

**AGENDA ITEM: 15**

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Meeting	Audit Committee
Date	7 December 2010
<b>Subject</b>	<b>Annual Audit Letter 2009/10</b>
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	This report advises the Committee of the Annual Audit Letter for 2009/10.

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Officer Contributors	Maria G. Christofi, Assistant Director Financial Services, Finance Directorate Anisa Darr, Finance Manager (Closing & Monitoring)
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Annual Audit Letter 2009/10
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Anisa Darr, Finance Manager (020 8359 7106).

## **1. RECOMMENDATIONS**

- 1.1 That the External Auditors Annual Audit Letter for 2009/10 be accepted as a reasonable statement on the Council's position in respect to financial standing, and financial and performance management arrangements.**
- 1.2 That the Committee consider whether there are any areas on which they require additional information or action.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 None.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 The Annual Audit Letter addresses fundamental aspects of financial standing and performance management in Barnet, which relate to the council's 'Better Services with less money' corporate priority.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The Annual Audit 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 adverse financial and / or reputational consequences.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 The Annual Audit Letter covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community.
- 5.2 Action planning around the key areas of Council activity highlighted in paragraph 1.15 of Appendix A will need to include a specific assessment of how the proposed course of action will comply with equalities legislation and not adversely affect specific groups covered in the legislation.

## **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 and recommendations should be noted.

## **7. LEGAL ISSUES**

- 7.1 None in the context of this report.

## **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 comments 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 Letter is to summarise the key issues identified by the council’s External Auditor, Grant Thornton UK LLP, during their audit and inspection activity. The letter is designed to communicate key messages to the Council and external stakeholders, including members of the public.
- 9.2 The External Auditor is expected to attend the Committee meeting to introduce their report and respond to questions. This covering report extracts the key messages from within the Annual Audit Letter 2009/10, which is attached to this report in Appendix A.
- 9.3 The following is drawn to the attention of this Committee:
- 9.3.1 The Statement of Accounts for 2009/10 have been issued an unqualified opinion on 29 September 2010, ahead of the statutory certificate deadline. The External Auditor’s opinion confirmed that the accounts give a true and fair view of the Council’s financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 9.3.2 The annual value for money (VfM) conclusion was issued on 29<sup>th</sup> September 2010 and concluded that for 2009/10 the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 9.3.3 Grant Thornton’s VfM work highlighted that managing finances continues to be a strength area for the Council and there have been improvements in areas of the Council’s activity particularly around commissioning and procurement, with clear outcomes apparent within Adult Social Services. Grant Thornton have also highlighted a number of areas for improvement and agreed an action plan with management to implement the associated recommendations.
- 9.3.4 Work to date on compliance with International Financial Reporting Standards (IFRS) confirms that the Council’s IFRS implementation plan remains on track with the Council further advanced in many areas than many of its peers.
- 9.3.5 The Council will need to consider the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on standards of service delivery.
- 9.3.6 Improvements to the Council’s risk management arrangements were implemented during 2009/10. Grant Thornton’s review of risk management in

partnerships identified further scope to ensure partner organisations were suitably focused on the benefits of effective risk management.

9.3.7 The Council should ensure a continued focus on the production of its first set of IFRS compliant accounts in 2010/11 including ensuring that it mitigates against potential risks of the implementation project going off track and that detailed aspects of accounting under IFRS, including property, plant and equipment, are fully worked through.

9.3.8 Certification programme for grant claims and returns for 2009/10 is still in progress. Once this work is completed Grant Thornton will report in full on the findings of their work.

## **10. LIST OF BACKGROUND PAPERS**

10.1 None.

Legal: MM

CFO: MC

## **London Borough of Barnet**

Annual Audit Letter 2009/10

18 November 2010

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# 1 Introduction and Key Messages

## **Purpose of this Letter**

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work that we have carried out at the London Borough of Barnet (the Council) during our 2009/10 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **Responsibilities of the external auditors and the Council**

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).
- 1.3 We have been appointed as the Council's independent external auditor by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks, when reaching our Code conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## **What this Letter covers**

- 1.6 This Letter covers our 2009/10 Code audit, including key messages and conclusions from our work on:
  - auditing the 2009/10 year end accounts (Section 2)
  - the accuracy of grant claims and returns to various government departments and other agencies (Section 2)
  - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3).
- 1.7 list of all the reports issued during the year is provided at Appendix A, whilst Appendix B sets out our actual and budgeted fees for 2009/10.

## **The Economy**

- 1.8 In the current financial climate, the Government's most urgent priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £6 billion are planned from Government spending during this financial year, including some £1.1 billion in reduced grants to local government. At the same time, the Government aims to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:
- abolishing Comprehensive Area Assessment
  - reducing ring-fenced central government grants
  - abolishing LAA performance targets
  - undertaking a full review of local government finance.
- 1.9 The October Spending Review (SR) will have a significant impact on the Council, its plans and its finances. The SR announced a 28% cut in DCLG grants, estimated job losses within the public sector at 490,000 and £7bn of savings are required to be made to the welfare budget, mainly through benefit cuts. Cuts are being top-loaded with the greatest reductions being required in the first year of the SR period. The June Budget announced the Government's intention to work with local authorities to freeze council tax in England in 2011-12. The SR announced that local authorities who freeze their council tax in 2011-12 and keep their bills flat for the next four financial years will have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review period.
- 1.10 The issues highlighted in this Annual Audit Letter should be understood within the context of the significant changes to government policy and the reduction in financial resources outlined above. For example, the Council is having to plan for the ongoing increase in demand for social care and the need to deliver a further £6.9m of savings over and above those identified when the 2010/11 budget was agreed in March 2010.

## **Key messages**

### **Accounts Audit**

- 1.11 We issued an unqualified opinion on the Council's 2009/10 accounts on 29 September 2010, ahead of the statutory certification deadline. Our opinion confirmed that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year. The audit process has generally been satisfactory, although there have been a number of proposed audit adjustments as in previous years. This has affected fixed asset accounting in particular following the implementation of new asset accounting systems. Further detail on our accounts audit work is detailed in section 2.

### **Value for Money Conclusion**

- 1.12 We issued our annual Value for Money (VFM) conclusion on 29 September 2010. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

1.13 Our work highlighted that managing finances continues to be a strength area for the Council and there has been improvements in areas of the Council's activity particularly around commissioning and procurement, with clear outcomes apparent within Adult Social Services. We also highlighted a number of areas for improvement and agreed an action plan with management to implement the associated recommendations. To inform our conclusion we also undertook a number of targeted projects, the key messages arising from these are detailed in section 3.

#### **International Financial Reporting Standards**

1.14 From 2010/11 the Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). Our work to date on this area confirms that, the Council's IFRS implementation plan remains on track with the Council further advanced in many areas than many of its peers. However, the preparation and review of the 2009/10 IFRS restated accounts represents the first major test and the Council must build on its good work to date.

#### **Key areas for Council action**

1.15 We have set out below the key areas of focus for the Council, relevant to our audit responsibilities, during 2010/11:

- In addition to the savings required to balance the 2010/11 budget, the Council needs to manage a budget gap of around £38m over the period 2011/2014. Achieving this will be a major challenge and the strength of the Council's strategic financial planning arrangements and the deliverability of its cost efficiency plans will be critical. The Council will need to consider the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery.
- A partnership mapping exercise was undertaken in 2008/09 to identify the quality of governance arrangements. This was reviewed by internal audit and limited assurance was given. Having effective risk management arrangements in respect of its partnerships will be increasingly critical to the Council, as it develops options for sustainable service development with the third sector or private companies over the next few years.
- The Council should ensure a continued focus on the production of its first set of IFRS compliant accounts in 2010/11. This will include the Audit Committee ensuring that the Council mitigates against potential risks of the implementation project going off track and that detailed aspects of accounting under IFRS, including property, plant and equipment, are fully worked through.

1.16 Further details on these key messages can be found in sections 2 and 3 of this Letter.

## 2 Audit of Accounts

### Introduction

- 2.1 We issued an unqualified opinion on the Council's 2009/10 accounts on 29 September 2010, ahead of the statutory certification deadline. Our opinion confirms that the accounts give a true and fair view of Council's financial affairs at 31 March 2010 and of its income and expenditure for the year.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to those charged with governance (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Committee on 21 September and summarise only the key messages in this Letter.

### Audit of the accounts

- 2.3 The Council produced an initial set of draft 2009/10 accounts on 7 June 2010 (prior to submission of full draft accounts on 18 June). This was significantly ahead of the statutory deadline of 30 June and enabled an initial technical review of the accounts to take place and be fed back, prior to production and approval of the formal draft accounts. This enabled audit work to begin early and was useful for the Council in obtaining timely feedback on its accounts.
- 2.4 Closedown was well managed by the Council and there is clear corporate commitment to producing timely final accounts. The audit process has generally been satisfactory, although there have been a number of proposed adjustments as in previous years, particularly affecting fixed asset accounting.
- 2.5 The key messages arising from our accounts audit are:
- the Council managed an effective closedown process resulting in early production of the accounts for audit
  - the Council continues to improve in valuing and accounting for its fixed assets although our audit findings suggest that there is scope for further development, particularly in light of the requirements under International Financial Reporting Standards (IFRS) applicable from 2010/11.

### Financial performance

- 2.6 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. The Council performed well by delivering against its budget of £238.5m in 2009/10. This performance can be attributed to the Council maintaining a robust budgetary control system and early identification of cost pressures. Maintaining and building on these strong arrangements will be critical for the Council in the months and years ahead.

- 2.7 So far in 2010/11 the Council is managing its immediate financial pressures in a similar way to previous years and is reporting a similar level of projected overspend at quarter 2 (£3.4m) as has been the case in previous years. However, there are certain service areas that are a cause for concern including parking income and children's services.
- 2.8 The Council will need to continue to work hard to deliver the anticipated significant financial challenge ahead.
- 2.9 As part of the 2010/11 audit we will be reviewing the resilience of the Council's Medium Term Financial Strategy including a detailed review of the assumptions made within it and the reasonableness of associated savings plans. This is in line with the new approach to local Value for Money audit work introduced by the Audit Commission.

### **Financial systems**

- 2.10 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the financial statements.
- 2.11 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2009/10 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 would adversely impact our audit of the accounts.

### **Annual Governance Statement**

- 2.12 We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and considered whether the statement was in accordance with our knowledge of the Council. Following discussions with the Council, which resulted in some minor modifications to the AGS, our work confirmed that the AGS was consistent with our knowledge of the Council

### **International Financial Reporting Standards**

- 2.13 The Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS) from 2010/11. The Council has a clear project plan in place for the IFRS transition and it has already engaged effectively in taking forward planning for accounting under IFRS.
- 2.14 Our work confirms that for the Council, the overall project plan remains on track. Key dates for preparing the opening balance sheet and restating the 2009/10 accounts and skeleton IFRS compliant statements are expected to be achieved. Our view is that the Council has placed a good focus on IFRS and is further ahead than other councils in many areas, but that the preparation and review of the 2009/10 restated accounts represents the first major test.

- 2.15 We will continue to review progress as part of our planned programme of work for 2010/11.

**Grant Claims and Returns**

- 2.16 Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2008/9 certification work we concluded that there was scope for improvement in aspects of the Council's arrangements.
- 2.17 We are currently in the process of certifying the 2009/10 grant claims and returns. Once this work is completed we will report in full on the findings of our work.

## 3 Value for Money

### **Introduction**

- 3.1 We issued our annual Value for Money (VFM) conclusion on 29 September 2010, at the same time as our accounts opinion, and ahead of the required deadline. We concluded that, for 2009/10, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.
- 3.2 Prior to giving our VFM conclusion, we set out the basis of this conclusion and the results of our assessment against the use of resources framework, in our report presented to the Audit Committee on 7 December. In this Letter, we summarise the key messages from this work alongside relevant findings.

### **2009/10 VFM conclusion and UoR assessment**

- 3.3 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (UoR). In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 3.4 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009/10 Audit Plan.
- 3.5 Key highlights within the Council's arrangements are that:
- Financial management continues to be a strength area for the Council.
  - The Council's arrangements for commissioning and procurement have improved, with clear outcomes apparent within Adult Social Services.
  - There are good processes in place for managing the asset base although there is room for improvement in evidencing outcomes.
- 3.6 The main areas where further development is required by the Council are that:
- The Council needs to demonstrate that it has a Council wide understanding, at a service level, of the links between costs and performance and achievement of value for money.
  - As part of the One Barnet programme the Council should develop sound contract monitoring arrangements with third party providers.
  - The Council should follow a systematic approach to options appraisals, which includes being specific about the expected benefits and outcomes and their measurement.

- The Council's Risk Management Strategy should be revised to include tolerance levels to assist officers in making important decisions, particularly around One Barnet.
- The Capital Assets Property Management Strategy (CAPS) should be reviewed to emphasise the focus on partnerships that is apparent within the One Barnet programme.
- Once the Council has robust fit-for-purpose data for its workforce it should develop a workforce strategy which links in with how One Barnet is to be delivered.
- There should be a focus on equipping senior managers with the necessary change management skills to ensure that One Barnet is successful.

### **Local risk based VFM reviews**

3.7 To support our assessment of the Council's VFM arrangements we completed two specific pieces of work:

1) **Review of the Effectiveness of Internal Audit** - we carried out a review of Internal Audit to enhance our understanding of the effectiveness and capability of the service and to feed into planned service improvements. In doing so we compared the arrangements in place to our assessment of effectiveness and to best practice to identify recommendations for improvement. We concluded that the service provided an adequate level of assurance to those charged with governance that significant business risks are being appropriately managed. However we identified a number of opportunities to improve the effectiveness of internal audit which the Council is in the process in implementing. A focus on improvement is essential to ensure that the Internal Audit function keeps up with the pace of change that the Council is currently experiencing.

2) **Review of the Governance Arrangements of the One Barnet Programme** - the primary purpose of this review was to identify any gaps between the Council's governance arrangements for the programme and best practice. Given the current economic climate and the financial challenges ahead, an innovative approach to service delivery needs to be encouraged. We concluded that the overall arrangements for the programme are adequate in a VFM context but made a number of recommendations which were designed to strengthen the Council's programme governance, project management and risk management arrangements.

3.8 On the basis of the work completed under the Use of Resources framework we issued an unqualified Value for Money conclusion.

### **Approach to local value for money audit work from 2010/11**

3.9 The Audit Commission has reviewed its work programme for 2010/11 onwards given the scale of the pressures facing public bodies in the current economic climate. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money audit work with key national stakeholders.

- 3.10 From 2010/11 we will apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:
- securing financial resilience
  - prioritising resources within tighter budgets.
- 3.11 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in the annual audit letter.

## 4 Closing Remarks

- 4.1 This Letter was discussed and agreed with the Deputy Chief Executive Finance and his team and presented to the Audit Committee on 7 December 2010.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit.

**Grant Thornton UK LLP**  
**18 November 2010**

## A Reports issued

<b>Report</b>	<b>Date Issued</b>
Audit Plan	March 2010
Accounts Audit Approach Memorandum	June 2010
Review of the Effectiveness of Internal Audit	June 2010
Review of One Barnet Programme	September 2010
Annual Report to those Charged with Governance	September 2010
Value for Money Report	November 2010
Annual Audit Letter	November 2010
Grant Report	December 2010

## B Audit and other Fees

Audit Area	Budget 2009/10 £	Actual 2009/10 £
Financial statements	170,000	170,000
VFM conclusion / Use of resources	245,000	245,000
<b>Total Code of Practice fee</b>	<b>415,000</b>	<b>415,000</b>
Certification of grant claims and returns*	85,000	TBC

\*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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