London Borough of Barnet

Annual report to those Charged with Governance 2009/10

15 September 2010

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Appendices

1 Executive Summary

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.

1.1 Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the London Borough of Barnet ('the Council'). The purpose of this report is to highlight the key issues arising from the audit of the Council's statement of accounts, including the group accounts, for the year ending 31 March 2010.

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.

The Council is responsible for the preparation of a statement of accounts which records its financial position as at 31 March 2010 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements a true and fair view of the financial position of the Council.

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

1.2 Status of the audit

We were presented with the full draft statement of accounts on 18 June 2010, in advance of the 30 June 2010 deadline and these were presented to the Audit Committee on 21 June 2010. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

At the time of writing, the accounts audit is largely complete, subject to completion of our normal finalisation procedures.

The pensions fund audit is complete and will be reported separately to the Pensions Committee this month. We have considered the findings of the pensions audit and no issues have been raised that will impact on the Council's audit opinion but we have repeated our prior year recommendation in respect of separate pension and general fund bank accounts.

The appointed day for electors to ask the auditor questions on the accounts this year was 3 September 2010. We did not receive any questions from electors.

1.3 Overall conclusions

Accounts opinion

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), which enabled an initial team and 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.

Closedown was well managed by the Council this year and there is clear corporate commitment to producing timely final accounts. The audit process has run reasonably well although there have been a higher number of proposed adjustments than in previous years, particularly in respect of fixed asset accounting. Additionally, the Council has already engaged effectively in taking forward planning for accounting under International Financial Reporting Standards (IFRS).

The key highlights from the audit are:

- the Council managed an effective closedown process resulting in early production of the accounts for audit
- the Council continues to secure improvements 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 accounting standards applicable from 2010/11
- the Council is developing its response to the forthcoming comprehensive spending review and will need to work hard to deliver the anticipated significant financial challenge ahead.

The high priority recommendations that we have raised are in respect of fixed asset accounting, as we continue to regard these as key areas of accounting risk going forward.

Although the issues identified in this report have increased the reported in year deficit by £6.3m there is no impact on the general fund.

We anticipate providing an **unqualified opinion** on the Council's statement of accounts, prior to the statutory deadline of 30 September 2010.

Further details of the outcome of our financial statements audit are given in Section Two and Appendices B and C (adjustments to the financial statements).

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

Further information on the outcome of our accounts and Value for Money work is set out in Section Two.

We will shortly issue our Value for Money report 2009/10 to management and will then present this to the December meeting of the Audit Committee.

1.4 Way forward

We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2010.

Matters arising from the accounts audit have been discussed agreed with the Deputy Chief Executive and his senior finance team and a number of recommendations, set out in the action plan at Appendix D, have been agreed.

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. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

1.5 Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

1.6 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 Council during the course of our audit. The Council has worked extremely pro-actively with us throughout the year to help deliver both the accounts and value for money audits in an effective manner.

Grant Thornton UK LLP
15 September 2010

2 Detailed findings

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 Council'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 2010 and our Accounts Audit Approach Memorandum as agreed with management in July 2010. Our audit is substantially complete.

The following finalisation procedures are outstanding:

- completion of residual audit testing in a number of areas including some elements of fixed assets and the cash flow statement
- review of the final version of the statement of accounts, including the Annual Governance Statement
- obtaining and reviewing the Council's letter of management representation
- updating our post balance sheet events review, and review of the Annual Governance Statement, to the date of signing the accounts.

2.3 Audit opinion

Accounts opinion

We expect to issue an **unqualified** audit opinion on the Council's statement of accounts. This is subject to the approval of the statement of accounts by the Audit Committee on 21 September 2010 and completion of our finalisation procedures.

A number of key 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 in sections 2.4 to 2.6 below.

Value for Money conclusion

Our Value for Money conclusion is 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.

The outcome of our Value for Money audit will be reported in full in a separate report which will be presented to the Audit Committee in December 2010.

2.4 Matters arising in identified key risk areas

Our 2009/10 Audit Plan set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the audit risks identified and reported our findings in the Accounts Audit Approach Memorandum. Our work at that time enabled us to identify a number of key risk areas. As part of our final accounts audit, we reviewed the audit risks below. Our review of the risks facing the Council has not identified any additional risk areas.

Financial Targets

The Council has challenging financial targets to achieve including significant efficiency savings. This potentially increases the audit risk around the potential misstatement of in-year revenue and expenditure.

We monitored the financial position during the year and tested income and expenditure, concluding that the reported deficit at year end was not materially misstated.

Fixed assets

In previous years we have recommended that the Council should prioritise the development of the asset management system to ensure that ongoing issues with the accuracy of the accounting records are addressed. During the year the Council has developed its financial system (SAP) and has updated it for the fixed asset register module. We have carried out a review of the migration of information onto SAP and there were no significant issues arising which we wish to bring to your attention. Though no formal migration policies were in place, adequate procedures appeared to be followed, including planning, approval, and testing in a separate environment.

We also recommended that the Council should review the adequacy of its policy of revaluing land and buildings on a five year cycle in regards to ensuring that asset values fairly reflect movements in prices in each individual year. Although the Council has a five year rolling programme for valuations, the top ten assets, council dwellings, all schools and assets valued at Depreciated Replacement Cost are revalued every year which accounts for 80% of the Council's assets. We have discussed the accounting policy with management and this has been revised to reflect the Council's practice.

The introduction of the SAP asset management module in March 2010 has begun to deliver improvements in fixed asset accounting, but the finance team acknowledges that there are still areas for improvement as the new system becomes embedded. Although our work did not identify any significant issues in respect of the asset register we did identify the following control issues which the Council should address:

1) From our testing out of 2009/10 capital spend, we noted that £1.6m was classified as an impairment instead of revenue expenditure funded from capital under statute. This related to an asset that was incorrectly classified as an addition and once recorded on SAP could not be reversed and therefore was impaired to write off the asset.

An adjustment is proposed to correct this classification error to ensure the amounts are correctly reflected as revenue expenditure funded from capital under statute.

This issue would not have arisen if the Council reviewed its capital spend during the year instead of year end only. The Council should review its capital spend on SAP on a regular basis during the year to ensure similar errors are addressed promptly.

2) In previous years a spreadsheet was used to maintain the asset register. In some cases there were several asset numbers created for the same asset which were not separate components of an asset. This has led to some of these assets having nil values but appearing on the asset register. The risk is that the Council may duplicate accounting for these assets. As the Council now has the register on SAP, it should look to remove the duplicate asset records.

Fixed assets - property "buybacks"
Between 2005 and 2010 the Council bought back a number of properties within its regeneration areas with a value of £10.6m.

These assets were not included in previous social housing valuations as the properties were scheduled for redevelopment as part of the regeneration schemes. We understand that, due to property market volatility, these schemes were delayed and some of these assets are being used for temporary accommodation with the remainder awaiting demolition. These assets were thought not to have been previously accounted for in the fixed asset register.

Having identified these assets as part of its rolling valuation programme in 2009/10, the Council brought these properties onto the asset register as part of the investment portfolio originally accounting for these as 'missing assets,' through the revaluation reserve. Upon audit we concluded that these assets did not qualify as 'missing assets' as defined in the SoRP and on further investigation, the Council identified that these assets were in fact already on the balance sheet and classified as operational assets (infrastructure and assets under construction). As a result, the draft balance sheet was overstated by £10.6m.

We have agreed with officers that the transfer of these assets should be treated in year and additional disclosure should be made in the accounts explaining the change in classification.

Further, the following adjustments are proposed to the accounts:

- reverse the accounting entries made in 2009/10 to bring these assets on balance sheet amounting to £10.6m
- reclassify the operational assets to non-operation assets i.e. from assets under construction and infrastructure to investment properties
- reverse the depreciation charged in year on the infrastructure assets amounting to £0.8m

There will be no impact on the general fund balance carried forward from these adjustments.

Housing Revenue Account (HRA) long leaseholds
The assets referred to above relate to HRA long leaseholds. These assets were previously not accounted for on balance sheet and have been brought on balance sheet during the year as Other land and buildings. However as these assets are leased as 'right to buy' and income from these are accounted for in the HRA they should be classified as Council Dwellings instead of Other land and buildings.

We have proposed an adjustment to reclassify the assets from Other land and buildings to Council Dwellings.

Fixed asset disposal Hendon Town Hall
On 31 March 2010 the Council signed a long lease (150 years) with Middlesex University for land at Hendon Town Hall. The land was previously included on the Council's fixed asset register.

Middlesex University started building a large university building on the land prior around September 2009 and construction is still underway. If the Council wants to sell the land during the term of the lease, Middlesex University has the option of 'first refusal'. The University paid a £7.2m premium for the lease, with a peppercorn rent on demand during the lease. This premium is equivalent to the District Valuer's (DV's) market value of the land. During the lease, and after the lease ends, the Council retains the title. The Council has treated the lease as an outright disposal of a fixed asset and credited usable capital receipts (UCR) with the £7.2m.

In the Council's view the substance of this transaction is a sale, for a number of reasons including the following:

- the premium is equivalent to the DV's valuation of the land
- the premium received does not equal the annualised rent for 150 years but rather money paid for the redevelopment opportunity that is being realised by the University (through creating a new university building) in the early years of the agreement
- the lease agreement is regarded as a more effective vehicle for the Council to retain title of a site next to a key building (the Town Hall) than a traditional straight sale with covenant, but the intention is that the Council will exercise no actual control in practice
- the Council intends for the site to remain with Middlesex University and has no other intentions for the site in the future.

The Council has cited FRS5 which sets out that the true commercial effect of some complex transactions may not be adequately expressed by their legal form and, where this is the case, it will not be sufficient to account for them merely by recording that form. The Council has also justified its treatment with reference to international standards.

Based on our review of key documentation, including accounting standards, the technical papers provided by the Council, copy lease documentation and committee papers, we can accept that the substance of this particular transaction is a sale and should be accounted for as such.

The Council is likely to embark upon a number of other similar transactions in the coming years. Additionally, international accounting standards represent a challenge in terms of modified and more complex accounting for fixed assets. It is therefore important that the Council's finance and property services teams further strengthen their joint working arrangements to ensure that the accounting implications of property transactions are fully considered prior to any significant property transactions being entered into. We have agreed with management that we will carry out a timely review of any significant property transactions and give an early view so that we can mitigate the risk of disagreement over accounting treatments during the final accounts audit.

Fixed asset revaluation
The Council values its schools using the Depreciated Replacement Cost (DRC) method, which reduces the value in the balance sheet over the economic life of the asset. One school (Northway), which has since been demolished, had reached the end of its economic life and should have been shown in the balance sheet at a nominal value of £33k. However due to a wrong input on the valuation spreadsheet, the valuation was included at £1.6m in the accounts. We did not identify any similar issues with other assets included on the spreadsheet.

The Council has agreed to process the accounts adjustment for Northway school. Through our discussions around this issue, we agreed with management the importance having a good understanding of the basis of valuation judgements and for ensuring that the quality of data obtained from outside of finance and used in the final accounts is verified.

Investment properties
The Council leases out some of its assets at peppercorn rents and has classified them as investment properties. Accounting standards and the SoRP require that, for an asset to be classified as an investment property, any rental income should be negotiated at arm's length. The value of the assets leased out at peppercorn is £5.1m and in our view should not be accounted for as investment properties but should be reclassified as surplus assets.

Private Finance Initiative (PFI)
The SoRP requires that PFI schemes and similar contracts should be accounted for in accordance with International Financial Reporting Standards. The accounting treatment is based on International Financial Reporting Interpretations Committee (IFRIC) 12 Service Concession Arrangements. The Council has one PFI scheme - a street lighting scheme which has been brought 'on-balance sheet' in 2009/10. We identified a risk of potential misstatement of fixed assets if this was not correctly accounted for.

Based on our work so far, in bringing the PFI scheme 'on-balance sheet' it appears that the Council has used the correct accounting treatment i.e. as an infrastructure asset and setting up a corresponding liability.

We also reviewed a sample of significant contracts to check if any had service concessions and would need to be accounted for based on IFRIC 12 as required by the SoRP. We have not identified any material contracts that should be accounted

for under IFRIC 12. However as part of the Future Shape Programme, which will involve outsourcing services, the Council should consider the accounting treatment of these arrangements during the procurement process, including discussing these arrangements with external audit as soon as possible.

Tenant debtors

In previous years we have recommended that:

- the Council should ensure that it reconciles the balance of individual tenant deposits. Without this it cannot be certain that the deposits have been recorded accurately and completely, and
- the SLA contract between the Council and Barnet Homes be revised to include expectations of Barnet Homes over the monitoring of tenant debtors.

The tenant deposit debtor, included in tenant debtors, amounts to £2.2m. We are pleased to note that the Council has reconciled the deposits to the accounting system with a difference of £21k which is not considered material. These deposits date back to 1994/95. The Council has a bad debt provision of £1.5m for the tenant deposit debtor. This is considered adequate as £0.5m relates to 2008/09 therefore the provision covers the older balances owed to the Council. The Council will need to ensure all these deposits, especially the older ones, are recoverable. If not, the Council should consider whether these should be written off in 2010/11 against the bad debt provision.

A new SLA was agreed and signed with Barnet Homes in 2009/10 which also includes a clause setting out expectations of monitoring of tenant debtors. Tenant debtors have decreased from £14.6m at 31 March 2009 to £13.9m at 31 March 2010 and the Council has a bad debt provision of £8.3m which represents 60% of the outstanding debtor at year end. We have not identified any significant issues, however the Council should ensure that it continues to obtain relevant information from Barnet Homes on monitoring of this debt.

2009 SoRP changes

The Council is required to comply with the 2009 SoRP in preparing its 2009/10 accounts. One of the principal changes in the 2009 SoRP is around current and prior year adjustments to accounting for Council Tax (CT) and National Non-Domestic Rate (NNDR) income.

From 1 April 2009 the Council's accounts should:

- disclose CT balances net of any amounts that relate to other precepting bodies
- only recognise NNDR cash collected in excess of the Council's cost of collection allowance.

This change in accounting policy requires an adjustment to the prior year comparator figures shown in the 2009/10 accounts.

The Council has restated its 2008/09 accounts and prepared its 2009/10 accounts to comply with the changes in the SoRP and no issues were noted from our review.

Accounts process improvements
Following our 2008/09 accounts audit we made a number of recommendations to the Council in areas where there was scope to improve arrangements, primarily around fixed assets, Statement of Total Recognised Gains and Losses (STRGL), investments and treasury management.

The Council has significantly reduced the residual balancing items in the 'other' balance figure that was included in the STRGL in previous years, from £11.9m in 2007/08 to £0.5m in 2009/10, by identifying reconciling items. However the Council should continue to identify these balancing items and ensure they have been accounted for correctly to decrease this balance to nil.

From work done on investments and our follow up of issues reported in 2008/09 on treasury management, no significant issues have been noted.

Post balance sheet events
Icelandic Banks
Last year CIPFA issued guidance in September regarding how the impairment on the Icelandic Bank Investments should be calculated which the Council considered before the accounts were signed off. There is potential for amended guidance or notifications/payments received from the banks up to the accounts opinion sign off date which may need to be taken into account.

We have reviewed the impairment calculation for 2009/10 amounting to £6m, which has been calculated using the guidance issued by CIPFA earlier in the year. There has been no subsequent guidance issued and no new information obtained since the start of the audit and therefore no other adjustments are required at this time.

Contingent liabilities
The Council has noted contingent liabilities in the accounts which should be reviewed for any movement in conditions before the sign off date.

We have reviewed the contingent liabilities and noted the following:

1) ***Catalyst claim*** - this has now been agreed and the cost of the claim including interest is £7m. Based on accounting standards and the settlement amount being material a provision should be recorded in the financial statements. This will be met from the risk earmarked reserve.

We are discussing how the Council will treat any additional costs arising as a result of the claim.

2) ***Equal pay*** - The Council has received claims that are on-going and have not yet been settled. From discussion with relevant officers and review of relevant information, the disclosure included is considered appropriate and we will continue to liaise with management on the progress of these claims and ensure appropriate accounting entries and disclosures are made as required.

Senior Managers
There is a new requirement to disclose senior manager remuneration to ensure openness and transparency to taxpayers. These new provisions came into effect from 31 March 2010 and require that local authorities include remuneration information of senior employees in the note accompanying their 2009/10 accounts. The Council has disclosed senior manager remuneration as required and our testing has not identified any issues with the disclosures made.

2.5 Other matters arising during the audit

Matters arising from the statement of accounts audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

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 Council on behalf of the Pension Fund, which amounted to £71.9m at year end.

As reported in previous years, the Council does not operate separate bank accounts in the name of the Pension Fund. A difference between the Pension Fund cash amount and the pension fund creditor of £0.1m was identified which the Council has adjusted. From discussions with management, a separate bank account in the Fund's name has been set up, but this was not currently being used because of logistical issues on the accounting system which the Council is in the process of resolving.

Housing Revenue Account Interest and Similar Charges
In calculating the HRA interest and similar charges using the mid-year capital financing requirement, an incorrect amount was used which results in an increase of interest charges of £0.7m in the HRA. This decreases the HRA balance from £1.1m to £0.4m. The impact on the statement movement of general fund balance will be mitigated by credit transfer to the earmarked reserves.

Financial systems
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 Council's key financial control systems did not identify any other control issues presenting a material risk to the accuracy of the statement of accounts.

Our work identified that one Assistant Director and the Head of Strategic Finance have access to post journals. Whilst our testing did not identify that these officers posted any journals we suggested that access controls should be amended. We understand that action has been taken to improve access controls.

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 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 could adversely impact our audit of the accounts.

The systems issues that we identified were of a minor nature and details are included in Appendix D. These included:

- leases database
- other local authority debtors
- ensuring consistent timing of school bank reconciliations
- senior financial reporting personnel having access to inputting journal entries
- revenue expenditure funded from capital under statue.

2.6 Adjusted misstatements

Our audit identified a number of adjustments in relation to fixed assets and reserves as mentioned above, which have been processed by management.

In addition, we identified various proposed amendments to classification and disclosure of the accounts and notes to improve presentation and we are pleased to report that management has agreed to process the majority of these.

All adjusted misstatements are scheduled at Appendix B. The aggregate of these adjustments has increased the reported deficit on the Income and Expenditure Account by £6.3m in 2009/10. However there is no impact on the General Fund balance as the adjustments have been mitigated by transfers to and from reserves.

In addition to the matters raised above, there were a number of other minor presentational changes that arose during the course of our audit and these have been made to the accounts.

2.7 Unadjusted misstatements

Our audit work identified proposed amendments to the accounts of £4.4m, including £3.7m relating to reclassification errors, which have not been processed by management on the basis of materiality.

Building Schools for the Future

The government has decided to end the Building Schools for the Future (BSF) programme. All local authority schemes that have not reached financial close will not now go ahead. The financial implications for local authorities include:

1) writing off costs that have been capitalised
2) making compensation payments to suppliers.

The costs incurred to date have been accounted for as an asset under construction. The costs incurred in 2009/10 amount to £0.2m and from 1 April 2010 to date £0.4m. These amounts are not material and the Council will be adjusting these amounts in 2010/11. This has been disclosed as a post balance sheet event.

Other unadjusted items

- included within sundry creditors are debit balances amounting to £0.2m which should be reclassified as other debtors
- included in borrowing is a legacy balance adjustment of £80k relating to very small balances (mostly less than £5k) the details of which are unknown, and which are not included on the Logotech system. Whilst these amounts are clearly trivial, we consider that these items should be written off, as the Council cannot determine the nature of the balances
- revenue expenditure funded from capital under statue incorrectly classified as an impairment of £1.6m.
- revaluation adjustment in respect of Northway school of £1.6m
- effective interest calculated on stepped borrowings has not been correctly split between short and long term borrowings. Short term borrowings should be increased by £0.2m
- in calculating the minimum revenue provision (MRP), the Council used an incorrect opening HRA capital financing requirement amount of £12.9m instead of £17.5m. As a result of this, MRP is understated by £0.2m
- a difference of £0.3m was noted between the tenant bad debt provision working paper and the amount included in the accounts which relates to an unidentified amount that should be written off.

The overall effect of the unadjusted misstatement would be a £0.7m increase in reported deficit. The unadjusted misstatements are included at Appendix C.

The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust for these items and to minute its decision.

2.8 Financial performance

The Council has reported an Income and Expenditure (I&E) account deficit of £70.2m (2008/09 £62.9m restated) and has set a balanced budget for 2009/10 and for the period of the current Medium Term Financial Strategy (MTFS).

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 Council's General Fund. This statement shows that the Council has decreased the General Fund by £3m in year, bringing the total General Fund balance at year end to £15.8m, along with a further £11.9m allocated to schools. This is within the limit set by the Council. Overall, the Council maintains a reasonable level of reserves, including £32.6m in earmarked reserves.

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 1 (£2.6m) as this time in previous years. However, there are certain service areas that are beginning to give further cause for concern including parking income and, in particular, children's placements expenditure.

The wider economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced

resources and the Council is currently planning for the significant spending cuts anticipated as part of the central government's comprehensive spending review in October 2010. Services have been asked to identify 20% savings options, linked as far as possible to the Future Shape agenda. Services that may be regarded as 'non-core' are being challenged and the Council, through the One Barnet programme, is exploring different structures and delivery arrangements for corporate management, support and front line services.

The Council will need to continue to work hard to deliver the anticipated significant financial challenge ahead.

2.9 Annual Governance Statement ('AGS')

We have examined the Council'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 Council.

We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement. We made a number of comments on the AGS which have been incorporated into the revised statement.

As the AGS must be reviewed and, as necessary, updated as at the date of signing our audit opinion, we will review the final version of the AGS as part of our audit completion procedures.

2.10 Next Steps

The Audit Committee is required to approve the annual accounts of the Council for the year ended 2009/10.

We will continue to work closely with officers to help prepare effectively for the 2010/11 accounts audit, including through a post audit review of 2009/10, workshops, review of accounts restated under IFRS and early planning meetings.

A 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 charged £5,600 for the provision of non audit services, compared to the main audit fee of £415,000. • We are satisfied that the provision of non audit services has not impaired our independence.

Area	Key Messages
Audit Approach	Our approach to the audit was set out in our 2009/10 audit plan and our audit strategy document for the year ending 31 March 2010. 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 Council for final accounts audit purposes. • In 2009/10 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 Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the 2009 local government Statement of Recommended Practice. The Audit Committee has confirmed that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18. We have considered the Council's financial plans in regard to the appropriateness for the Council to account on a going concern basis and find this to have been appropriate.

Area	Key Messages
Material Risks	The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Trust, including significant fraud risks. We have requested from the Council 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 Council have been recognised in the accounts as at the date of the audit report.
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 Misstatements	We have identified a number of unadjusted errors to the accounts, that are not material, which requires reporting to those charged with governance. The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust for these items and to minute its decision. This adjustment is summarised at Appendix C.
Other Matters	Other matters for the attention of those charged with governance are set out in the main body of this report.

B Adjustments to the statement of accounts

The following table presents all non-trivial adjustments made to the accounts arising from the audit process which have been processed and agreed with the Chief Financial Officer.

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	£000	Accounts balance	Impact on financial statements
Misstatement	10,606	Revaluation reserve and fixed assets	Decrease of Revaluation reserve Decrease of fixed assets This adjustment relates to assets incorrectly brought on balance sheet in 2009/10 as they were already reflected on the balance sheet.
Reclassification	10,606	Fixed assets and revaluation reserve	Increase of investment properties Decrease of assets under construction and infrastructure assets This relates to assets being reclassified from operational to non-operational assets.
Misstatement	760	Income and expenditure	Increase of fixed assets Decrease of depreciation expenditure This relates to depreciation charged in year which should be reversed.

Adjustment type	£000	Accounts balance	Impact on financial statements
Reclassification	10,901	Fixed assets	Increase council dwellings Decrease other land and buildings This relates to the reclassification of assets between categories.
Reclassification	118	Creditors	Increase of sundry creditors Decrease of pension fund creditor This relates to pension fund creditor amount not agreeing to the pension fund cash amount in the pension fund accounts.
Reclassification	5,137	Fixed assets	Increase of surplus assets Decrease of investment properties This relates to assets incorrectly accounted for as investment properties.
Reclassification	7,012	Provisions	Increase in provisions Decrease in earmarked reserves This relates to contingent liability that has been settled after year end.
Misstatement	715	HRA interest and similar charges	Increase of HRA interest and similar charges Decrease of GF interest charge Decrease of HRA balance Increase of Earmarked reserves This relates to increase of interest charged in the year as a result of miscalculation.
A number of other presentation and disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.			

C Summary of unadjusted differences

Adjustment type	£000	Accounts balance	Impact on financial statements
Misstatement	207	Fixed assets and Income and Expenditure	Increase of expenditure Decrease of fixed assets (assets under construction) This relates to amounts relating to BSF wrongly included in fixed assets.
Reclassification	244	Sundry creditors	Increase in sundry debtors Decrease in sundry creditors This relates to debit balances included in sundry creditors.
Misstatement	80	Borrowings	Increase of expenditure Decrease of borrowing This relates to unidentified borrowing written off.
Reclassification	1,621	Fixed assets and revenue expenditure funded from capital under statue	Increase of revenue expenditure funded from capital under statue Decrease of fixed asset impairment This relates to revenue expenditure funded from capital under statue incorrectly accounted for.
Misstatement	1,624	Fixed assets and Revaluation reserve	Decrease of fixed assets Decrease of Revaluation Reserve This relates to the school valuation incorrectly included in the accounts.

Adjustment type	£000	Accounts balance	Impact on financial statements
Reclassification	230	Borrowings	Increase of short term borrowings Decrease of long term borrowings This relates to the effective interest not being split between short and long term borrowings.
Misstatement	172	MRP	Increase of MRP Decrease of general fund balance This relates to understated MRP as a result of using incorrect HRA capital financing requirement in calculating MRP.
Misstatement	260	Bad debt provision	Increase of bad debt provision Decrease of HRA balance This relates to unidentified difference between tenant bad debt provision per the working paper and the amount included in the accounts.

D Action Plan: Accounts audit

No.	Finding	Recommendation	Priority H/M/L	Council response	Implementation date / responsibility
1	In 2009/10 capital spend during the year and project codes on SAP were reviewed at year end. From the testing carried out, we noted that an amount of £1.6m classified as impairment instead of revenue expenditure funded for capital under statute. This related to an asset that was incorrectly classified as an addition and once recorded on SAP could not be reversed and therefore was impaired to write off the asset.	The Council should review its capital spend on SAP on a regular basis during the year to ensure similar errors are addressed promptly.	H	Agreed	Throughout the year and June 2011

2	In previous years a spreadsheet was used to maintain the asset register. In some cases there were several asset numbers created for the same asset which were not separate components of an asset. This has lead to some of these assets having nil values but appearing on the asset register. The risk is that the Council may duplicate accounting for these assets.	As the Council now has the register on SAP, it should look to remove the duplicate asset records.	M	Agreed	June 2011
3	The Council is likely to embark upon a number of significant property transactions in the coming years. Additionally, international accounting standards represent a challenge in terms of modified and more complex accounting for fixed assets. The adoption of international accounting standards will present other challenges, for example, around service concessions which will need to be accounted for under IFRIC 12.	The Council's finance and property services teams further strengthen their joint working arrangements to ensure that the accounting implications of property transactions are fully considered prior to any significant property transactions being entered into. We have agreed with management that we will carry out a timely review any significant property and other transactions and give an early view so that we can mitigate the risk of disagreement over accounting treatments during the final accounts audit.	H	Agreed	Throughout 2010/11
4	A separate bank account in the Pension Fund's name has been set up, but this was not currently being used because of logistical issues on the accounting system which the Council are in the process of resolving.	The Council should address these issues as soon as possible to resolve differences arising between the Council and Pension Fund accounts.	M	Agreed	June 2011

5	Assets leases in and out are maintained on a spreadsheet and the note in the accounts is prepared from a spreadsheet. This spreadsheet is prepared from a report run off from the temporary property database, which is manually reviewed to identify which properties are leases. From our review of the disclosure note, we noted that the Property leased-in in 2009/10 is understated by £0.1m. There is the risk that leases are being missed out from the schedule due to human error.	The Council should develop its asset management system to mitigate the risk of errors. From discussions with management, we understand that the Council is in the process of developing its asset management system to include which asset are leases which would resolve the issue identified this year.	M	Agreed. The work has already been scoped to have a field in each of the asset that will easily enable leases to be identified	June 2011
6	There has been an increase to other local authority debtors of £0.5m This increase is mainly related to recoupment debtors which is due to debt not being collected during the year. Guidance on recoupment states that councils are only allowed to make claims within twelve months from the end of the financial year in which the service is provided.	The Council should implement improved income monitoring and credit controls to reduce the risk of loss of income if timely claims for recoupment are not made.	L	Agreed	June 2011

7	For revenue expenditure funded from capital under statue, the Council did not have supporting documentation for two items selected for testing amounting to £0.2m. Whilst this was the only example of the Council being unable to vouch transactions, there is scope for the Council to ensure that all entries in the accounts are supported by appropriate documentation.	The Council should ensure supporting documentation for all transactions are available to review when requested.	L	Agreed	June 2011