London Borough of Barnet

Audit of Accounts 2008/09.

Annual Report to those Charged with Governance 2008/09

September 2009

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Appendices

1 Executive Summary

1.1 Purpose of Report

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of London Borough of Barnet ('the Authority'). The purpose of this report is to highlight the key issues arising from the audit of the Authority's statement of accounts (including the Group Accounts) for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit Committee. These requirements are set out in Appendix A.

The Authority is responsible for the preparation of a statement of accounts, which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We, as auditors, are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's statement of accounts represents a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code'), we are also required to reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, the Value for Money (VFM) conclusion. This is primarily based on the work carried out for our Use of Resources (UoR) assessment.

1.2 Status of Audit

We were presented with the draft statement of accounts on 29 June 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

There are a small number of completion points outstanding at the date at which this report was issued, detailed in Section 2.2, which we expect to clear in time for approval by the Audit Committee on 29 September 2009.

There were also a number of points outstanding on the Pension Fund audit and these are being reported separately through a briefing to the Chair of the Audit Committee and communicated to the other Pensions Committee members on 18th September 2009. Issues arising from this work are summarised in Appendix E.

The fieldwork supporting the VFM conclusion is based on our Use of Resources (UoR) audit. This work has been completed sufficiently for us to provide this conclusion.

The appointed day for electors to ask the auditor questions on the accounts this year was 20 August 2009. However, we did not receive questions from the public on this date.

1.3 Overall Conclusions

The Authority continues to prepare good quality accounts that are free from material misstatements and which are supported by good supporting working papers. The accounts required a small number of changes to disclosures in the notes as a result of matters identified during the audit process and there are also a small number of minor adjustments which were not adjusted on grounds of materiality. These are detailed in Section 2 of this report, and are summarised in Appendices B and C. We have also made a number of recommendations to improve the accounts process which are set out in Section 2 and summarised in Appendix D of this report.

Statement of Accounts Opinion

We anticipate providing an unqualified opinion on the Authority's statement of accounts, prior to the statutory deadline of 30 September 2009.

Pension Scheme Statement of Accounts Opinion

We anticipate being able to provide an unqualified opinion on the Pension Fund as a separate opinion on the pension fund accounts, and also within our overall audit opinion to the Authority.

Value for Money Conclusion

In providing our opinion on the statement of accounts, we are also required to reach a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We propose to give an unqualified Value for Money (VFM) conclusion.

1.4 Use of Resources

Our Value for Money conclusion is informed by our work on the Use of Resources (UoR) assessment. The Use of resources framework assesses the Authority's performance against a range of Key Lines of Enquiry (KLOE), which are scored on a scale of 1 (not-adequate) to 4 (excellent). In order for us to provide an unqualified conclusion, the Authority needed to achieve a score of at least 'level 2' for each Key Line of Enquiry ('KLOE') prescribed by the Audit Commission. This was accomplished. A high level summary of findings from this work is set out in Section 3 of this report. A more detailed report on the Use of Resources assessment for 2008/09 will be presented to the Audit Committee in November 2009, following completion of the process.

1.5 Pension Fund Audit

The Pension Fund audit was undertaken by specialists within Grant Thornton LLP and was subject to a separate audit plan and ISA 260 report. Although our report is being considered by the Pension Fund Committee, we note that the overall approval of the Authority's accounts rests with the Audit Committee. Therefore the outcome of the Pension Fund audit needs to be considered alongside the contents of this report. The summary of key issues on the Pension Fund Statement of Accounts is included for information as Appendix E.

1.6 Whole of Government Accounts

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

1.7 The Way forward

We will continue to work with the Authority to ensure that outstanding issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2009.

1.8 Audit Fee

We have completed our work in line with the planned fee of £420,000 for the Authority and £40,000 for the Pension Fund. The fee was set out in the 2008/09 Audit Plan which was agreed by the Audit Committee in March 2009. The estimated fee for our grants audit for 2008/09 remains £85,000.

1.9 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Authority during the course of our audit.

Grant Thornton UK LLP

24 September 2009

2 The Accounts Opinion

2.1 Introduction

This section provides a summary of our findings arising from the audit of the statement of accounts. This includes matters arising from our evaluation of key controls and comment on the Authority's overall financial position.

2.2 Status of the Audit

We carried out our audit in accordance with the audit plan presented to the Audit Committee in March 2008. Our audit is substantially complete.

The following finalisation procedures are outstanding:

- Obtain and review the Authority's letter of management representation.
- Update our post balance sheet events review, to the date of signing the accounts.
- Review of the final version of the statement of accounts, including the Annual Governance Statement, to ensure that agreed adjustments have been made.
- Receipt of outstanding investment confirmations.

2.3 Audit Opinion

We expect to issue an unqualified audit opinion on the Authority's statement of accounts. This is subject to the approval of the statement of accounts by the Audit Committee on 29 September 2009, and completion of our finalisation procedures.

A number of issues arose during the course of the audit which, whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out below.

Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix D.

2.4 Audit Risk

During our planning phase a number of areas in the Statement of Accounts were identified as requiring particular focus, these are referred to as our Critical Assertions. We have reported any matters relating to these assertions in the section 2 of this report, and have nothing further to report. Our Critical Assertions related to our audit of:

- Fixed Assets
- Impairments
- Investments

- Revenue
- Grant Revenue
- Expenditure
- Financial Instruments

In addition, we identified a number of specific audit risk areas from our planning process which were addressed as part of our audit procedures. Key audit risks included:

- Treatment of Icelandic bank deposits in regard to impairment and recoverability (including interest).
- Valuation of land & buildings, including impairment, as a result of the economic downturn.
- Accuracy and completeness of accounting records held on the Fixed Asset Register.
- Correct use of the 'other' balance in the STRGL.
- Formalisation of contractual arrangements with Barnet Homes.

Where issues have arisen in these areas, this has been covered in sections 2.6 and 2.7 of this report, and we have no other matters to report in this regard.

2.5 Financial Performance

The Authority has produced good financial results for the year, including the generation of a substantial net surplus, which are broadly in line with medium term financial plans. The Authority's financial performance in the year can be measured in terms of the net increase in the General Fund Balance and, to a lesser extent, the net increase in Earmarked Reserves, to which the Authority can allocate funds for specific purposes, rather than allocating them to the General Fund.

The General Fund exists to finance the Authority's day to day costs of providing services. All expenditure, other than that relating to capital and the Housing Revenue Account (HRA) is charged to the General Fund through the I&E account.

The Authority has reported an Income and Expenditure (I&E) account deficit of £65.91 million (2007/08 £76.75 million). This is after taking into account an impairment of £4.31 million on the Icelandic Bank investments, as well as a net increase in pension costs of £6.53 million, which was due to a change in the method of valuing pension scheme assets.

The Statement of Movement on the General Fund Balance adjusts the reported I&E deficit to exclude specific costs, which are determined by statute and include transfers to Earmarked Reserves, in order to calculate the net impact on the Authority's General Fund. This statement shows that the Authority has increased the General Fund by £1.367 million in year, bringing the total General Fund balance at year end to £17.482 million (excluding a further £13.231 million allocated to schools).

Earmarked Reserves are amounts of money set aside to cover expenditure in future years on specified projects or major initiatives. In addition to the increase in the General Fund balance, the Authority has been able to increase its Earmarked Reserves by £13.33 million in year, bringing the total balance of Earmarked Reserves to £31.9 million, an increase of 72% on the prior year. This includes an additional £2.8 million to cover housing benefit administration costs, £3 million to cover litigation and £5.7 million to cover potential lost interest as a result of the economic downturn. We are satisfied that that the transfers have been approved by the Cabinet Resources Committee (CRC) for specific purposes, and do not impact on our audit opinion. We will conduct work during 2009/10 to further develop our understanding the use of Earmarked Reserves at the Authority.

2.6 Issues Arising in the Year

There are a number of matters arising in the year which should be considered by those charged with governance, when approving the financial statements. These are set out below:

Fixed Asset Valuations & Impairment.

The Authority's freehold and leasehold properties are subject to a five year rolling programme of revaluation. The revaluation of council dwellings was brought forward to take into account the expected fall in value of land and buildings nationally since 2007/08. The revaluations included in the accounts reflect the net effect of significant rises in values between 2005/06 and 2007/08 followed by the significant downturn in values throughout 2008/09. This has resulted in council dwellings increasing in value by £117m in the year. Analysis of the Land Registry database (up to February 2009) indicated that, whilst the general trend since 2005/06 in Greater London has been a 1.5% fall in value of property, the trend in Barnet has been a 9.1% increase. The upwards revaluation of £117 million in council dwellings amounts to a 9.9% increase.

We note that in addition to the cyclical programme of asset revaluations, officers also undertook an impairment review of all those land and buildings not revalued in year as part of the cycle. This helped to ensure that asset values reflected the downward movement in prices as a result of the economic downturn. Impairments to asset values have been recognised appropriately in the statement of accounts with one exception (see section 2.7 for the adjusted error as a result of the fire on council dwellings, incorrectly taken to the revaluation reserve).

We have noted that, among local authorities nationally, the recent short term fluctuations in land and buildings valuations have highlighted a potential issue with the commonly applied policy of valuing assets on a cyclical basis (e.g. five years). The significant movements in asset valuations reported by many Authorities, including London Borough of Barnet, may be an indication that in some cases valuations presented in annual accounts have not kept pace with the movements in economic conditions over this period. As noted above, in 2008/09 the Authority has ensured that asset values fairly represent current economic conditions by conducting an impairment review of land and building assets. The implementation of International Financial Reporting Standards (IFRS) in 20010/11 may provide an opportunity to change the cycle of asset revaluations in the future.

Recommendation: In the light of recent fluctuations in land and buildings asset valuations as a result of the economic downturn, the Authority should consider whether in the medium to long term, the policy of revaluing land and buildings assets on a five year cycle will continue to be appropriate in future.

In addition, our work on the valuation of fixed assets in 2008/09 at the Authority, and other authorities across the country, has highlighted a number of differences in the methods that expert valuers have used in regard to land and building assets, and to housing stock in particular, to provide a valuation of assets in the accounts. As a result of this we requested that the Authority expands its asset valuation note to explicitly state the valuation approach and methods used.

Treasury Management (Icelandic Banks).

Local Authority investment management practices have come under close scrutiny following the collapse of the Icelandic Banks. The Authority has investments of £27.4 million in two Icelandic banks, Landsbanki and Glitnir. In guidance issued through CIPFA 'LAAP' bulletins, the Authority was required to recognise an impairment relating to these investments. The impairment had been calculated correctly based on the guidance in place at the time. The Authority, following the guidance, could have chosen to defer the impairment but opted not to do so and accounted for the full impairment in the Income and Expenditure Account.

Following the preparation of the draft accounts, new guidance was issued by CIPFA (LAAP 82) which made minor changes to the basis for calculating the impairment. The impact of this guidance was to increase the impairment by £1.153 million and to increase the amount of reclaimable penalty interest by £0.693 million. The net increase in the charge to the I&E account is therefore £0.460 million. This constitutes a post balance sheet event however, as the amounts are not material to the fair presentation of the accounts, the Authority has opted not to adjust (see section 2.8 Unadjusted Misstatements).

In 2008/09, the Authority reviewed its treasury management arrangements in response to the Audit Commission's report on Icelandic investments. The Authority's investment policy is to invest in domestic banks, building societies and government backed organisations, and Officers continue to monitor credit ratings and future prospects of financial institutions that the Authority is authorised to invest in, in order to minimise the risk of losses, whilst securing competitive returns.

We reviewed all investments that the Authority holds to ensure it met the current Treasury Management Strategy. We noted that one investment with the Royal Bank of Scotland, totalling £5 million, was made in line with the Treasury Management Strategy in place at the time but did not meet the requirements in the current Treasury Management Strategy. This investment met the credit rating requirements, but had been made for longer than 92 days. The current Strategy states that investments in nationalised banks should be for a period of up to 92 days. We consider this issue should be reported to those charged with Governance, but we do not consider that it represented a breach of policy at the time the deposits were made.

The Audit Commission has required us to complete a review of Treasury Management arrangements at the Authority, which incorporate the work undertaken by the Authority in response to the recent treasury management issues. We have found that the procedures in place at the year end were sufficiently robust to support our VFM conclusion. However, there were a number of areas for development, relating to member training that the Authority will need to address. We are due to report back to the Audit Commission on our findings in October 2009 and will provide a separate report to the Audit Committee to report these findings.

Members' and Officers' Expenses.

Following Audit Commission guidance, we have also reviewed members' and senior officers' expense claims and have performed testing where appropriate. The application of expenses and allowances was found to be consistent with accepted practice and the policies set out in the Authority's Constitution.

Intangible Fixed Assets.

During the year, the Authority reviewed its intangible asset portfolio. In order to improve the presentation of the accounts, the Authority has opted to reclassify intangible assets, with a NBV of £10.72 million, as tangible fixed assets (vehicle, plant and equipment). This change was due to some uncertainty around the separation of fixed and intangible components within these values. We do not consider that the change has a fundamental impact on the presentation of the accounts, and therefore do not consider that a prior year adjustment is necessary. We have reviewed the reclassification and accounting entries and have concluded that the adjustment is valid and has been correctly posted to the accounts.

2.7 Internal Control Issues

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Authority's key financial control systems did not identify any fundamental control issues presenting a material risk to the accuracy of the statement of accounts.

We also performed a high level review of the general IT control environment, as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that had an adverse impact our audit of the accounts.

However, a number of more detailed systems and internal control issues arose from our audit. These are set out below:

Overall System of Internal Control

During the year, the Authority has recognised that there have been a series of weaknesses in the application of internal financial controls and the control culture in the Authority. In addition, a formal objection from a local elector was the subject of a specific external audit review. This gave rise to certain issues, which are being reported separately, and we summarise in this report our principal recommendations in regard to these issues:

Recommendations:

- *The Authority takes action on the weaknesses in internal financial control it has recognised and reports back to the Audit Committee on progress and improvements that have been made.*
- *The Authority reviews, updates and enhances its Standing Financial Instructions and Standing Orders, to ensure that they are up-to-date and help promote a stronger control mechanism across the Authority.*

Internal Audit

Where appropriate, we have been able to use the work completed by Internal Audit to support our audit in documenting and understanding material systems used to produce the statement of accounts. There were no fundamental control issues arising from the work of Internal Audit that would impact on our planned audit strategy as reported to the Audit Committee in June 2009.

We previously agreed with the Authority that a three year internal audit cycle for core financial systems could be accommodated in our audit process, however in doing so we recognised that this would affect the level of reliance that we could place on Internal Audit work, for key processes which were not directly covered in the financial year. We note that that Internal Audit coverage is currently under review and that key processes will be reviewed annually in future. This should allow us to place more reliance on the work of Internal Audit, as part of the managed audit process. We will work closely with the Authority to help develop its internal audit programme.

Recommendation: The Authority should review progress made in regard to improving the coverage, focus and corporate impact of the Internal Audit service, including the mechanism for ensuring that audit recommendations are followed through to completion.

Fixed Asset Register

For a number of years, the Authority has been using spreadsheets to maintain its asset register. During this year's audit, we noted that several manual adjustments had to be made at the year end, to ensure that the net book value of assets per the asset register agreed to amounts on the accounting system. The Authority had also incorrectly accounted for asset additions, which had been duplicated from 2007/08. Furthermore, we noted that the spreadsheet incorrectly pulled through the gross book values and accumulated depreciation for assets re-valued in the year. These issues required substantial resource from the finance team at year end in order to ensure that fixed assets were correctly stated in the 2008/09 accounts. This issue has been highlighted in our reports to those charged with governance in prior years.

The maintenance of a manual fixed asset register on a spreadsheet leaves the Authority open to possible material misstatements in future. An automated system would not eliminate this risk entirely, but would help to reduce this risk significantly. We are aware that the Authority is in the process of developing an asset management system that will meet its requirements.

Recommendation: The Authority should prioritise the development of the asset management system, to ensure that ongoing issues with the accuracy of the accounting record are addressed.

Non-Enhancing Expenditure

The Authority has the following policy on accounted for non-enhancing expenditure 'any expenditure on an asset that is under £10,000 is considered Non-Enhancing and is treated as revenue expenditure'. However, we noted that fixed asset additions include a total of £90,000 made up of individual additions which are less than £10,000. These should be accounted for through the Income and Expenditure account. An adjustment has not been proposed, as the amounts are not material to the 2008/09 statement of accounts.

Recommendation: The Authority should review its capitalisation process, to ensure that non-enhancing expenditure is accounted for in line with its accounting policy.

Tenant Debtors.

Included in the tenant debtors is an amount for Private Sector Tenancy rent deposit schemes amounting to £2.2 million. These are for deposits with landlords and are not maintained as a control account. In 2007/08, we made a recommendation to reconcile this balance to individual deposits and the Authority is in the process of compiling a list of these deposits.

Recommendation: The Authority should ensure that it reconciles this balance to individual tenant deposits. Without this it cannot be that the deposits have been recorded accurately and completely.

One of the issues noted in the previous year was that the SLA contract in place with Barnet Homes did not cover the monitoring of debtors and a recommendation was raised in the 2007/08 ISA 260.

Recommendation: The SLA contract between the Authority and Barnet Homes is revised, to include expectations of Barnet Homes over the monitoring of tenant debtors.

Collection Fund

The Authority could not provide complete records of central government notification regarding the Non-Domestic Rate Pool. This notification is only sent through once and cannot be accessed again on the Logasnet website.

Recommendation: The Authority should maintain copies of central government notification on the NNDR pool, issued via Logasnet, as supporting documentation for the audit trail.

Investment and Borrowings

We noted a number of clearly inconsequential differences between amounts on Logotech, the system used to maintain borrowings, and investments presented in the statement of accounts and on the accounting system. This does not materially affect the accuracy of the statement of accounts, but it reflects a problem with the reconciliation of systems, and this should be addressed.

Recommendation: The Authority should review and resolve differences to ensure the correct amounts of investments and borrowings are reconciled between associated systems, including Logotec and the accounting system.

Statement of Recognised Gains & Losses (STRGL)

The Authority has made progress in clearing balancing items from the STRGL since 2007/08. However, there remains an 'Other' balance of £345,000, which should be cleared during 2009/10.

Recommendation: The Authority should ensure that residual balancing items in the 'other' balance are removed from the STRGL in 2009/10.

Grants & Contributions

Within the opening balance of £40.221 million for useable capital receipts, £25.831 million was identified during the year as capital contributions received, but not applied, indicating that the incorrect classification had been used in the balance sheet within creditors. Therefore, an adjustment was made to correct the classification, including a restatement of the opening balances stated in the accounts. We reviewed this adjustment and concluded that the correction was valid and had been correctly posted in the accounts.

Related Party Disclosures

When reviewing the related party disclosure note, we found that not all members had completed and returned their declaration of related party transaction forms, and therefore we were not fully assured of the completeness of the related party disclosures.

Recommendation: The Authority should make sure that Members complete their annual declaration of interests forms and return them as requested, to ensure the disclosure included in the accounts is complete.

Barnet Homes

We noted that the Authority held inter-company debtor and creditor balances at year end with Barnet Homes, the Arms Length Management Organisation (ALMO), which forms the principal additional component in the Authority's group accounts. These transactions primarily comprise of a monthly management charge, internal re-charging of overheads and contributions to capital projects. The Authority has placed reliance on the accounting records of Barnet Homes to identify the inter-company debtor and creditor balances which form part of the disclosures in the balance sheet at year end. These balances were a debtor of £4.345 million and a creditor of £4.04 million.

Recommendation: The Authority should strengthen controls to ensure that the Authority's sales and purchase ledger records are regularly reconciled to inter-company debtor and creditor balances reported by Barnet Homes.

Pension Fund
The Pension Fund does not have a separate bank account and therefore, a creditor is raised for the cash and bank balance held by the Authority on behalf of the Pension Fund, which amounted to £52.751 million at year end.

As reported last year, the Authority does not operate separate bank accounts in the name of the Pension Fund. The result of this is that separate reconciliations are required to ensure that monies in connection with the Pension Fund are ring fenced from that of the Authority. Although our review did not identify any anomalies with the current procedures, there are potential process efficiency gains associated with separating the bank account and it would provide additional assurance that pension fund cash is adequately ring-fenced. We were informed that there is a separate bank account in the Fund's name, but this was not currently being used because of logistical issues.

Recommendation: In the light of updated guidance on cash sharing arrangements, we recommend the pension Fund uses its own bank accounts, separate from those of the Authority.

A number of other issues were reported in the Pension Fund Audit report and the key issues are highlighted in Appendix E.

2.8 Adjusted Misstatements

There were no material misstatements identified during the course of the audit. We identified a number of non-material adjustments which finance officers have agreed to amend. A number of disclosure adjustments have also been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.

All adjusted misstatements are scheduled at Appendix B. The aggregate of these adjustments has not impacted on the Income and Expenditure account deficit or on General Fund balances. This is consistent with prior year performance on the number and nature of audit adjustments identified.

There were a number of adjustments to the Pension fund accounts but these have not had an impact on the Authority's accounts. For details on findings of the Pension Fund audit see Appendix E.

2.9 Unadjusted Misstatements

There were a number of misstatements which were not processed by management on grounds of materiality. We do not consider these to have a significant impact on the validity of the reported accounts; however it is important that those charged with governance satisfy themselves that these misstatements do not warrant adjustment prior to approving the financial statements. These are set out in Appendix C.

2.10 Annual Governance Statement ('AGS')

We have examined the Authority's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Authority. Our audit has identified a number of enhancements which have been agreed by the Authority. When these are made, we will consider whether the Statement then accurately reflects the position at the Authority in 2008/09. The key issues identified were:

- The issue of non-compliance with the Treasury Management Strategy in prior years is mentioned only briefly. We requested that this issue be explicitly disclosed. This should include confirmation as to whether any other instances of non-compliance were detected during 2008-09.
- The wording in relation to Icelandic banks is weakened with the use of the phrase 'apparent non-compliance' we required the word 'apparent' be removed.
- Wording in reference to the present position on money laundering indicates that the Authority was previously non-compliant with the Act in year, we required rewording to clarify this.
- Disclose how the Authority ensures that allowances and expenses are not claimed or used inappropriately.
- Disclose recent measures that have been taken by Barnet to understand and mitigate risks associated with the Baby P case at Haringey.

We also noted an inconsistency in the Explanatory Forward to the accounts, which also required adjustment. The information on financial performance for the HRA and Capital programme did not include sufficient detail on actual outturn against plan. We required the inclusion of a statement on performance against plan for the HRA and on performance against the capital plan, including an explanation for any major slippage.

We also noted a number of potential enhancements to the disclosure in both statements noted above, which were notified to the Authority for consideration.

2.11 Next Steps

The Audit Committee is required to approve the annual accounts of the Authority for the year ended 2008/09.

Finally, we would like to draw to the attention of those charged with governance further significant changes to the basis on which the statement of accounts will be prepared in future years. The most significant of which is the full implementation of International Financial Reporting Standards (IFRS) into the 2010/11 accounts. It is important that authorities start planning now, as there will be significant changes to the accounts under IFRS. Our experience in other sectors shows that audited bodies that are well prepared for the transition to IFRS have fewer amendments to their accounts than those who are not. Working with the finance team we are already sharing 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. This process will continue over the next two years.

3 The Value for Money Conclusion

Scoring scale:
1 - Below minimum requirements - inadequate performance
2 - Meets the basic requirements - in line with national expectations
3 - Consistently above expected requirements – performing well
4 - Well above minimum requirements – performing strongly

3.1 Introduction

This section sets out the basis for our value for money conclusion and summarises our work on Use of resources (UoR) to date. In 2008/09 a new basis for the assessment was introduced for the UoR Assessment. It is important to note that the basis for the assessment has changed and therefore the scores are not directly comparable with prior years.

3.2 Our Conclusion

Based on the Use of Resources assessment, we propose to give an unqualified value for Money conclusion.

3.3 Provisional Scores

The Authority achieved an overall level 3 for the assessment, in line with approximately two thirds of London Borough councils. A score of 2 was the prevailing score nationally for organisations subject to the assessment.

In order for us to provide an unqualified conclusion, the Authority needed to achieve a score of at least 2 for each Key Line of Enquiry (KLOE). These criteria have been achieved and our proposed assessment for the Authority is summarised by KLOE 'Theme' in table 1.

Please note that the scores set out in table 1 are provisional at this stage as they are subject to national moderation by the Audit Commission. Also note that KLOE Theme 3 will be assessed on a 3 year cycle for local Authorities and therefore KLOE 3.3 was not assessed in 2008/09.

Table 1: Provisional UoR Scores

1. Managing Finances	**Provisional Score 2009**	**VFM Conclusion Requirements**
1.1 Financial Planning & Delivering Priorities	3	Met
1.2 Understanding Costs	2	Met
1.3 Reporting Finances & Performance	3	Met
Theme Score	**3**	

2. Governing the Business	Provisional Score 2009	VFM Conclusion Requirements
2.1 Commissioning & Procurement	2	Met
2.2 Data Quality	3	Met
2.3 Principles of Governance	3	Met
2.4 Risk & Internal Control	2	Met
Theme Score	**3**	

3. Managing Other Resources	Provisional Score 2009	VFM Conclusion Requirements
3.1 Use of Natural Resources	2	Met
3.2 Asset Management	2	Met
3.3 Managing People	Not Assessed	N/A
Theme Score	**2**	

Overall UoR Score	Provisional Score 2009	VFM Conclusion Requirements
	3	**Met**

3.4 The Way Forward

The outcome of our Use of Resources audit will be reported in full in a separate report to be presented to the Audit Committee in November 2009.

A Appendix: Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • 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 every 5 years • We comply with the Auditing Practices Board's Ethical Standards. • We have not charged fees for additional services in excess of the main audit fee (£420,000 excluding VAT).

Area	Key Messages
Audit Approach	Our approach to the audit was set out in our 2008/09 audit plan and our audit strategy document for the year ending 31 March 2009. 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 statement of accounts 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 Authority for final accounts audit purposes. • In 2008/09 we have been able to place reliance on the work of internal audit in respect of understanding and documenting key accounting systems.
Accounting Policies	We consider that the Authority has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the 2008 local government Statement of Recommended Practice. The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18. We have considered the Authority's financial plans in regard to the appropriateness for the Authority to account on a going concern basis and find this to have been appropriate.
Material Risks	We have requested from the Authority a letter of management representations, to state that there are no additional material risks and exposures as at the date of the audit report, which should be reflected in the statement of accounts. We will also perform our own audit procedures to ensure that all significant risks and exposures to the Authority have been recognised in the accounts as at the date of the audit report.

Area	Key Messages
Audit Adjustments	We have discussed with management a number of adjustments to the accounts primarily to improve the fair presentation of the statement of accounts as well as the clarity and presentation of disclosure notes. These adjustments are summarised in Appendix B.
Unadjusted Errors	From the audit results mentioned previously we have identified no unadjusted errors. These are disclosed in Appendix C.
Other Matters	No other matters have been noted.

B Appendix: Adjustments to the Statement of Accounts

The following table presents all significant adjustments made to the accounts arising from the audit process which have been processed and agreed with Officers in the Authority.

Adjustment Type

- **Misstatement** - A change to the value of a balance presented in the statement of accounts.
- **Classification** - The movement of a balance from one location in the accounts to another.
- **Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	Accounts balance	Impact on statement of accounts
Classification	Housing Revenue Account	A £2.293 million impairment incurred as a result of council property burnt down in the year was accounted for by being netted off against the revaluation reserve, however as it results in loss of economic benefit, this should be written off as a charge to the Housing Revenue Account.
Classification	Government Debtors	Included in government debtors is a debtor balance of £1.795 million relating to the Sure Start grant from the DCFS which has been received in the year. An adjustment of £1.795 million is required, decreasing the debtors amount and increasing grants and contributions unapplied.
Misstatement	Fixed Assets and Revaluation reserve	The revalued amount on one entry within the Other Land and Buildings balance has been understated. An adjustment increasing the asset value and revaluation reserve by£0.7 million.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Fixed assets and Revaluation reserve	In 2007/08 the Authority identified fixed assets that were considered to be missing on the Asset Register, and the missing assets were adjusted through the Capital Adjustment Account (CAA). One of these assets was subsequently found not to be missing from the register, as it existed as duplicate entry, but this was not adjusted on grounds of materiality. In 2008/09 an adjustment was made to correct this entry, however this has been made to the revaluation reserve rather than the CAA and for the total value rather than that of the specific asset in question. This incorrectly decreased the revaluation reserve by £1.722 million and increased Fixed Assets by the same amount. As a result of the 2008/09 audit, this adjustment has been reversed by the Authority and the correct adjustment has been posted to increase the CAA by £0.5 million and to decrease the Fixed Assets balance by the same amount.
Classification	Investments	Investments of £1.212 million were reclassified from long term investments to current investments as they fall due within 12 months. A further £3.622 million of investments were reclassified from long term investments to current investments, which reflects the amount of the Landsbanki Bank investment expected to be repaid in less than one year.
Classification	Borrowings	Borrowings of £1.023 million were reclassified from long term borrowings to current borrowings, as they fall due within 12 months.
Classification	Creditors	Creditors: The Pension Fund does not have a separate bank account and therefore, a creditor is raised for the cash and bank balance held by the Authority on behalf of the Pension Fund. However we noted a timing difference between the corresponding balances recorded in the accounts of the Authority and the Pension Fund, which affected the creditors note. An adjustment of £0.108 million was posted to amend the classification in the creditors note in the statement of accounts. This adjustment had no impact on the overall creditors balance reported on the balance sheet.

Adjustment type	Accounts balance	Impact on statement of accounts
Disclosure	Creditors	During the year the Authority identified grants and contributions that were accounted for in the useable capital receipts accounts amounting to £27.371 million. These amounts have been classified as sundry creditors and we have recommended that these are disclosed as a separate creditor in note 31 of the accounts.
Classification	Statement of total recognised gains and losses (STRGL)	The Authority had a number of items (£4.854 million) included within its 'Other' line with the STRGL. It is not expected that the 'other' line should include any items other than the collection fund and financial instruments adjustment accounts. The Authority agreed to adjust £5.199 million which related to depreciation accounted for in the revaluation reserve. The remaining balance of £345,000 will need to be cleared in 2009/10 (see recommendation on the STRGL section 2.6).
Disclosure	Tangible Fixed Assets	Our work on the valuation of fixed assets in 2008/09 at the Authority, and other authorities across the country, has highlighted a number of differences in the methods that expert valuers have used in regard to land and building assets, and to housing stock in particular, to provide a valuation of assets in the accounts. As a result of this we requested that the Authority expands its asset valuation note to explicitly state the valuation methods used.
Disclosure	Pension Reserve	We recommended that the Authority includes information relating to the fair value of assets for the last four years and other information as required by the SoRP disclosure checklist.
Disclosure	Related Party Disclosure	We recommended that the disclosure on related parties includes information on significant income, expenditure, debtor and creditor transactions.
Disclosure	All	A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.

C Appendix: Summary of Unadjusted Misstatements

The following table presents errors arising from the audit process which have not been adjusted on the grounds of Materiality.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Government debtors	An increase of £0.148 million in Department of Works and Pensions grant and a corresponding increase in expenditure relating to housing benefits, which is an adjustment to the amounts due to the Authority based on the DWP grant claim submitted for certification. This was not adjusted on grounds of materiality.
Classification	Housing Revenue Account (HRA)	An increase of £0.034 million in charges for services and facilities in the HRA and a corresponding decrease of garage rents, relating to a VAT error in accounting for garage rents. This was not adjusted on grounds of materiality.
Post Balance Sheet Event	Income & Expenditure Accounts	Icelandic Deposits: There has been a potential increase to the impairment of Icelandic deposits and an increase in the interest recoverable on the deposit, through the I&E account as a result of late guidance issued by CIPFA. The net impact on the I&E Account would be to increase the reported deficit by £460,000. This was not adjusted on grounds of materiality
Misstatement	Fixed Assets	Fixed asset additions include a total of £90,000 made up of individual additions which are less than £10,000. These should be accounted for through the Income and Expenditure account. An adjustment has not been proposed, as the amounts are not material to the 2008/09 statement of accounts.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	STRGL	The Authority has made progress in clearing balancing items from the STRGL since 2007/08. However there remains an 'Other' balance of £345,000 which should be cleared during 2009/10

D Appendix: Audit Recommendations

The following table presents recommendations arising from the audit.

Recommendation	Priority	Management Response	Responsible Officer	Action Date
Internal Control The Authority takes action on the weaknesses in internal financial control it has recognised and reports back to the Audit Committee on progress and improvements that have been made	High	Agreed.	Deputy Director of Corporate Governance & S151 Officer	Already implemented
Internal Control The Authority reviews, updates and enhances its Standing Financial Instructions and Standing Orders to ensure that they are up-to-date and help promote a stronger control mechanism across the Authority	High	Agreed. The constitution and financial regulations are currently being reviewed. Proposed changes will then be presented to the Special Committee (Constitutional Review).	S151 Officer & Director of Corporate Governance	In progress – completion by March 2010

Recommendation	Priority	Management Response	Responsible Officer	Action Date
Internal Audit The Authority should review progress made in regard to improving the coverage, focus and corporate impact of the Internal Audit service, including the mechanism for ensuring that audit recommendations are followed through to completion.	High	Agreed.	Deputy Director of Corporate Governance & S151 Officer	In progress – March 2010
Fixed Assets - Asset Management System The Authority should prioritise the development of the asset management system to ensure that ongoing issues with the accuracy of the accounting record are addressed.	High	Agreed. Work has already been commissioned to invest and develop the SAP Asset Module. This will enable all capital journals to be automated by the system.	Head of Strategic Finance	December 2009
Fixed Assets - Capitalisation Policy The Authority should review its capitalisation process to ensure that non-enhancing expenditure is accounted for in line with their accounting policy.	Low	Agreed, this is already on the team plan for Strategic Finance	Head of Strategic Finance	December 2009

Recommendation	Priority	Management Response	Responsible Officer	Action Date
Fixed Asset - Valuations The Authority should review the adequacy of its policy of revaluing land and building assets on a five year cycle in regard to ensuring that asset values fairly reflect movements in prices in each individual year.	High	Agreed. The majority of properties are reviewed on an annual basis. The remaining 8% are revalued on the rolling 5 year programme. Where there is a drop in the market, an impairment exercise is applied across all assets. With the changes as a result of IFRS the position will continue to be monitored to ensure an accurate valuation is achieved.	Valuations Manager	On going
Tenant Debtors The Authority should ensure that it reconciles the balance of individual tenant deposits. Without this it cannot be that the deposits have been recorded accurately and completely.	Medium	Agreed	Finance Manager (Housing)	Exercise is already in progress. Anticipated completion by March 2010.
Tenant Debtors The SLA contract between the Authority and Barnet Homes be revised to include expectations of Barnet Homes over the monitoring of tenant debtors.	Medium	Agreed	Finance Manager (Housing)	Agreement already revised. Awaiting legal clearance by October 2009

Recommendation	Priority	Management Response	Responsible Officer	Action Date
Collection Fund The Authority should maintain copies of central government notification on the NNDR pool, issued via Logasnet, as supporting documentation for the audit trail	Low	Agreed	Deputy Head of Financial Services, Barnet Homes	Immediately
Investments The Authority should review and resolve these differences to ensure the correct amounts of investments and borrowings are reconciled between associated systems, including Logotech and the accounting system.	Medium	Agreed	Treasury Manager	March 2010
STRGL Recommendation: The Authority should ensure that residual balancing items are removed from the STRGL in 2009/10.	Medium	Agreed	Head of Strategic Finance	March 2010

Recommendation	Priority	Management Response	Responsible Officer	Action Date
Related Party Disclosures The Authority should make sure that Members complete their annual declaration of interests forms and return them as requested, to ensure the disclosure included in the accounts is complete	Medium	Agreed	Director of Corporate Governance	March 2010
Shared Bank Account In the light of updated guidance on cash sharing arrangements, we recommend the Pension Fund uses its own bank accounts, separate from those of the Authority.	High	Agreed. Work has to be commissioned to invest and develop the SAP system and the business processes to enable all cash transactions relating to the Pension Fund to be processed direct to the Pension Fund bank account direct. In addition the balances will need to be transferred from the main LBB bank account to the Pension Fund bank account.	Head of Strategic Finance / Improvement & Control Manager	March 2010

Recommendation	Priority	Management Response	Responsible Officer	Action Date
Barnet Homes The Authority should strengthen controls to ensure that the Authority's sales and purchase ledger records are regularly reconciled to inter-company debtor and creditor balances reported by Barnet Homes.	Medium	Agreed. Inter company G/L codes have already been set up so that accruals can be easily identified.	Head of Strategic Finance	Already Implemented

E Appendix: Pension Fund Audit

E1 Audit Conclusions

We expect to provide the Pension Fund with an unqualified audit opinion. At the date of this letter, a number of matters remained outstanding on the Pension Fund audit and these will need to be resolved before our audit work will be complete. However, we do not anticipate that the completion of our work in these areas will give rise to any material adjustment.

We provided an update regarding these outstanding matters, to the Pensions Fund Committee members on 18 September 2009.

Matters arising during the course of our work, that we would like to bring to the attention of the Committee, are set out below.

E2 Key Findings

This section provides a summary of our observations arising from the audit of the Pension Fund. This includes matters arising from our evaluation of key controls. This section provides a summary of our observations arising from the audit of the Pension Fund. This includes matters arising from our evaluation of key controls.

2.1 The Audit Timetable

At the planning stage of our audit, it was acknowledged that there had been changes to key personnel during the course of the year. These changes, and the absence of a key member of the Authority's staff during the audit process, impacted on the timing of audit completion in 2008/09. We appreciate that a number of officers involved this year were new to the Authority and we anticipate that these issues should not be repeated in 2009/10. We will work with the Authority's officers, to ensure this happens.

2.2 Provision of Information for Audit

As part of our planning procedures, a schedule summarising our information requirements to support our audit work was provided. At the start of the audit, the information was not readily available from the Authority.

The Treasury Manager drafted the accounts for the Fund. However, given that the interim Treasury Manager had only just joined the Authority at the time of drafting, the audit trail from the nominal ledger into the accounts was not always clearly documented. This resulted in more queries than we would normally have expected, however, we acknowledge that the Treasury Manager did not have the benefit of the history behind the Fund at that time.

In addition, the following key reconciliations had not been completed at the start of the audit:

- Reconciliation investment transactions from the fund managers and those recorded in the nominal ledger
- Review of the validity of a number of older fee accruals

Recommendation: Periodic reconciliations of key account balances should be undertaken during the course of the year, at least on a quarterly basis. This will help highlight any anomalies as they arise for timely rectification. Furthermore, as part of the accounts drafting process, we recommend that a clearer audit trail is maintained between the nominal ledger postings and the draft accounts.

2.3 Adoption of the Revised SORP

The Fund is required to adopt the revised Pension SORP (May 2007) for the first time, this year. The most significant change to the disclosure in the accounts, compared with previous years, is that investments are required to be disclosed using bid values as opposed to mid-market values.

The adoption of the revised SORP represents a change in accounting policy. Ordinarily, this would require prior year balances to be re-stated to reflect revised presentation. The SORP however, recommends only amounts which would result in material differences to the opening balances to be re-stated. We concluded that the change in presentation did not result in material differences to the opening balances, and thus no re-statement was considered necessary.

2.4 Evaluation of Key Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our review of the Fund's key financial control systems was discussed with the Treasury Manager, and did not identify any matters that present a material risk to the accuracy of the financial statements.

2.5 Use of Shared Bank Accounts

As reported last year, the Authority does not operate separate bank accounts in the name of the Pension Fund. The result of this is that separate reconciliations are required to ensure that monies in connection with the Pension Fund are ring fenced from that of the Authority. Although our review did not identify any anomalies with the current procedures, management time could be saved. For example, when calculating interest receivable, the daily balance attributable to the Pension Fund needs to be calculated, and then a formula applied to ensure that the Fund is allocated appropriate levels of interest. We were informed that there is a separate bank account in the Fund's name, but this is not being used because of logistical issues.

Recommendation: In the light of updated guidance on cash sharing arrangements, we recommend the Fund uses its own bank accounts, separate from those of the Authority.

2.6 Maintenance of Cash Held with Fund Managers

Cash allocated for investment with fund managers is physically held by the Authority (approximately £43m). Each month, the balance per the Authority's records is reported to the fund managers, who then use this as the basis of the cash disclosed per the valuation report. At the year end, the amounts reported by the fund managers compared with the Authority's records were different. As part of the audit, we requested that a reconciliation took place to identify observed differences. At the date of this report, this is still to be resolved.

We recognise that the fund managers require a working cash balance to deal with timing differences on the disinvestment and re-investment of certain funds, and it is not uncommon for fund managers to be provided with a sum of cash for this purpose. It is unclear, however, why these funds need to be kept by the Authority. Managing the surplus fund manager cash in this way requires additional time spent and processes carried out by the Treasury team, which could be saved if the fund managers were given full control over this working balance.

Recommendation: The current arrangement for cash balances held by fund managers are reviewed to ensure that they are appropriate and meet the needs of the Fund.

2.7 Timeliness of Contributions Receipts

Regulations require that contributions deducted from members' salaries are paid over to the fund by no later than the nineteenth day following the calendar month, from which the contributions have been deducted.

During our review of contributions, it was noted that for eight scheduled bodies and seven admitted bodies, contributions were late for between one and forty two days. This included:

- Eight instances of contributions being late for more than twenty five days, relating to total contributions of £88k
- Four instances where contributions were late for more than ten days, relating to total contributions of £687k
- Thirty instances of contributions being late up to ten days, relating to total contributions of £4million.

Recommendation: Scheduled and admitted bodies are reminded of the requirement to ensure that contributions are received on time.

2.8 Considering the Accuracy of Fund Manager Information

Part of our work involves considering the reasonableness of transactions and balances as a whole, to ensure that the accounts do not appear materially mis-stated. When considering investment income in this way, our work did not identify any material anomalies. Our discussions, however, revealed that no additional reviews are carried out by the Treasury team to ensure income due is properly recorded as being received, as it is presumed that the fund managers will be correct.

Furthermore, it was noted that any surplus cash held by Schroders should be returned to the Fund. At 31 March 2009, Schroders held a cash balance of £21k. The Treasury Manager contacted Schroders, who acknowledged this was an oversight on their part.

Recommendation: The information provided by the fund managers is periodically reviewed, and any apparent anomalies challenged with the fund managers, and rectified at the earliest opportunity.

2.9 Maintenance of the Statement of Investment Principles (SIP)

The Statement of Investment Principles obtained during the course of the audit makes reference to Midas as one of the fund managers, and makes no reference to Legal & General.

Recommendation: Following the change in fund managers during the year, we recommend that the Statement of Investment Principles is periodically reviewed and, when changes occur, it is updated at the earliest opportunity.

2.10 Investment Purchases and Sales Recognition

Identification of Trades Relating to the Year

The Senior Management Accountant maintains a useful spreadsheet of all purchases and sales of investments, based on settlement sheets provided by the fund managers. In the final week of March 2009, the settlement sheets did not include the transaction dates, and it was assumed that these transactions related to April. On further examination, it was determined that these transactions related to March, and should be recognised as 2008/09 purchases and sales. The year end valuations had correctly recognised these amounts as unsettled trades. The Senior Management Accountant carried out a further review, and confirmed that £1,099k of purchases and £1,127k of sales had not been given included as such in the accounts.

Information Provided by Third Parties

The purchases and sales spreadsheet was compared to the corresponding nominal ledger entries. It was noted that sales totalling £1,615k, and purchases totalling £1,979k had not been recorded in the accounting records as the Authority was not made aware of the transaction until after the year end.

Recommendation: The process for recording and reconciling investment transactions provided by third parties should be reviewed, to ensure that post transactions relating to the year of audit, are complete in the financial statements. The roles, responsibilities and service expectations of J P Morgan should also be considered.

2.11 Investment Valuation

As noted above, the Pensions SORP requires investments to be disclosed using bid prices. However, the draft accounts had inadvertently been presented using mid-market prices. This has resulted in investments being overvalued by £396k. We were informed by the Treasury Manager that this was due to an error in the spreadsheet formula used to derive the year end values.

Recommendation: Spreadsheets relating to Investment Valuations should be checked by someone independent of the person preparing the original calculations. This will ensure that any inconsistent formulas are identified and help ensure that the accounts are free from material misstatement.

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