quality at the December Audit Committee.

Use of resources

The audit work that we have used to reach our conclusion in respect of the remaining Code criterion is our audit of the Council's Use of Resources.

The results of this work confirm that, for 2007/08, the Council has at least adequate arrangements in place in the areas covered by the Use of Resources assessment.

We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We will report the results of our work and confirm scores with the Council in November 2008.

KLoE 2009

There have been significant changes to the use of resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The Council's management arrangements for the 2008/09 financial year will be assessed against the new criteria that represent a 'harder test.'

Whilst we will not formally assess the Council against the new criteria until Summer 2009, as part of next year's plan, we will continue to carry out our use of resources work with reference to revised requirements to help the Council prepare for future assessments.

Next steps

We will carry out our final review against any emerging findings and will then issue our VFM conclusion by the 30 September deadline.

The Audit Committee should monitor implementation of the recommendations referred to in this report.

Appendix A Statement of responsibilities - accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

Appendix B Statement of responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives
- determining policy and making decisions
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community
- ensuring compliance with established policies, procedures, laws and regulations
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working
- ensuring compliance with the general duty of best value, where applicable
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body
- monitoring and reviewing performance, including arrangements to ensure data quality
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.

Appendix C Action plan

Finding	Actions required	Management response	Implementation details
Additional disclosures are required to the Statement of Accounts to comply with the disclosure requirements of the 2007 Local Government SoRP in respect of financial instruments. These specifically refer to impairment of loans and receivables (bad debts) and for an accounting policy on financial instruments.	Additional disclosures to be made to the Statement of Accounts.	Agreed.	Already implemented
There are new regulations relating to the calculation of the Minimum Revenue Provision (MRP) that required a prudent provision to made for debt. In 2007/08 ,Councils have a choice of continuing to use the previous methodology or of adopting the options in the guidance. A statement as to the methodology was also required to be approved by the full Council as soon as practicable. This is also required for 2008/09.	The full Council has not approved the statement as to the methodology used by the Council as yet.	Agreed.	Already implemented

Finding	Actions required	Management response	Implementation details
The Council had a number of items (£16m) included within its 'other' line with the Statement of Total Recognised Gains and Losses (STRGL). It is not expected that the 'other' line should include any items other than the collection fund and financial instruments adjustment accounts.	The Council should ensure that the 'other' line is reduced in 2008/09 with items correctly included in the balance sheet or accounted for through the I&E account.	The majority of these items relate to the continued work in improving the information relating to the Council's asset register and it is anticipated that the work completed through 2007/08 will mean less adjustments are required in future years. Comparisons with other authorities have indicated that, whilst Barnet has a higher amount in the other line than some authorities, there are Councils with a larger figure in that line of their accounts.	Will be worked through as part of the 2008/09 closure.
There were a number of errors with the calculations for intangible fixed assets amortisation, and also a number of incorrect disclosures within the fixed asset note that required amendment during the audit.	The Council should review the intangible and tangible fixed asset note and reconcile to appropriate working papers prior to finalisation of the accounts to ensure that the audit can commence and adjustments are reduced.	Agreed. This was a difficult year for closing fixed assets due to the changing of the accounting requirements within the SORP and not having a software solution. It is expected that this will be resolved ahead of the 2008/09 closure.	Will be worked through as part of the 2008/09 closure.

Finding	Actions required	Management response	Implementation details
There was a difference in the interfund balances, pension fund creditors, and the trial balance. The figure in the accounts did not initially reconcile by £525k. The Council have since been able to reconcile this amount. We believe this issue results due to the use of the Council bank account for Pension Fund purposes.	We have recommended in previous years and reiterate the importance of separating the Council's cash from the Pension Fund's cash, and this is especially important given the move to separate reporting from 2008/09. The Council should also ensure that it reconciles this account during 2008/09.	We accept the importance of ensuring sound controls are in place for differentiating between Council and Pension Fund cash and consequently plan to create a separate Pension Fund bank account in 2008/09	Pension Fund bank account to be created in 2008/09.

Finding	Actions required	Management response	Implementation details
We have reviewed the equal pay claims against the number of cases the Council has received and we are of the opinion that the cases cannot be quantified at this stage and therefore a provision is not required under the accounting standards. However, as these cases have progressed to legal opinion, it is appropriate to disclose a contingent liability. We are also aware that the Council may be subject to claims for overruns in relation to the Aerodrome Road Bridge, the amount cannot be reliably determined and the position was unknown at the time of drafting the accounts. As yet these have not been disclosed as part of the contingent liability disclosures.	We suggest that the Council consider appropriate wording in the contingent liability note to address the equal pay issue and the Aerodrome Road Bridge claim.	Aerodrome Road – agreed. Wording will be added to reflect the potential liability that has become apparent since the approval of the draft Statement of Accounts in June. Equal Pay – not agreed. Whilst the national position on equal pay is noted, the Council has done substantial work to review its practices and policies over a number of years and is not of the view that it faces a material financial liability in future years.	
We have raised some queries over the cashflow statement and have yet to be provided with an adjusted cashflow statement.	The audit team is awaiting the revised cashflow statement so that it may be finally reviewed.	The £22m Pension creditor was double counted in the cashflow revenue reconciliation but the £22m discrepancy caused by removing this item is offset by of other necessary adjustments (mainly capital) identified both in the revenue reconciliation and the cashflow statement itself. A revised statement is being prepared.	

Finding	Actions required	Management response	Implementation details
For a number of years we had not seen a copy of the Service Level Agreement (SLA) between Barnet Homes and the Council. This year we have been presented with the SLA and have found that there is an actual reliance placed on Barnet Homes monitoring the tenant debtors of the Council however this has not been included within the SLA.	We recommend that the SLA be revised to include expectations of Barnet Homes over the monitoring of tenant debtors.	Agreed. Future SLAs need to indicate the expectations of Barnet Homes.	Will be led by the Assistant Director of Resources (Shared Services)
Included in the tenant debtors is an amount for Private Sector Tenancy (rent deposit schemes) amounting to £1,768,608. These are for deposits with landlords, the listing is maintained allocating amounts to years and not under each individual for which the deposit is held.	The Council should ensure that it reconciles this balance to individual deposits, without this it cannot be certain if money has in fact been paid over as a deposit which should then be returned upon conclusion of the tenancy.	Agreed, steps will be taken to reconcile this balance to individual deposits in 2008/09	To be actioned in 2008/09
There has been an account carried over since the merge of accounting systems titled 'good received invoices received', this is a debtor balance for £390k. The account has not moved since 2006/07 and has not been matched subsequently.	Given that the merge of accounting systems occurred three years ago we would not expect that there would be any old unreconciled balances remaining within the Council's accounting records.	This balance will be investigated in 2008/09. If it cannot be matched satisfactorily to an actual debtor, it will be written off the Income & Expenditure Account.	To be actioned in 2008/09

Finding	Actions required	Management response	Implementation details
Since the Council has migrated its accounting systems from LAFIS to SAP there were a number of unreconciled balances that have since continued to remain unreconciled. A major balance was subsequently written off to the Capital Adjustment Account (CAA) for £4,092k. We have included in Appendix E some additional accounts that continue to be carried forward unreconcilied.	We consider that where these balances have not moved since the migration to SAP that they should be written off or resolved.	Agreed. The movement to the Capital Adjustment Account (CAA) is deemed the most appropriate manner to resolve finally this long-standing issue.	Already implemented with exception of £109k unadjusted error that will be moved to the CAA in 2008/09 finally resolving this issue.

Appendix D Accounts adjustments agreed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
No accounting adjustments have been made that affect the reported deficit on the I&E account.	

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
The original accounts submitted for audit did not have a value for intangible assets, subsequently we have found that intangibles with a net book value of £10.7m should have continued to be disclosed under intangible fixed assets.	Fixed assets have been reduced by £10.7m and intangible fixed assets have been increased by £10.7m.
Included within Creditors - Government Departments was a debtor for £1.7m which had been netted off creditors. This should have been reported under debtors. This has been subsequently adjusted.	Creditors have been increased by £1.7m and debtors increased by £1.7m.
Included within reserves was £4.8.m of capital grants received in advance which should have been recognised as a liability pending further application as a government grant deferred to be offset against depreciation. This has been subsequently adjusted.	Reserves have decreased by £4.8m and liabilities increased by £4.8m to account for those capital grants received in advance.

Disclosure adjustments
A number of disclosure adjustments have been agreed to improve the clarity and presentation of the accounts that do not affect the reported financial position.

Appendix E Unadjusted variances not processed

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
The Council originally included £12m in the Statement of Total Recognised Gains or Losses (STRGL), we have found that some of these items should have been accounted for through the income and expenditure account. Subsequently, £4.8m of the £12m 'other' items have been adjusted by management as included in Appendix D. The following items are considered incorrectly accounted for and remain unadjusted.	Duplicate assets should have been accounted for through writing off to the I&E an increase in the deficit of £1,723k, further the deficit should have been decreased by the gain in relation to a sale of land which has been realised in year of £1,474k. Additionally the deficit should have been reduced for items that cannot be reconciled for £1,637k. The total impact being a decrease in the deficit of £1,388k and a reduction in reserves of £1,388k.
Our review of cash found that included within the bank reconciliation were a number of unreconciled balances carried forward from the previous accounting system (LAFIS), these amounted to £1,905k debit to the cash balance. In addition we found that a bank account previously kept off balance sheet was transferred into the Council's bank account within the year following the resolution of a dispute, as this dated back to 2004 it was considered by the Council that the item represented monies related to the carried forward balances, this item was a credit on the bank reconciliation for £1,797k and had not cleared the bank to this date. The Council had written off to the Capital Adjustment Account (CAA) in the year £4,092k, which was also related to items that could not be reconciled following the transfer from LAFIS to SAP (current accounting software). From analysis of the above this amount written off the CAA should have been reduced by a further £108k.	The total impact would have been to reduce reserves (CAA) by £108k and to reduce assets (cash) by £108k.

Accounting adjustments that affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
Our review of impairments found that in one case an impairment was accounted for where the property was sold, however the property that was disposed of was not accounted for in the register. The impairment was effectively a balancing item. The item (£1,325k) should not have been included in the I&E or in the revaluation reserve.	The adjustment would require a decrease in the deficit recorded for the amount of impairment that was charged to the I&E for £1,325k and reduction in the revaluation reserve of £1,325k.
From our review we have found that a small number of assets hat were previously not included in the fixed asset register, which were accounted for through the Capital Adjustment Account, have been double counted by £502k. In addition we have found that some of the duplicate assets highlighted from the Council's review of the fixed asset register still have accumulated depreciation figures remaining in the fixed asset register which should have been written out to the I&E account. These amounted to £164k.	The adjustment would require a reduction in fixed assets by £502k and reduction in the Capital Adjustment Account by £502k. The adjustment would require an increase of fixed assets by £164k and a reduction in the deficit by £164k.
The amount of amortisation for the year has been overstated on intangible fixed assets by £542k.	The impact of this adjustment would result in a decrease in the accumulated amortisation figure for intangible fixed assets by £542k and reduce the deficit on the income and expenditure statement by £542k.
Total Impact	Reduce the deficit by £3,419k and increase assets by £96k and an overall decrease in reserves by £3,323k.

Accounting adjustments that do not affect the reported surplus / deficit on the I&E account	
Finding	**Impact**
No accounting adjustments have been noted.	

Disclosure adjustments

A number of disclosure adjustments have been agreed to improve the clarity and presentation of the accounts that do not affect the reported financial position.

In addition, the following adjustments have not been processed through the Pension Fund accounts, further details have been included in Appendix H:

No	Description	Fund account		Net assets statement		Impact on net assets
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
3	Death in Service	262				(262)
	Accruals				262	
	Being unrecognised death benefits that were unpaid as at year end					

Appendix F Reports issued

External audit reports issued during the year are listed in the table below.

Report title	Date issued
Audit and inspection plan 2007/08	March 2007
Use of Resources audit report 2006/07	November 2007
Data Quality audit report 2006/07	November 2007
Grants certification report 2006/07	December 2007
Annual report to those charged with governance (accounts and use of resources) 2007/08	September 2008
Health Inequalities review	TBC

Appendix G Audit fees update

Audit area	Planned fee 2007/08	Actual fee 2007/08
Financial Statements	140,000	140,000
Use of Resources	222,160	222,160
Data quality and Performance Indicators	54,000	54,000
Whole of Government Accounts	4,840	4,840
Total	**421,000**	**421,000**

Code of Practice audit

As shown in the table above, the 2007/08 actual fee equalled the planned fee.

Grant claims certification

Grant claim certification work will be completed between September and December 2008. The certification fee was originally estimated at £90,000.

Our work is charged to the Council based on the cost of certifying each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be certified, as well as the quality of claim compilation and supporting documentation.

We will update the Council on the final fee charged for 2007/08, in the grant claims report that we will produce in January 2009.

Non Code work

We have not carried out audit work outside of the Code of Audit Practice audit in 2007/08

Appendix H Pension Fund Audit

Executive summary

Status of the audit

Our audit of the Scheme is nearing completion; subject to the receipt of third party confirmations, finalising the financial statements, and obtaining a letter of representation (which will be prepared and signed in respect of the financial statements of the Council as a whole), we do not anticipate any matters that might prevent our giving clearance on the Scheme's accounts.

Auditor responsibilities

The Council is responsible for the preparation of accounts for the Scheme which record its financial position as at 31 March 2008 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council, which includes the Scheme.

The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts have been re-produced in full in Appendices A reflects the scope of our audit. There is no requirement for a value for money conclusion on the scheme specifically. Aspects of the use of resources key lines of enquiry that will inform the value for money conclusion for the Council cover issues relating to the pension fund. As such the audit responsibilities for value for money conclusion have not been included within this report, we refer you to the Council ISA260 report, which will be reported to the Audit Committee on the 25 September 2008 for consideration of the value for money conclusion.

Audit opinion on the financial statements

We are not issuing a separate audit opinion on the pension scheme; our work was performed as part of the audit of the Council's financial statements. The audit opinion on the pension fund remains part of the main auditor's report to the members of the Council.

Management letter

During the course of our audit, no matters came to our attention that we should like to bring to the attention of the trustees, other than as discussed in this letter.

Independence

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the APB Ethical Standards and therefore we confirm that we are independent and are able to undertake our work on the financial statements on an objective basis.

2.1 Issues arising from our audit work

We identified a number of issues in the course of our audit work that we would like to bring to the Committees' attention.

Investment managers fees

Newton Investment Management charge both management and performance related fees. The performance fees are charged on an annual basis but are payable over a period of four years. At present only those fees that are due in 2007/08 have been accrued. However, as at the year-end, the fees payable over the following three years were known; they relate to current period performance and therefore should be accrued as a cost in 2007/08.

We have therefore proposed an adjustment to recognise this accrual; the impact on the accounts would be a reduction in net assets of £1,090,764. This adjustment has been processed by the Council.

Investment income

The year-end valuation from Schroders included £780,000 worth of accrued income. This was reflected within the investment valuation in the accounts. However a separate debtor was also set up relating to this income, and therefore it has been double counted.

We have proposed to adjust this by reducing the investment assets in the accounts, leaving the accrued income debtor balance, which in our view is the more appropriate treatment. The impact of this adjustment on the accounts would be a reduction in net assets of £780,000. This adjustment has been processed by the Council.

Death benefits

Our testing identified £261,838 worth of death benefits that had been calculated and agreed pre year-end, but had not been settled until post year-end. Under the Scheme's accounting policies, the liability for benefits payable should be recognised as they fall due and therefore an accrual should be made. As discussed with the Council the settlement of this claim is currently with the Council's solicitors and therefore cannot be processed until the final decision is made.

The impact of this adjustment on the accounts would be a reduction in net assets of £261,838, this amount remains unadjusted due to the expectation that the figure will vary from that varied.

Realised Gains

Investment performance is analysed between realised and unrealised gains. During the year there were three property disposals that resulted in a realised gain of £5,072,418. This gain was not included within the realised gain figure in the accounts; instead, it was offset against the unrealised loss on other investments. We have proposed an adjustment to show this gain within realised gains.

The impact of this adjustment on the accounts would be presentational only, with no change to the net assets figure. This adjustment has been processed by the Council.

VAT

The pension scheme reclaims VAT on investment management fees through the Council's main VAT reclamation process. We noted some inconsistencies in the posting of investment managers' fees: the expense recognised sometimes includes VAT (i.e., as if it were not recoverable) and at other times excludes VAT. A policy should be established and communicated to all those involved in such postings to ensure they are aware of the correct procedures for reclaiming VAT and the appropriate accounting treatment.

Tax reclaim

Tax reclaimable on property unit trust transactions relating to 2006 and 2007 had still not been reclaimed from HM Revenue & Customs as at 31 March 2008. The total value of the reclaims was approximately £450k. It is recommended that the process of completing and submitting the tax return is completed on a more timely basis in the future. Currently the scheme is forgoing returns that could have been earned on this balance.

Cash balance

The cash balance in the accounts is made of four separate nominal ledger codes; it is not clear to us why it is necessary or more efficient to use four codes, and we would recommend that these be rationalised if the Scheme is not to have its own bank account in the future.

Nominal Ledger Code	Balance (£)	Comments
924100	62,194	Could not be agreed to LBB nominal ledger as not included as separate nominal code
924210	426,352,855	Agreed to LBB nominal ledger
924952	27,779,696	No movement from prior year. Could not be agreed to LBB nominal ledger as not included as separate nominal code
946030	(402,324,632)	Should agree to LBB - difference of £515k noted.
	51,869,111	

The pension fund does not have their own separate cash balance and therefore the cash balance is treated as an intercompany balance with LBB. These intercompany balances should be reconciled on at least a monthly basis to ensure that there is no double counting or omission of cash balances across the totality of LBB accounts. Account codes 924210 and 946030 should agree to the LBB trial balance. A difference was noted on account code 946030 of approximately £515k, which appeared to be a timing difference. The bulk of this difference related to a transfer out which was correctly recognised before the year end in the pension fund but was not recognised until after the year end within the LBB trial balance. This difference is purely one of timing and has no overall effect on the financial statements of the Council; however, the issue would not arise if the Scheme had its own bank account.

The pensions team maintains a cash spreadsheet that is intended to reflect the cash position per the nominal ledger. At the year end there was a difference of £12k between the above balances and the cash spreadsheet. Although this difference is not significant in itself, on investigation we determined that it was comprised of several items that would be individually significant to the pension fund account. During our testing we noted that investment management fees paid and March interest earned had been included within the general ledger but were not reflected within the cash spreadsheet.

The maintenance of this cash spreadsheet is seen as a good control, but for it to be effective a detailed reconciliation should be performed on at least a monthly basis detailing all the differences between the general ledger balances and the cash per the spreadsheet. These differences should then be investigated and minimised, providing assurance that the general ledger is an accurate reflection of the true cash position.

Administratively it would be significantly easier if the pension scheme had their own bank account; this would allow the pensions team easily to identify pensions-related payments and receipts and therefore provide assurance that the accounts reflect all cash transactions, and that all expected payments and receipts had been made or received. This would also reduce the risk that payments could be made out of pension funds that do not relate to the pension scheme.

Prior year contributions

The current year contributions figure include £827k of contributions relating to 2006/07. These were contributions for March 2007 that were received in April 2008 but had not been correctly accounted for in the prior year accounts.

Contributions should be accounted for in the period to which they relate. Based on our testing the current year contributions correctly include March 2008 contributions, and therefore the current year contributions figure actually reflects thirteen months of contributions. The error identified is not material to the pension scheme fund account, and therefore no prior year adjustment is permitted under UKGAAP.

Accrued interest

The current year investment assets include accrued interest. This should be disclosed separately in the accounts. Based on GT calculations the estimated value of accrued interest as at the year-end was £573k and this is included within our list of adjustments.

The impact on the accounts is purely presentational, however has been amended by the Council.

Potential liabilities

Retirement lump sums totalling £484,209 were processed within a 30-day period after 31 March 2008. These have been treated correctly from an accounting perspective, as the scheme had not been notified of the member's option until after 31 March 2008. However disclosure should be made of all the potential liabilities that existed at the year-end where members had not made their final benefit decision. The £484,209 is an estimate of this figure, based on the assumption that lump sums paid in April 2008 relate to members that retired before the year end; however, the committee should satisfy themselves that there are no further material items which should be disclosed.

Transfers out of the scheme are accounted for on a cash basis, as per the accounting policy. However there was a transfer out accounted for post year end that had been confirmed by the receiving scheme and member before the year end, which should be disclosed as a potential liability. This amounted to £162,485.

Both these items have no effect on the scheme's net assets as they relate purely to narrative disclosures within the accounts. The disclosure has been amended by the Council.

Pensioners numbers

It was noted that pensioner numbers included on the draft accounts did not include widows and dependents. This should be updated in the accounts to be consistent with the prior year.

The number of pensioners in the scheme should be disclosed as 5,899 as opposed to the draft figure of 5,052. The disclosure has been amended by the Council.

2.2 Internal controls and risk management systems

Roles and responsibilities of the Committee

The Committee is responsible for the identification, assessment, management and monitoring of risk and for designing and implementing an appropriate system of internal control for safeguarding the Scheme's assets.

What is appropriate in particular areas of the Scheme's finances will depend on the Committee's assessment of risk and the significance of the errors or misstatements that might occur.

Impact of accounting systems and internal control on the audit

Although our audit is not designed to test all internal controls, or identify all areas of control weakness, auditors are required to evaluate the design of an entity's controls, including relevant control activities, over risks which could lead to material misstatement in the financial statements and determine whether they have been implemented.

It has been noted that the a follow up review has been conducted by the internal audit department on the Pension Fund activities and we recommend that actions points coming out of this review are followed up by the pensions team.

Summary of findings

Activity level controls

Our review of controls at the activity level assessed only the controls performed by the Council's staff in the Treasury Services Department (i.e. it does not cover controls performed by service providers) and only to areas which have a material significance to the financial statements. These being:

- Investments
- Contributions
- Benefits
- Expenses

Results

Issue	Recommendation
System documentation	A formal set of policies and procedures should be established by the Treasury Services Department. This should include documentation on their systems and controls.
The Treasury Services Department maintains cost control and realised gain spreadsheets for all the Scheme's investments. This is used to check the valuation reports received from the Scheme's investment managers. It was noted that at 31 March 2008 there was an unreconciled difference on the Schroders spreadsheet.	The treasury manager should ensure this control is performed on a monthly basis, to ensure any internal or external error is identified on a timely basis.

Audit adjustments

Adjusted misstatements

Details of adjustments processed during the audit of the pension scheme figures are detailed below:

No	Description	Fund account		Net assets statement		Impact on net assets
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
	Draft increase in fund					9,133
1	Investment managers fees	1,091				(1,091)
	Accruals				1,091	
	Being unrecognised investment managers' performance related fees					
2	Unrealised gains	780				(780)
	Investments				780	
	Being investment income accounted for twice within investments and accrued income					
4	Realised Gains		5,072			
	Unrealised Gains	5,072				
	Being the realised gains on the property disposals					
5	Death in Service	64				
	Transfers out		64			
	Being a correction of a mis-posting between fund account items					
6	Investments				573	
	Accrued Interest			573		
	Being the accrued interest included in the investment valuation					
7	Debtors			819		
	Cash				819	
	Being contributions received post year end incorrectly accounted for as cash at year-end					
	Draft increase in fund	**7,007**	**5,136**	**1,392**	**3,263**	**7,262**

Unadjusted misstatements

The following adjustments have not been processed:

No	Description	Fund account		Net assets statement		Impact on net assets
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
3	Death in Service	262				(262)
	Accruals				262	
	Being unrecognised death benefits that were unpaid as at year end					

Adjusted misstatements

No other non-trivial misstatements were identified in the course of our audit work.

Confidentiality

This letter is strictly confidential and although it has been made available to the Committee to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under our audit engagement letter.

Its contents should not be disclosed to third parties without our prior written consent.

Yours faithfully

Grant Thornton UK LLP

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