

AGENDA ITEM: 8

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Meeting	Audit Committee
Date	29 June 2009
Subject	Annual Audit & Inspection Letter 2007/08
Report of	Director of Resources & Chief Finance Officer
Summary	This report advises the committee of the Audit Commission report on the 2007/08 Audit of Accounts and Inspection.

Officer Contributors	Maria G. Christofi, Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Annual Audit and Inspection Letter 2007/08
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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1 RECOMMENDATIONS

- 1.1 That the Audit Commission Annual Audit & Inspection Letter for 2007/08 be accepted as a reasonable statement of 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' corporate priority.

4 RISK MANAGEMENT ISSUES

- 4.1 The Annual Audit and Inspection Letter has many positive things to say about the Council, but also 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 EQUALITIES 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 USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

- 6.1 This report deals with the Council's financial reporting, management and standing, as well as value for money. The external auditor's comments 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, Grant Thornton UK LLP, during their audit and inspection activity. In addition to this, it summarises the work of other inspectorates. These include the work of the Audit Commission in assessing the Council under the Comprehensive Performance Assessment (CPA); Ofsted’s annual performance assessment of services for children and young people; and the Commission for Social Care Inspection’s (CSCI) annual performance inspection of adult services.
- 9.2 The External Auditor is expected to attend the Committee meeting to introduce his report and respond to questions. This covering report extracts the key messages from the Annual Audit and Inspection Letter 2007/08, which is attached to this report.
- 9.3 The following is drawn to the attention of this Committee:
- 9.3.1 The Statement of Accounts have been given an unqualified audit opinion.
- 9.3.2 The Audit Commission’s judgement of the Council’s overall performance under the Comprehensive Performance Assessment has been lowered from 4 stars to 3 stars.
- 9.3.3 The Council is improving strongly with improvement in key priority areas such as educational attainment, tackling crime, environmental services and services for older people. However, performance improvement of cultural services remains a challenge for the Council.
- 9.3.4 The Council is working well with partners to create new homes and communities through its approach to regeneration. In the current economic downturn the Council will need to monitor the impact on its services and plans to ensure timely decisions are taken in respect of future regeneration strategies.
- 9.3.5 The Council continues to provide good value for money and has improved its internal control arrangements. There has been significant progress made in addressing the areas for improvement identified in the Corporate Assessment for 2006/07, but further work is needed in order to embed scrutiny processes during 2009.
- 9.3.6 The Council continues to improve. Barnet is amongst the 24 per cent of councils judged as improving strongly with regards to their direction of travel.

However, the Council's overall star rating has been lowered from a four to a three star status.

- 9.3.7 Performance has improved in Housing, Environment and Benefits, all moving up from a level 3 last year to a current level 4. However, Cultural services has been lowered from level 3 to level 2.
 - 9.3.8 The Council has maintained its good use of resources within all five themes, which make up the overall use of resources assessment, performing well at level 3 or higher. The Council has had a notable improvement in the Internal Control theme which has improved from level 3 to level 4.
 - 9.3.9 In May 2008 the Audit Commission published their inspection report for the Barnet Homes, Council's ALMO. This re-inspection of the landlord services provided by Barnet Homes found that services were 'good' with 'promising prospects for improvement'.
 - 9.3.10 Ofsted's annual performance assessment of Barnet's services for children and young people judged their overall effectiveness at a level 3 (out of a possible 4). The Council has maintained 'good' services in relation to children and young people, with 'good' capacity to improve.
 - 9.3.11 The Commission for Social Care Inspection's annual performance assessment of adult services judged there to be 'good' delivery of outcomes with 'promising' capacity to improve. The service sustained a two star rating (out of a possible three) overall with an assessment of 'good' across all themes.
 - 9.3.12 The Council's overall arrangements for ensuring data quality have been assessed as 'good' for the financial year 2007/08.
 - 9.3.13 The Council has improved its performance against key targets for grants as a result of implementing most of the recommendations made in the 2006/07 Grants report. All grant claims that required certification were submitted on time and the quality of the working papers provided to auditors has improved.
 - 9.3.14 Grant Thornton conducted a review of the current status of and future proposals on Overview and Scrutiny at the London Borough of Barnet. The review found that there had been significant progress made by the Council in addressing the areas for improvement identified in the Corporate Assessment 2006/07 and new Scrutiny processes are to be introduced later in 2009. However, none of these comprehensive changes had been fully implemented at the time of the review.
 - 9.3.15 Autumn 2009 will see the publication of the first results from the new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic and independent assessment of the prospects for local areas and the quality of life for the people living there.
- 9.4 The following actions required by the Council are drawn to the attention of the Committee:

- 9.4.1 The Council should monitor the impact of the economic downturn on its services and plans for regeneration of the borough to ensure timely decision making.
- 9.4.2 The Council should build on successful initiatives such as that for Burnt Oak and fully implement the Library and Leisure strategies to raise the performance of cultural services as a whole.
- 9.4.3 The Council should ensure that there is effective engagement of all stakeholders and partners in the Council's ambitious plans for transforming the organisation under the Future Shape programme.

10 LIST OF BACKGROUND PAPERS

- 10.1 None

Legal: MM
CFO: JB

Annual Audit and Inspection Letter

Barnet London Borough Council

Audit 2007/08

March 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Key messages

- 1 Barnet Council is improving strongly with improvement in key priority areas such as educational attainment, tackling crime, environmental services and services for older people. However, performance improvement of cultural services remains a challenge.
- 2 The Council is working well with partners to create new homes and communities through its approach to regeneration. In the current economic downturn the Council will need to monitor the impact on its services and plans to ensure timely decisions are taken in respect of future regeneration activity. There is improving communication with residents and communities at a local level, based on a developing understanding of the diverse needs of the area.
- 3 The Council continues to provide good value for money and has improved its internal control arrangements. Grant Thornton's review of scrutiny found significant progress made by the Council in addressing the areas for improvement identified in the Corporate Assessment in 2006, but further work is needed to embed scrutiny processes during 2009. The Council is strengthening its improvement planning framework, and has embarked on an ambitious major change programme.

Action needed by the Council

- 4 The Council should:
 - monitor the impact of the economic downturn on its services and plans for regeneration of the borough to ensure timely decision making;
 - build on successful initiatives such as that for Burnt Oak to raise the performance of cultural services; and
 - ensure that there is effective engagement of all stakeholders in the Council's ambitious plans for transforming the organisation.

Purpose, responsibilities and scope

- 5 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 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter. [It also includes the results of the most recent corporate assessment.]
- 6 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.
- 7 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).
- 8 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, your appointed 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.
- 9 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.
- 10 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Barnet Council performing?

11 The Audit Commission's overall judgement is that Barnet Council is improving strongly and we have classified Barnet Council as three-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 Overall performance of councils in CPA



Source: Audit Commission

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment 2008	Assessment 2007
Direction of Travel judgement	Improving strongly	Improving well
Overall	3 star	4 star
Corporate assessment/capacity to improve	3	3
Current performance		
Children and young people*	3	3
Social care (adults)*	3	3
Use of resources*	3	3
Housing	4	3
Environment	4	3
Culture	2	3
Benefits	4	3

(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

12 Barnet Council is improving strongly. The Council has improved in key priority areas such as educational attainment, tackling crime, environmental services and services for older people and is recognised nationally for its support to carers. The Council has achieved a substantial improvement in processing housing benefits and the service's overall rating has improved. Around two-thirds of performance indicators improved in 2007/08 and the Council has a high proportion of strong performing services. The Council is working well with partners to improve wider community outcomes such as regeneration to create new homes and communities. Recent progress has been made in reducing use of temporary accommodation, but performance of cultural services remains a challenge. There are improving levels of communication with residents and communities with a focus on local level engagement. The Council has further developed effective arrangements for understanding and responding to the diverse needs of the community, making good use of information technology to support these developments. The Council continues to improve value for money. The Council is strengthening its improvement planning framework, and is well-placed to deliver future improvements.

Service inspections

- 13** In May 2008 we published our inspection report for the Council's ALMO. This re-inspection of the landlord services provided by Barnet Homes found services to be 'good' with 'promising prospects for improvement'. The services have a number of strengths including:
- customer focused services, with learning from feedback from customers;
 - progress with the decent homes programme is on target;
 - the responsive repairs service is performing well;
 - partnership working is helping to prevent and deal with incidences of anti-social behaviour, with a particular focus on tackling youth nuisance;
 - estates are well maintained, and generally clean and tidy; and
 - there is a focus on value for money throughout the organisation with £6.7 million savings achieved.
- 14** However, some areas need improvement, including:
- gaps in the customer profile information;
 - the lettable standard is basic and void costs are high for the standard achieved;
 - waiting lists for major adaptations are long;
 - performance issues remain in relation to the collection of rent arrears and former tenants' arrears, despite improvement;
 - there is low satisfaction with the opportunities for involvement;
 - service standards are not always being met for the anti-social behaviour service and case file management is weak;
 - there is low satisfaction with the leasehold service and mixed service charge collection performance;
 - there is a lack of procurement expertise; and
 - non asset management procurement is process driven rather than outcome led.
- 15** Prospects for improvement are promising because there is a clear vision for the organisation that its understood at all levels; it responds to customer, internal and external feedback; the organisation has the capacity to continue to deliver and improve services, with strong financial management and a focus on future financial viability. However, the track record of improving services is mixed with some delays in implementing improvements. There is a low level of performance or lack of improvement in some key areas. There is also a lack of clarity about how some strategies and action plans will be delivered and the presentation of performance information is confusing and misleading.

Other inspectorates' assessments

- 16 An important aspect of the role of the Comprehensive Area Assessment Lead is to work with other inspectorates and regulators who also review and report on the Council's performance. CAALs 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 service.
- 17 A summary of the overall judgements for each assessment are detailed in the paragraphs that follow.

Services for children and young people

- 18 Ofsted's annual performance assessment of Barnet's services for children and young people judged their overall effectiveness at a grade 3 (out of a possible 4). The Council has maintained 'good' services in relation to children and young people, with 'good' capacity to improve. The Council's contribution to improving outcomes in the area of enjoying and achieving was assessed as 'excellent' and for all other themes (staying safe, being healthy, making a positive contribution, and achieving economic well-being) it was assessed as 'good'. The council has sustained its outstanding performance in respect of high standards achieved by children and young people including looked after children enabling them to achieve some of the best educational attainment nationally. Progress has not been as rapid in reducing the rate of teenage pregnancies, schools achieving the Healthy School Status, the allocation of qualified social workers and reducing the rate of youth re-offending. The full assessment can be accessed via the inspectorate's website at www.ofsted.gov.uk.

Adult social care services

- 19 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. The Council's contribution was assessed as 'good' for all themes: improved health and emotional well-being; improved quality of life; making a positive contribution; increased choice and control; freedom from discrimination and harassment; and economic well-being. The service sustained a two star rating overall (out of a possible three stars). The full assessment can be accessed via the inspectorate's website, www.csci.gov.uk.

Benefits services

- 20 The assessment of the benefits service concluded that the Council achieved a rating of 4 (out of a possible 4) and improvement from 3 last year. The full assessment can be accessed via the inspectorate's website www.audit-commission.gov.uk

The audit of the accounts and value for money

- 21** Your appointed auditor, Grant Thornton, has reported separately to the Audit Committee on the issues arising from our 2007/08 audit and have 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 25 September 2008; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 22** 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).
- 23** For the purposes of the CPA, we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment 2008	Assessment 2007
Financial reporting	3	3
Financial management	3	3
Financial standing	3	3
Internal control	4	3
Value for money	3	3
Overall assessment of the Audit Commission	3	3

Note: 1 = lowest, 4 = highest

The key issues arising from the audit

Audit of Accounts

24 As was the case in 2006/07, the Council continues to prepare good quality accounts which are supported by generally good quality working papers. The Appointed Auditor recommended that, going forward, the accounts should be provided to the audit team 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.

Use of Resources

25 The Council was assessed as performing well, which indicates the continued success the organisation has had in embedding robust processes and delivering improved outcomes in its services. The following key issues were drawn to the attention of the Council.

- Value for money - The Council performed well in this area (level 3). Net revenue spend on services per head of population was the second-lowest in comparison with 'nearest neighbour' councils. Costs per head were below the median for most service areas, with the notable exceptions of children's services and adult social services, which are priority areas for the Council. Levels of local taxation were below the median and public satisfaction with the Council was in the second-best quartile.
- Asset management framework - The Council was advised to ensure that it has an appropriate asset management strategy that is monitored throughout the year to ensure the achievement of its objectives. It should also consider a solution to the current asset management software arrangements to ensure that the register is up-to-date and fully integrated with the accounts and the financial close process.

The audit of the accounts and value for money

- Icelandic banks - There has been significant consideration of the Council's arrangements for financial standing in light of the Icelandic Banks issue, following additional guidance from the Audit Commission. This highlighted that it was not appropriate that councils with substantial investments in Icelandic banks (defined as total deposits greater than or equal to 0.5 per cent of Gross Revenue Expenditure (GRE)), should be assessed as performing strongly (level 4) in the area of financial standing. As such, to maintain consistency with the Audit Commission and other firms (and to take an overview of the actual overall financial standing position at Barnet), the Council was assessed at level 3 for financial standing.
- Internal control - The Council's arrangements for maintaining a sound system of internal control were assessed as performing well (level 3). As with other assessments for Use of Resources, this was against a higher expected standard than in previous years, and specifically the requirement to ensure that the Council has an effective scrutiny function to ensure constructive challenge and enhance challenge overall. A review of Scrutiny (principally related to the proposed arrangements to be introduced later in 2009) was undertaken for which a separate report has been drafted. The key areas where the Council should still develop in relation to internal control relate to further improvements in the internal audit department, refinements to the content of the annual governance statement and reduction in the number of recommendations for improvement arising from the internal audit reviews.
- Use of Resources in 2008/09 - It has been emphasised to officers that significant changes are to be made to the assessment criteria to be implemented in 2009, as part of the new Comprehensive Area Assessment. The new framework is more demanding than the current one, is broader in scope and embraces wider resource issues, such as workforce planning and the use of natural resources. In assessing higher levels of performance, the framework places much greater emphasis on demonstrating improved outcomes for local people. Effective and embedded policies and processes to support these outcomes will form the minimum expected standard. In reporting areas for development identified from our 2008 assessment, we highlighted areas where it will be important for the Council to demonstrate effective arrangements in 2009.

Other audit work

Data Quality

- 26 The Council's overall management arrangements for ensuring data quality have been assessed as good for the financial year 2007/08. The Council had improved in some key areas since last year, leading to an improved assessment overall. There remains scope for further development to move the Council towards excellence in data quality.

Pension Audit

- 27 The audit opinion on the pension fund remains part of the main auditor's report to the members of the Council. A number of adjustments were processed as a result of our audit and some control issues were highlighted to management. In 2007/08, for the first time, a detailed report of our findings was provided to the Council's Pension Committee. This was well received.

Grants

- 28 Overall, the Council has improved its performance against key targets as a result of implementing most of the recommendations made in our 2006/07 Grants report. We All grants claims that required certification were submitted on time and the quality of working papers provided to auditors has improved. Key officers had been provided with training in preparation of claims and returns and the certification process. It was also noted that the grants co-ordinator had liaised with the audit manager and grants officers to ensure that work on the claims and returns was completed by the certification date.

IT Controls Audit

- 29 Overall, general Controls over Information Technology were found to be adequately designed. Recommended areas for improvement were referred to management.

Health Inequalities

- 30 Public services in Barnet were found to be making rapid progress in this area. In two years, partnerships have moved from a position of relative inactivity to a position of strength and focus, with key building blocks in place.

Advice and Assistance work

Overview & Scrutiny

- 31 Grant Thornton conducted a review of the current status of and future proposals on Overview & Scrutiny at the London Borough of Barnet. This was based upon the work the Council has undertaken following the Audit Commission Corporate Assessment in 2006 that set out a number of areas for improvement in the scrutiny function. The review found that there has been significant progress made by the Council in addressing the areas for improvement identified in the Corporate Assessment and new Scrutiny processes will be introduced later in 2009. However, none of these comprehensive changes had been fully implemented at the time of the study. With the imminent approach of the Comprehensive Area Assessment (CAA), it was considered that this gave the Council little time to demonstrate real progress in the development of the scrutiny function and that without sufficient embedding of the scrutiny function the 2008/09 use of resources scores could be put under pressure.

Looking ahead

- 32** The public service inspectorates have developed 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.
- 33** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 34** 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 National Indicator Set and key aspect of each area's Local Area Agreement.

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Closing remarks

- 35 This letter has been discussed and agreed with xxx. A copy of the letter will be presented at the [audit committee/ cabinet/ full council] on xx xxx 2009. Copies need to be provided to all Council members.
- 36 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 2007
Interim audit memorandum	April 2008
Annual Governance Report	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Final accounts memorandum	September 2008
Annual audit and inspection letter	February 2009

- 37 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 audit.

Availability of this letter

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

Howard Simmons
Comprehensive Area Assessment Lead

March 2009