

<b>AGENDA ITEM: 6</b>	Pages 4 – 55
Meeting	Audit Committee
Date	8 December 2011
<b>Subject</b>	<b>Annual Audit Letter 2010/11</b>
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	This report advises the Committee of the Annual Audit Letter for 2010/11
Officer Contributors	Maria G. Christofi – Assistant Director, Financial Services Catherine Peters – Head of Finance, SAP Systems, Closing & Monitoring
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A - Annual Audit Letter 2010/11 Appendix B - Finance Resilience Report
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in	Not applicable
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## **1. RECOMMENDATIONS**

**1.1 That the External Auditors Annual Audit letter for 2010/11 be accepted as a reasonable statement on the Council's position in respect to the Audit of the Accounts, Financial Performance, Value for Money and Financial Resilience.**

**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 summarises the key performance issues and achievements of the Council. Those areas of weakness must be addressed over the coming year, failure to do so carries the risk of adverse financial and/or reputational consequences.

## **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 on an equal basis within enhanced characteristics.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance and Value for Money, Staffing, ICT, Property, Sustainability)**

6.1 This report deals with the council's audit of the accounts, financial performance, value for money and financial resilience. The External Auditor provided an unqualified audit opinion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

## **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 comment on the scope and depth of external audit work and to ensure it gives value for money"

## **9. BACKGROUND INFORMATION**

9.1 The purpose of the Annual Audit 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 messages to the Council and external stakeholders, including members of the public.

9.2 The External Auditor will 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 2010/11, 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 2010/11 have been issued an unqualified opinion on 16 September 2011, 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 2011 and of its income and expenditure for the year.

9.3.2 The annual value for money (VfM) conclusion was issued on 16 September 2011 and concluded that for 2010/11 the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

9.3.3 Grant Thornton's VfM work highlighted that the Council's financial performance indicators were in line with expectations and overall compare favourably in the context of other London Boroughs. The Council has comparatively good levels of reserves to provide insulation against future financial shocks, as well as robust arrangements around financial planning, governance and control in overall terms. Grant Thornton have also highlighted Contract management for improvement and agreed to monitor management's progress against their action plan for implementation with the associated recommendations.

9.3.4 2010/11 was the first year that councils were required to prepare accounts under International Financial Reporting Standards (IFRS). The review of the Council's preparedness was undertaken in spring 2011 and assessed the arrangements for re-stating each line of the balance sheet on a RAG basis (Red, Amber, and Green). Overall, the Council's arrangements were classified as Green.

9.3.5 Certification programme for grant claims and returns for 2010/11 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

Finance: MC/JH

London Borough of Barnet  
Annual Audit Letter 2010/11

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Appendix A

31 October 2011

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# 1. Executive summary

## Purpose of this letter

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 2010/11 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.

## What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved. (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4).

## Responsibilities of the external auditors and the Council

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)).

We have been appointed as the Council's independent external auditors 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.

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 conclusions under the Code.

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.

## Our main audit conclusions for the year

**The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.**

**The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.**

## Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the national deficit whilst ensuring economic recovery. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated its aim to reduce top-down government and devolve power and give greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda that the Council is operating within.

## Key Messages

### Accounts audit

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. The Council planned for the move to IFRS at a very early stage and this is reflected in the outcomes of our audit, where there were no significant departures from the requirements.

We were presented with draft financial statements on 31 May 2011 and accompanying working papers on 6 June 2011. This is a month earlier than in prior years and we recognise the significant achievement by the Council's finance team in managing this. The working papers were of a high quality and co-operation in dealing with audit issues has been strong, such that we were in a position to issue the report to those charged with governance in draft, based on a substantially complete accounts audit, on 15 July 2011.

An unqualified audit opinion was issued on 16 September 2011. Further details can be found in section 2 of this Letter.

### Value for Money

An unqualified Value for Money ('VFM') conclusion was also issued on 16 September 2011 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. As part of this work we reviewed the Council's arrangements for securing financial resilience over the medium term and concluded that the Council is effectively planning to address known changes to levels of funding but will need to maintain a strategy that is flexible and responsive to future changes to funding levels. Further details can be found in section 3 of this Letter.

### Key areas for Council action

We highlight the following key areas that the Council should continue to focus on in 2011/12:

- Monitoring the Medium Term Financial Plan ('MTFP') during delivery, in particular in relation to changes to key assumptions such as the impact of demographic change, price inflation and the outcome of the Government's funding settlement for the final two years of the plan.
- Planning for future changes to financial reporting requirements, particularly in relation to the accounting treatment of schools and of heritage assets.

- Addressing service and financial risks associated with the transformation agenda against the backdrop of wider challenges brought about by the Localism Bill, the distribution of Business Rates, changes to the funding of the Housing Revenue Account and the impact of the Olympics on the borough.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A.

Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

### Acknowledgements

This Letter has been agreed with Council management and was presented to Audit Committee on 08 December 2011.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**31 October 2011**



## 2. Audit of the accounts

### Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 16 September 2011, significantly ahead of the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts gave a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

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 6 September and summarise only the key messages in this Letter.

We were presented with draft financial statements on 31 May 2011 and accompanying working papers on 6 June 2011. This is a month earlier than in prior years and we recognise the significant achievement by the Council's finance team in managing this. The working papers were of a high quality and co-operation in dealing with audit issues has been strong, such that we were in a position to issue the report to those charged with governance in draft, based on a substantially complete accounts audit, on 15 July 2011.

### International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in Spring 2011 and assessed the arrangements for re-stating each line of the balance sheet on a RAG basis (Red, Amber, Green). Overall we rated the Council's arrangements as being Green.

As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements. The Council started planning for the transition to accounting under IFRS in 2008 and this is reflected in the small number of adjustments made to the accounts as a result of this transition.

## Audit of the accounts

We recommended a number of adjustments to the draft accounts. Management agreed to make these adjustments which did not result in any change in the Council's General Fund balance.

We identified a small number of areas where improvements could be made to the processes in place to prepare the accounts. The actions agreed with the Council to minimise the chance of errors occurring in the 2011/12 accounts were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

## Financial performance

The Council's grant finding was reduced as a result of the government's comprehensive spending review in 2010/11, however, through rigorous review of its financial plans and regular financial monitoring, the Council met its agreed 2010/11 budget.

As at the end of quarter 2 (September 2011) of 2011/12, the Council was reporting a small adverse variance of £0.991m against its planned budget for the year. The Council understands the reasons for the variance against budget and has taken steps to ensure that departments formulate and implement action plans to ensure that they remain within their agreed budgets. In regard to savings plans, £0.723m, of the total £29.1m the council needed to deliver as part of the 2011/12 budget setting process, is still being identified as high risk.

The Council's General Fund reserve balances have remained stable in recent years. This is broadly consistent with the trend of the London borough benchmark group. The Council is in line with the London average for unallocated General Fund reserves during the three year period to 31 March 2010.

We will continue to keep the Council's financial position under review as part of our 2011-12 audit and the follow-up work we have planned on the Financial Resilience element of our VFM review.

### Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in four main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- high level review of the general IT control environment
- a data conversion review following the replacement of the Council's Revenues and Benefits system.

Our work did not identify any control issues that would present a material risk to the accuracy of the financial statements. Recommendations to enhance the accounts process made as a result of our audit have been agreed and the Council is progressing their implementation. We will follow up on the progress of this as part of our 2011/12 audit.

### Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) which in turn informs our VFM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council, subject to a small number of proposed adjustments, which management incorporated into the final versions of the documents. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the accounts.

### Elector matters

We received questions from local government electors on the accounts relating to senior officer remuneration disclosures and supplier payments. We considered the points raised, as required under the Audit Commission Act 1998, and included our response and conclusions in our September 2011 Annual Report to those Charged with Governance.

We certified the audit as complete on 16th September 2011.

### Whole of Government Accounts (WGA)

The Council submitted its draft WGA pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July. We were able to submit the audited WGA to the CLG by the deadline of 30 September based on there being no significant issues with the quality of the information contained in the pack.

## 3. Value for money

### Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

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.

### Key Conclusions

We issued our annual VFM conclusion on 16 September 2011, at the same time as our accounts opinion, well in advance of the required deadline of 30 September 2011. We concluded that, for 2010/11, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

We assessed the Council as having proper arrangements in place to meet all the Code criteria, although there were some areas where the Council could improve its arrangements. These are detailed below.

### Securing Financial Resilience

As part of the work informing our 2010/11 VFM conclusion we performed a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position to enable it to continue to operate for the foreseeable future.

We reviewed the financial resilience of the Council by looking at its:

- key indicators of financial performance
- approach to strategic financial planning
- approach to financial governance
- approach to financial control.

Our findings were that the Council's financial performance indicators were in line with expectations and overall compare favourably in the context of other London Boroughs. The Council has comparatively good levels of reserves to provide insulation against future financial shocks. The Council has robust arrangements around financial planning, governance and control in overall terms.

Our overall conclusion is that whilst the Council faces significant financial challenges in 2011/12 and beyond its current arrangements for achieving financial resilience are robust. We are aware that the Cabinet has already agreed the 2011/12 budget.

### **Contract management**

Following the June 2011 Internal Audit Annual Report which referred to contract management, a number of actions were agreed by management including implementing the action plan for identified specific weaknesses, and carrying out a further internal review to quantify the extent of wider contract management compliance issues. Internal and external audit monitored and provided challenge of progress.

The Council's further investigation into contract management included extensive work in producing a current contracts register and collating underlying records. A report of the key findings was produced and presented to the Audit Committee in September 2011.

Our review of this work and further testing supported the conclusions reached by management we reported in September 2011 that the agreed actions due at that time had been carried out as planned. We also concluded that the Council recognised the need to carefully manage the completion of a number of actions to improve contract management controls, including ensuring that formal contracts are in place for all relevant expenditure and periodically reviewing these to ensure that the arrangements represent VFM.

Both internal and external audit will continue to review progress being made by management to resolve outstanding contract management issues during 2011/12.

### **Securing Economy, Efficiency and Effectiveness**

We have conducted targeted work to ensure that the Council has prioritised its resources to take into account budget constraints and whether it has delivered value for money in its priority service areas.

We based our review on an assessment of key risk indicators, in order to direct our detailed work for 2010/11. We have undertaken some specific pieces of work that support and inform our conclusion in respect of this criteria, summarised overleaf.

We reviewed the Council's arrangements to provide governance and scrutiny over management actions, focusing on the effectiveness of member scrutiny of key decisions and projects. We concluded that the overall arrangements were satisfactory and appropriate to ensure that management actions are reviewed effectively.

We followed up our 2009/10 report on the overall governance arrangements for the 'One Barnet' framework. We concluded that the recommended actions had been implemented appropriately or, where circumstances had changed, that appropriate compensating measures were in place.

We assessed the Council's performance against its strategic objectives as a measure of delivering value for money and found that, although performance levels varied across the services, with some targets not achieved, the Council had met the majority of its planned performance targets in 2010/11.

We considered the Assistant Director of Finance - Audit and Risk Management's 'limited assurance' internal audit opinion of the Council's system of internal control in 2010/11. Although the number of limited assurance conclusions is recognised as a concern, evidence demonstrated a marked improvement during the year in the implementation of internal audit recommendations, showing that the Council is taking action to address the issues raised.

### **Value for Money Conclusion**

Considering all of the findings and conclusions set out in this report, we provided an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

For the areas where systems and controls require improvement, these have been reported to the Audit Committee by management, internal and external audit along with agreed actions plans. Follow up of progress in implementing these actions will be reported to the Audit Committee by management and audit during 2011/12.

In 2011/12, we will focus on the two key VFM reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council.

## 4. Grants Certification

### Introduction

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 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2010/11 grant claims and returns. Once this work is complete we will report in full on the findings of our work in a separate report to the Audit Committee.

# Appendices



## A. 2010/11 reports issued

Report	Date Issued
Audit Plan	December 2010
Review of arrangements for implementation of IFRS	April 2011
Grants Certification Plan	June 2011
Audit Approach Memorandum (Accounts)	June 2011
Annual Report to Those Charged With Governance (ISA 260)	September 2011
Financial resilience and scrutiny reports (VFM)	October 2011
Annual Audit Letter	November 2011
Grants Certification Report	December 2011

## B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Total Code of Practice fee	£415,000	£415,000
Certification of grant claims and returns*	£85,000	TBC on completion of work

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



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## London Borough of Barnet

Review of the Council's arrangements for securing financial resilience

September 2011

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# Section 1

## Executive summary

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Introduction

### Background

Barnet is a densely populated borough in north London with a population of over 340,000 people. The borough stretches from the prosperous neighbourhood of High Barnet in the north to Burnt Oak in the south west, that has high levels of deprivation. Barnet has a number of areas of high prosperity but is also close to the top third of most deprived authorities in the country . It is also diverse, with upwards of 32% of Barnet's residents belong to an ethnic minority group ethnic minority backgrounds.

Barnet retains a pattern of older "village" centres and open spaces alongside newer development. There are good rail and road links in and out of central London. The local economy is dominated by small and medium sized businesses and the borough has a higher proportion of self-employed residents than London or England generally.

### Context

The Chancellor of the Exchequer announced the 2010 Spending Review (SR10 ) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

## Our Approach

### Value for Money Conclusion

As part of the work informing our 2010/11 Value for Money (VFM) conclusion we have undertaken a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report .

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- It's approach to strategic financial planning;
- It's approach to financial governance; and
- It's approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces significant risks and challenges in 2011/12 and beyond its current arrangements for achieving financial resilience are adequate.

We have used a red / amber / green (RAG) rating with the following definitions.

#### Green

**No cause for concern.** Adequate arrangements identified and key characteristics of good practice appear to be in place.

#### Amber

**Potential risks and / or weaknesses.** Adequate arrangements and characteristics are in place in some respects, but not all . Evidence that the Council is taking forward areas where arrangements need to be strengthened.

#### Red



**High risk:** The Council's arrangements are generally inadequate and not in line with good practice or may have a high risk of not succeeding

Our findings are detailed between pages 10 and 32 of this report.

Where areas have been assessed as amber or red we have discussed these with officers and, as appropriate, made recommendations on pages 8 and 9. {





## Overview of Arrangements

Area	Summary observations	Summary level risk assessment
<b>Key Indicators of Performance</b>	<ul style="list-style-type: none"> <li>Benchmarked key indicators of financial performance indicate that, in general terms, Barnet has followed recent trends within the London Borough comparator group, for year on year reductions in liquidity, reducing DSG balances, and borrowing levels, but has demonstrated a year on year increase in all three for 2010/11, illustrative of a strengthening financial position.</li> <li>Barnet's useable reserves have increased over the three year period to 31 March 2011, whilst the London Borough average is on a decreasing trend. The level of forecast general fund reserves at 31 March 2011 for Barnet of £15.8m remains higher than the London borough average of £14.6m and has allowed for a further £7.9m to be transferred to useable Earmarked reserves, providing an additional buffer against future financial shocks and known risks.</li> <li>Due to the Council's comparatively low reliance on government grants, it has fared better than a number of other London boroughs in terms of spending power reductions.</li> <li>The capital programme underspent by £49.7m during 2010/11 (35% of the original budget). The Council has recognised that asset management planning is not well integrated into the business planning process, and capital programme delivery is not timely. An Estates Strategy and a Corporate Asset Management information system are close to being implemented which should help to improve performance.</li> <li>The Council has maintained a strong track record on sickness absence in recent years, and continues to maintain sickness absence at below average levels compared to other London Boroughs and nationally. This is indicative of a robust approach to staff resource management.</li> </ul>	 <b>Green</b>
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"> <li>The Council strengthened its most recent financial planning process in light of the Government's deficit reduction programme. It is clear that the Council took account of its corporate priorities when setting what was a generationally challenging budget. The approach used to identify savings opportunities was corporate led, and incorporates a wide ranging service reconfiguration process designed to maximise value for money in the delivery of services, while dramatically reducing costs.</li> <li>The Council was well placed to deal with the budget constraints imposed by SR10, and had already embarked on a cost reduction and reconfiguration programme in advance of the announcement. This meant that the Council was well prepared for the financial impact of the announcement: the Medium Term Financial Plan (MTFP) core 2011/12 budget and savings plans were already in place.</li> <li>The Council faces a number of financial pressures, most notably demand led pressures in Children's services and Highways. However, the planning process has recognised the underlying causes and action plans are in place to address them.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

## Overview of Arrangements

Area	Summary observations	Summary level risk assessment
<b>Financial Governance</b>	<ul style="list-style-type: none"> <li>The Council has a well established approach to financial governance that has delivered good results in recent financial years.</li> <li>There have been a significant number of changes affecting the financial governance process, including the centralisation of the finance support function, a move to quarterly corporate performance monitoring, additional cross service performance monitoring arrangements, significant strengthening of the internal audit function and changes to the responsibilities of Council Committees charged with governance. These processes will need time to fully embed and mature, although the early signs are that they reflect significant improvements in financial governance arrangements.</li> </ul>	 <b>Green</b>
<b>Financial Control</b>	<ul style="list-style-type: none"> <li>The Council's approach to financial and performance management, has helped the Council to deliver strong financial results in recent years. Budgetary control, including over savings plans, is robust and the Council has demonstrated the appropriate deployment of internal assurance mechanisms following improvements to the audit and risk function implemented in during the year. There have also been some notable improvements in financial control , including controls over purchase order processing.</li> <li>The Council is in the process of improving the internal management culture of the organisation in regard to compliance with controls and taking timely action to address identified control risks. There have been cases in the past where management had only partially implemented recommendations, which is the focus of the planned improvement.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of 'limited assurance' audit reports in the year. We acknowledge that this is indicative of the more robust approach taken to internal audit and risk assurance in 2010/11 that reflects a key improvement in the control environment.</li> <li>Whilst key financial systems have generally been reliable in enabling the Council to manage financial risks, there has been a notable weakness identified in the year in regard to the controls over supplier contracts linked to the procurement process. This highlighted areas of non-compliance with existing controls. As already noted, the Council understands the risks associated with these issues and is progressing mitigating actions.</li> </ul>	 <b>Amber</b>

## Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
<b>Key Indicators of Performance</b>	The Council should monitor the impact of the new Estates Strategy and a Corporate Asset Management information system to ensure that performance against the capital budgets is improved.  Medium Risk	Director of Commercial Services	Ongoing	The Investment Approvals Board has been reinstated to monitor progress of the capital programme against budget plans. This has been meeting on a monthly basis since July 2011.

Area of review	Recommendations	Responsibility	Timescale	Comment
<b>Financial Control</b>	The Council should carefully manage the completion of a number of current actions to improve contract management controls, including ensuring that formal contracts are in place for all relevant expenditure and periodically reviewing these to ensure that the arrangements represent VFM.  High Risk	Responsibility. Director of Commercial Services	Ongoing	The Assistant Director of Audit and Risk Management is producing an assurance report for the December meeting of the Audit Committee on completion of the required actions. The Assistant Director of Commercial Assurance is monitoring completion of the action plan weekly. Following on from this, implemented control improvements will be monitored by the Director of Commercial Services.



## Section 2

### Key Indicators

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Introduction

This section of the report include analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:




- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to DSG allocations
- Sickness absence levels
- Out-turn against budget

We have used the Audit Commission's nearest neighbours benchmarking group, which is the following authorities.

Greenwich London Borough Council  
 Wandsworth Borough Council  
 Southwark Council  
 Merton Council  
 Hounslow London Borough Council  
 London Borough of Ealing  
 London Borough of Tower Hamlets  
 London Borough of Lambeth  
 London Borough of Waltham Forest  
 London Borough of Enfield  
 Haringey London Borough Council  
 Brent London Borough Council  
 London Borough of Lewisham  
 London Borough of Hackney  
 Islington London Borough Council  
 Newham London Borough Council



## Key Indicators

## Overview of performance

Area of Focus	Summary observations	High level risk assessment
Liquidity	<ul style="list-style-type: none"> <li>Barnet's working capital ratio decreased from 1.9 in 2007 to 1.2 in 2009, but increased to 1.4 in 2010/11. This indicates that the council's liquidity levels are not out of step with other London Boroughs. The Council also maintains significant levels of short term investments in line with its treasury management policy in order to maximise investment income. Working capital will come under increasing pressure during SR10 and will need to be carefully monitored.</li> <li>The Council's collection rate for Council Tax for 2010/11 was 95.6% (against a national average of 92.6%), which dropped slightly from 96.2% in 2009/10 hampered by the implementation of a new system. The local government average for 2010/11 was 97.3%. However, the Council is not significantly out of step with other London Boroughs.</li> </ul>	 Green
Borrowing	<ul style="list-style-type: none"> <li>Barnet's long term borrowing to long term asset ratio of 0.15 for 2010/11 shows that long term borrowing does not exceed the value its long term assets. Barnet's ratio is lower than the average of authorities in its benchmarked group.</li> <li>Barnet's long term borrowing is less than it's tax revenue. Barnet's borrowing is relatively low in comparison to the benchmark group, a number of who's borrowing exceeds tax revenue.</li> </ul>	 Green
Workforce	<ul style="list-style-type: none"> <li>Sickness absence levels during 2010/11 was an average of 7.8 per FTE. This compares favourably to the London average of 9.4 and the national average of 12.3 for 2009/10.</li> <li>Long term sick management arrangements have started to show real results. A reduction of 23% (64 case to 49 cases) across the Council. Average days for each long term absence fell from 164 to 98. 8 cases that were longer than a year have been resolved with no current cases longer than a year.</li> </ul>	 Green

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern


## Overview of performance

Area of Focus	Summary observations	High level risk assessment
Performance Against Budget	<ul style="list-style-type: none"> <li>The Council's overall position has come in on budget at the end of 2010/11. Council's level of balances remains at £15.780m which is in excess of the target of £15m.</li> <li>Environment and Operations remains a specific area of concern. A shortfall of income in Parking income and winter pressures have put pressure on the service throughout the year. However, the parking recovery plan is on track in 2011/12 to achieve improved service and income levels</li> <li>The capital programme underspent by £49.7m during 2010/11 (35% of the original budget). The Council has recognised that asset management planning is not well integrated into the business planning process and capital programme delivery is not timely. An Estates Strategy and a Corporate Asset Management information system are close to being implemented which should help to improve performance.</li> <li>The HRA recorded a deficit of £261.5m, including £249.3m of Impairments and a 12.5m transfer to the major repairs reserve for 2010/11. The HRA balance brought forward therefore increased by £87k.</li> </ul>	 <b>Amber</b>
Reserve Balances	<ul style="list-style-type: none"> <li>The MTFP notes the general reserves target (excluding schools) for 2011/12 has been set at £15m which represents 5.6% of the Council's revenue budget. This level is the same as 2010/11. There are also a number of earmarked (£40.5m) and other useable reserves (£21.5m) of £62m at 31 March 2011. Total useable reserves (including schools) in 2010/11 was £92.5m or 7% of Gross Revenue Expenditure, which means the Council is approaching the top quartile of London Borough Councils for reserve levels.</li> <li>Barnet's General Fund reserve levels (excluding schools) is marginally higher than the London borough average of £14.6m.</li> <li>Between 2007/08 and 2010/11 the Council has bucked the trend of its benchmark group of London Boroughs, by significantly increasing its useable reserves over this period.</li> <li>Barnet's MTFP does not incorporate plans to reduce the General Fund reserve levels below £15m. This is because Earmarked and other useable reserves have been allocated for use in covering known costs, including transformation costs, as well as identified financial risks.</li> </ul>	 <b>Green</b>

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern

## Key Indicators

## Overview of performance

Area of Focus	Summary observations	High level risk assessment
Schools Balances	<ul style="list-style-type: none"> <li>Barnet's ratio of schools reserve balances to DSG grant, indicating the level of DSG grant unspent at year end, to has decreased by 1% each year over the thee years to 2009/10. This is in line with the broad trend of the benchmark group and Government policy to use reserves to cushion funding reductions in future years. In 2010/11 Barnet increased this ratio to 7% which remains in line with the average for London Boroughs, and strengthens the School's ability to absorb financial shocks in future years.</li> <li>The Council's schools reserve balances is comparatively high therefore providing good insulation against future financial shocks.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern





## Section 3

### Strategic Financial Planning

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Key indicators of good Strategic Financial Planning

### Focus of the Medium Term Financial Strategy (MTFS):

- Focus on the achievement of corporate priorities is evident through the financial planning process.
- The MTFS focuses resources on priorities

### Adequacy of planning assumptions:

- The Council has performed stress testing on its model using a range of economic assumptions including SR10
- The council operates within an appropriate level of reserves and balances
- The MTFS includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances and other financial parameters.
- KPIs can be derived for future periods from the information included within the MTFS
- Effective treasury management arrangements are in place.


### Scope of the MTFP and links to annual planning:

- Service and financial planning processes are integrated.
- Annual financial plans follow the longer term financial strategy.
- The MTFS is linked to and is consistent with other key strategies, including workforce.

### Review & responsiveness:

- There is regular review of the MTFS and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks


## Strategic Financial Planning

Area of Focus	Summary observations	High level risk assessment
<p><b>Focus of the Medium Term Financial Plan (MTFP)</b></p>	<ul style="list-style-type: none"> <li>• The MTFP indicates that the Council is reviewing the outcomes and priorities for Barnet, and how these will be delivered. The Council agreed spending priorities and actions linked to these outcomes based on evidence of need and available resources for 2011/12.</li> <li>• The current MTFP covers the three year period 2011/12 to 2013/14.</li> <li>• The MTFP clearly sets out the Council's savings plans (Budget Book 2011-14 Appendix 2) . Savings plans include additional income generation (e.g. from fees &amp; charges) where applicable.</li> <li>• The scale of the savings requirement meant that most services received a robust level of challenge and scrutiny.</li> <li>• The overarching approach to identifying savings was via the allocation of targets to departments, and there has been a high degree of corporate control over the process.</li> <li>• The main thrust of the savings plans in the short term are linked to the reconfiguration of the Council's organisational structure and in the medium term, on the reconfiguration of service delivery .</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

Key:


- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

**Strategic Financial Planning**

Area of Focus	Summary observations	High level risk assessment
<p><b>Adequacy of planning assumptions</b></p>	<ul style="list-style-type: none"> <li>Savings Plans - The Council has comprehensive savings plans forming a core part of its MTFP (see published Budget book for 2010/11).</li> <li>Scenario Planning - October Cabinet looked at options of 25% and 33% reductions in Grant Funding over 3 years (evenly spread). Figures were sense checked with the Asst. Dir of Strategic Planning and were based on 301m net cost less 155m Council Tax. Scenario planning was reasonably effective in predicting the impact of the CSR, but assumed even spread of reductions, did not anticipate front loading in yr 1 which the Council has had to deal with (this did not lead to a significant review of priorities). We looked at the modelling assumptions, including the work Barnet have done on Inflation sensitivities which is a key area of risk (with a corresponding earmarked reserve).</li> <li>Budget Contingency – For 2010/11 is £7m which includes £3.3m inflation, £400k for cost pressures and a £3m General Contingency.</li> <li>Council Tax – growth based on increased CT base, rather than changes in rates – estimated to be 2.5%. Have also modelled zero growth on CT base.</li> <li>Use of Reserves - The Council does not use reserves to cover funding gaps, but does include a contingency in the budget to cover unforeseen financial pressures. The Council also makes effective use of Earmarked 'Risk' Reserves to cover specific financial risks.</li> </ul>	<p style="text-align: center;"> <b>Green</b></p>
	<ul style="list-style-type: none"> <li>General Fund Balance - The 2010/11 accounts confirm that the General Fund balance (excluding Schools) was maintained above the Council's Constitutional minimum, at £15.8m with no change from the prior year. In addition the Council was able to deliver a net increase its Earmarked Reserves (excluding Schools), by £5.6m. Earmarked Reserves incorporate £9.3m set aside for Transformation (One Barnet), and £13m to cover financial risks (including Iceland Banks and slippage in the savings plan).</li> <li>Iceland Banks – The Council have a £27m currently at risk due to investment in the Iceland Banks. The Council have followed recent CIPFA LAAP Bulletin guidance which rests on current legal rulings that give UK Councils preferential creditor status, indicating that in excess of 90% of the value is recoverable (recent legal challenge to this by Icelandic courts is in the process of being rebutted). However, the combination of the risk reserve and the general fund reserve are currently sufficient to cover the loss of the whole amount, which would allow the Council to remain theoretically solvent in the unlikely event that this occurs.</li> <li>Treasury Management - The Council has a Treasury Management strategy in place that is included in the MTFP that is approved by Cabinet and Council. The Audit Committee is also responsible for the scrutiny of treasury management activities primarily through review by Internal Audit. From review of minutes.</li> </ul>	


Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern

## Strategic Financial Planning

Area of Focus	Summary observations	High level risk assessment
<p><b>Scope of the MTFP and links to annual planning</b></p>	<ul style="list-style-type: none"> <li>• The Council's financial planning process begins at an early stage in the year, and successfully anticipated the impact of SR10.</li> <li>• First Stat Meetings are held periodically, and the subject matter for a particular meeting will focus on an individual service, and a particular topic – currently financial planning in future years. The meeting is hosted by the Chief Executive and takes the form of a large scale presentation and QA session between leading managers in the divisions, and the audience. Importantly, the audience is made up of a wide range of officers (both corporate and from a range of services) and members (at the session observed, upwards of 50 people). This served the purposes of communicating the cost pressures, strategic considerations and the Council's strategy for dealing with it. The audience was then in turn given the chance to challenge and question the proposals. This is a good example of how to manage internal stakeholder consultation and how to promote a corporate approach (breaking down departmental silos).</li> <li>• Financial Planning is different within each Service – e.g. Adults take a very strong line on managing budgets to deliver planned savings, also focusing on demand management. Children's have been much more focused on staff restructuring, with savings more a result of redesigning the process.</li> <li>• The Corporate Finance managers and their teams are highly involved in the budget setting process. Service managers consider that this arrangement works well.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

Key:   
● High risk area   
● Potential risks and/or weaknesses in this area   
● No causes for concern

## Strategic Financial Planning

Area	Summary observations	High level risk assessment
<b>Review &amp; responsiveness</b>	<ul style="list-style-type: none"> <li>• During the financial planning cycle, budget forecasts and savings options were developed by services and discussed at divisional management teams. Proposals were then reviewed by CRC and Cabinet. Portfolio holders were regularly engaged through this process as chairs of budget sub-groups. There were regular meetings of the Chief Executive, the Leader, and the S151 Officer, and managed a process to review services on a risk basis.</li> <li>• A review of the MTFP, focussing on 2012/13 and 2013/14 has already commenced.</li> <li>• We have noted that monitoring reports have been provided to the CRC in 2010/11 and that there is scrutiny of these reports. A review of the arrangements in previous years has not identified any issues.</li> <li>• The Council adapted it's MTFP during the most recent financial planning cycle, in particular in response to SR10 and the finance settlement. However, due to the effectiveness of the planning process, the level of change required was comparatively light.</li> <li>• Future years will be reviewed during the lifetime of the plan, and this process has already commenced for 2012/13.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern



## Section 4

### Financial Governance

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Key indicators of effective Financial Governance

### Understanding the financial environment:

- The CFO is a key member of the leadership team
- Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation.
- The leadership foster an open environment of open challenge to financial assumptions and performance.

### Stakeholder engagement:

- There is engagement with stakeholders including budget consultations.
- There are comprehensive policies and procedures for Members, Officers and budget holders which outline responsibilities.

### Performance management:


- Actions have been taken to address key risk areas.
- Committees and Cabinet regularly review controls and performance and these are subject to appropriate levels of scrutiny.

### Management reporting:

- Regular reporting to Members.
- Reports include detail of action planning and variance analysis and other relevant details.
- Internal and external recommendations are implemented or there are effective recovery plans in place.




Financial Governance

Area of focus	Summary observations	High level risk assessment
<p><b>Understanding the financial environment</b></p>	<ul style="list-style-type: none"> <li>• The Council Constitution has been largely effective as a basis for the management and ownership of governance issues across the Council, supported by corporate performance reporting. There are regular meetings and training for key officer groups and members to ensure that good governance arrangements are completed and awareness raised.</li> <li>• The Council has a Director of Corporate Governance who has a prominent advisory role on the Council's key Committees. The Council's constitution describes the overall areas of financial responsibility for Members of the Cabinet and for Committees and Sub-Committees. The S151 officer is a member of the Chief Executive's Management Board.</li> <li>• As part of the finance reports to Cabinet and CRC, risks associated with achieving the MTFP are highlighted. Financial risks are also identified in the MTFP.</li> <li>• The Council has recently focused on enforcing compliance with procurement contract management policies during 2011/12 in order to address known weaknesses and safeguard value for money. A number of key contracts are being reviewed in order to drive further savings.</li> <li>• The Council has reviewed the use of agency staff and consultants and takes a flexible approach - i.e. not just uniformly driving down these costs but also considering how this kind of expenditure can offer better value for money, for example where services are earmarked for reconfiguration.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

Key: ● High risk area  
 ● Potential risks and/or weaknesses in this area  
 ● No causes for concern


## Financial Governance

Area of focus	Summary observations	High level risk assessment
<b>Stakeholder engagement</b>	<ul style="list-style-type: none"> <li>• There is an appropriate level of engagement between senior management and member portfolio holders. Regular meetings taking place at Director and Assistant Director level.</li> <li>• The Council has undertaken significant work to engage with stakeholders in the budget setting process.</li> <li>• The council has consulted on service reconfiguration and its component projects, forming part of the business cases. This included consultation with staff and Unions, as well as local partners. The MTFP notes the public consultation and includes evidence that issues raised have informed the budget setting for 2011/12.</li> <li>• The Cabinet agreed to consult on strategic savings options totalling £46.2m. Consultation attracted significant interest, with over 5,000 visits to the budget ideas website from October through to early December. Following feedback on initial consultation, Cabinet agreed to remove £0.9m of cuts to voluntary sector funding. A number of budget ideas were also incorporated into detailed savings proposals.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

**Financial Governance**

Area of focus	Summary observations	High level risk assessment
<p><b>Performance management</b></p>	<ul style="list-style-type: none"> <li>Savings plans are automatically factored into the agreed budget baseline for all services, and are therefore not reported directly as a separate analysis, at the corporate level (i.e. Cabinet &amp; CRC). However, the explanations provided for budget variances are used to explain shortfalls in the savings plans where this is applicable, so visibility is not lost.</li> <li>The financial and business planning process includes the risk assessment (RAG rating) of savings plans and the Monitoring of savings through the Financial and Business planning group on a monthly basis.</li> <li>As the budget was successfully delivered in 2010/11 and in previous years (with no material variance), the Council can demonstrate a good track record of delivering planned savings. In excess of £11m of savings were delivered in 2010/11. The MTFP sets out savings plans totalling £53.4m over the next 3 years, with £29m deliverable in 2011/12. Medium term savings are derived primarily from 'One Barnet' service transformation projects.</li> <li>The monitoring process currently allows for projections against plan to incorporate alternative savings if the original savings target slips, or is not fully achievable. The process still highlights where slippage occurs to retain visibility, and all budget virements are policed by the corporate finance team. Budget virements require approval according to a delegated scheme that goes all the way to Cabinet depending on the scale of the proposed change.</li> <li>The Council's key areas of financial concern in 2010/11 was the overspend in Children's services, partly attributed to demand outstripping efforts to control it and planning assumptions, but also due to some weaknesses in control within the service which were highlighted in a report from internal audit. Highways expenditure was also an area of extreme cost pressure, attributed to unplanned additional costs associated with the harsh winter. The level of scrutiny that these areas have received, including the delivery of key remedial actions, is illustrative of the high degree of financial control exercised by management.</li> <li>The Council is in the process of improving the internal management culture of the organisation in regard to compliance with controls and taking timely action to address identified control risks. Overall governance arrangements to ensure that risks are addressed have been improved but will also take time to embed.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>


Key: ● High risk area  
 ● Potential risks and/or weaknesses in this area  
 ● No causes for concern

**Financial Governance**

Area	Summary observations	High level risk assessment
<p><b>Performance Management (Continued)</b></p>	<ul style="list-style-type: none"> <li>• Challenge meetings have been held regularly between the Lead Member for Resources (deputy leader), the Cabinet member, the Service Director, Deputy Chief Executive (CFO), Assistant Chief Executive, and Assistant Directors for Strategy and Finance.</li> <li>• This has recently been supplemented by quarterly meetings between all Assistant Directors within the services and certain of the corporate officers noted above. This is in order to help breakdown silos between services, and improve awareness of the corporate position.</li> <li>• The new Quarterly performance monitoring process, allows a high degree of scrutiny by the Corporate Directors Group (CDG) and the Cabinet, including close scrutiny of the delivery of budgets and savings plans, alongside service performance KPIs. This provides visibility on the potential impact that budget reductions may have on service quality.</li> <li>• Monthly meetings of the Senior Management Team in each directorate includes a detailed review of financial and performance monitoring reports, focusing on key risk areas. This provides close corporate management control of financial risks and allows a high degree of challenge on mitigating actions, before reporting to members via the Cabinet and CRC.</li> <li>• The 2010/11 Quarter 4 Quarterly monitoring report indicated that cost pressures in Children's Services and Environment &amp; Operations had been managed so that the overall financial performance, successfully delivered the overall revenue budget which enabled the General Fund balance to remain at the planned level.</li> </ul>	

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern

## Financial Governance

Area	Summary observations	High level risk assessment
<b>Management information</b>	<ul style="list-style-type: none"> <li>The monitoring report is presented to Cabinet. This includes both information on the performance management and financial performance of the Council. Commentary is on an exception basis. The Cabinet minutes provide evidence of the scrutiny of overspends against the budget by members.</li> <li>The level of accuracy in projecting financial performance has been adequate as demonstrated by the correlation between the broad Q4 Performance report to CRC and Cabinet, and the final outturn position reflected in the audited 2010/11 accounts.</li> <li>The level of transparency in reporting financial issues is also high as evidenced by the correlation between the reports scrutinised by the Corporate Directors team and the issues highlighted to members in the quarterly reporting process.</li> <li>The Cabinet reports include information on the overall financial outturn of the Council and financial performance for each of the services. It includes information on over and under spends for each of the directorates and actions being taken to ensure the budget is brought back in line and managing cost pressures. The reports include information on the variances against the budget for the Council and is also reported at directorate level. The reports include forecast outturn for revenue and HRA. The appendix to the report includes information on the variation of each directorate against the approved budget.</li> <li>The reports include any budget virements as an appendix for Cabinet to approve (where this exceeds the delegated authority of the services or CRC). The reports also include information on treasury management and the performance against the capital programme.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern



## Section 5

### Financial Control

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Key indicators of Effective Financial Control

### Control over financial performance:

- Budgets are robust and prepared in a timely fashion and the council has a good track record of operating within its budget.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis.
- There is focus on monitoring income related budgets.

### Financial systems & controls:

- Key financial systems have received satisfactory reports from internal and external audit
- Financial systems are adequate for future needs, for example commitment accounting functionality is available


### Finance department resource:

- The capacity and capability of the Finance Department and Service Departments are fit for purpose.

### Audit & Assurance:

- Audit - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal audit recommendations are routinely implemented in a timely manner
- Assurance Framework - There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- Annual Governance Statement (AGS) - The AGS gives a true reflection of the organisation.



Financial Control

Area of focus	Summary observations	High level risk assessment
<p><b>Control over financial performance</b></p>	<ul style="list-style-type: none"> <li>The Council's approach to financial and performance management, has helped the Council to deliver strong financial results in recent years. Budgetary control, including over savings plans, is robust and the Council has demonstrated the appropriate deployment of internal assurance mechanisms following improvements to the audit and risk function implemented in during the year. There have also been some notable improvements in financial control , including new IT system controls over purchase order processing.</li> <li>The Council has well established budget setting processes that encourages ownership from budget holders, and finance training is provided to officers and members. The Council has a good track record in managing budgets on a service by service basis. We have see good evidence from the minutes of discussions at Audit Committee, CRC and the Budget Scrutiny Committee and other forums, of Members challenging on financial performance.</li> <li>Monitoring reports are discussed by Cabinet on a quarterly basis. This has changed from a monthly process as part of corporate services review programme, but we have been advised that monitoring will take place monthly within the services, and at the Corporate Directors meeting for high risk areas.</li> <li>The monitoring process clearly recognises the accountabilities of Directors, assistant Directors and budget holders for the financial management of their departments.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>




Key: ● High risk area  
 ● Potential risks and/or weaknesses in this area  
 ● No causes for concern




## Financial Control

Area of focus	Summary observations	High level risk assessment
<b>Financial systems &amp; controls</b>	<ul style="list-style-type: none"> <li>The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions. The process has enabled the Council to identify and manage financial risks in a timely way.</li> <li>A recent upgrade to the SAP ledger system has improved controls over purchase orders, which addresses an identified weakness in past years (e.g. that POs were raised retrospectively on receipt of an invoice).</li> <li>The Council introduced new Housing Benefits, NNDR and Council Tax systems in year. The implementation did not go to plan resulting in delays to data processing. Our work indicated that the system should not pose a major financial risk in future years, once the initial processing backlog has been overcome.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of 'limited assurance' audit reports in the year. We acknowledge that this is at least in part, indicative of the more robust approach taken to internal audit and risk assurance in 2010/11 that reflects a key improvement in the control environment.</li> <li>Whilst key financial systems have generally been reliable in enabling the Council to manage financial risks, there has been a notable weakness identified in the year in regard to the controls over supplier contracts linked to the procurement process. This highlighted areas of non-compliance with existing controls. As already noted, the Council understands the risks associated with these issues and is progressing mitigating actions. However, these will take time to embed and cannot be said to have been adequate in 2010/11.</li> </ul>	 <b>Amber</b>
<b>Finance department resource</b>	<ul style="list-style-type: none"> <li>As at April 2011 the turnover of staff in the finance department was stable. The Finance support has been centralised for a number of years, the Accounts Receivable and Schools and Funding team were also centralised in July 2010.</li> <li>Budget holders in the services are supported by the finance team for budget planning, and the quarterly corporate reporting cycle, closing of accounts and ad hoc financial support. There is therefore an onus on budget holders in these areas, to have the relevant financial skills, particularly to support effective budget monitoring outside of the quarterly corporate reporting process (i.e. monthly).</li> </ul>	 <b>Green</b>

Key:

-  High risk area
-  Potential risks and/or weaknesses in this area
-  No causes for concern

## Financial Control

Area of focus	Summary observations	High level risk assessment
<b>Audit &amp; assurance</b>	<ul style="list-style-type: none"> <li>The Council has adequate arrangements in place. Internal audit work is shared between in-house and external provision, and is fully compliant with the CIPFA Code of Practice, Grant Thornton place full reliance on the work of internal audit.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of limited assurance audit reports in the year, which are illustrative of the more robust approach taken to internal audit and risk assurance in 2010/11.</li> <li>The year 2010/11 has seen significant strengthening of the internal audit function which addresses a significant weakness noted in previous years. The 2011/12 Audit Plan is more closely linked to the Council's Risk Management framework and is focused on checking the mitigation of key corporate risks.</li> <li>The Council has a robust process for preparing and reporting the Annual Governance Statement (AGS), to which departments contribute and that is compiled by the Director of Corporate Services, with challenge from the Assistant Director of Audit &amp; Risk Management. The AGS is signed off by the Chief Executive and Leader. The AGS is presented to the Audit Committee and deals with any questions.</li> <li>Through amendments to the quality of reporting sent to Audit Committee, members, are now more focused implementation of recommendations has been completed in accordance with agreed timescales. In 2010/11. This addresses a key weakness in past years. Responsible Directors attend committee meetings to explain variances. This has ensured that all high priority recommendations remain visible until implemented in full.</li> <li>The Council has improved operational management of risk during the year and how this is reported to the Audit Committee.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of 'limited assurance' audit reports in the year. We acknowledge that this is indicative of the more robust approach taken to internal audit and risk assurance in 2010/11 that reflects a key improvement in the control environment.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

**Financial Control**

Area of focus	Summary observations	High level risk assessment
<p><b>Audit &amp; assurance (Continued)</b></p>	<ul style="list-style-type: none"> <li>• Our 2009/10 Annual Audit Letter noted that the Council would need to address a number of issues. This included the need to improve the capability of the Internal Audit function and related governance arrangements and, as we note above, this has been fully addressed in 2010/11. The Council has made good progress in implementing our other recommendations and has demonstrated a willingness to address identified weaknesses at the corporate level. The Council has addressed actions raised in our reports in previous years and have made good progress in implementing recommendation in relation to the accounts findings.</li> <li>• The Council demonstrated good outcomes results from the external audit programme, including the successful production of final accounts under IFRS on an early timetable, and positive overall outcomes from the VFM assessment. This has been characteristic of the Council for a number of years.</li> </ul>	

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern



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