



The Audit Plan for London Borough of Barnet

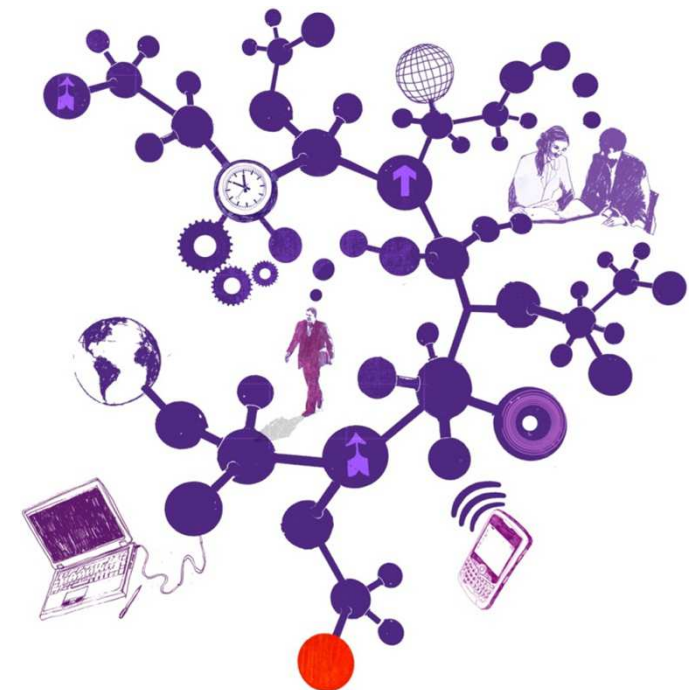
Year ended 31 March 2014

29 April 2014

Paul Hughes
Engagement Lead
T 0207 728 2256
E paul.hughes@uk.gt.com

Nick Taylor
Manager
T 01223 225514
E nick.taylor@uk.gt.com

Chris Poole
Executive
T 0207 728 3334
E chris.poole@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Managing the Council's finances

- The Council's financial performance remains sound but is subject to continuing financial pressure, with the quarter 3 finance report projecting a revenue budget overspend of £2.2m
- Financial pressure will continue over the medium-term, with the Council required to make savings of £39m over the next two years to enable a balanced budget to be set
- The Council must continue to align its finances closely with agreed priorities if it is to meet the financial challenges ahead while maintaining the quality of its services
- The Council continues to maintain a large capital programme and must ensure that arrangements in place to monitor progress remain appropriate

2. The Council's transformation programme 'One Barnet'

- The Council's transformation programme was delivered with the Capita contract for the Customer and Support Group (CSG) signed on 5 August 2013. The joint venture to deliver development and regulatory services through RE (Regional Enterprise) Ltd was also signed on the same date
- The transformation programme provides an opportunity for the Council to work in collaboration with its partners to improve services and productivity and harness external expertise
- Now that the contracts are live, the Council must continue to manage the key risks to transformation effectively to ensure cost-effective, high-quality, responsive services continue and the long-term benefits of the contracts are realised

3. The Better Care Fund

- The Better Care Fund is a single pooled budget for health and social care services to work more closely together in local areas providing integrated solutions for the community.
- There is a requirement that the Health and Wellbeing Board sign off on the Better Care Fund Plan, with agreement of all partners, to take effect from 1 April 2015. The final plan should be submitted to NHS England by 4 April 2014.

4. Welfare Reform Act

- The Welfare Reform Act 2012 introduces major changes to the benefits system with the implementation of Universal Credit and the benefits cap.



Our response

- We have maintained a watching brief on the Council's financial performance during 2013/14 and understood the key risks to achieving a balanced budget through frequent discussions with key officers
- We will monitor the Council's progress in developing a balanced budget for 2014/15 and in responding to financial challenges as part of our VfM conclusion
- We will review progress against the planned capital programme as part of our work on the VfM conclusion

- We will consider the accounting treatment in relation to both the CSG and RE contracts to ensure that they are appropriately recorded in the financial statements
- We will consider the performance monitoring in place around the CSG contract as part of our VfM conclusion. In addition, we will also consider the performance monitoring in place around an in-house contract, using the refuse contract as our example

- We will continue to discuss with the Council its progress with the Better Care Fund plan, including ensuring agreement with its partners.
- We will review the impact of the funding on the MTFP.
- We will discuss the requirements of the plan with the Council and confirm arrangements in place to manage it going forward.

- We will continue to monitor progress against the Act through discussions with senior officers.
- The recovery rates and the impact on the MTFP will be considered as part of our work to inform our value for money conclusion.

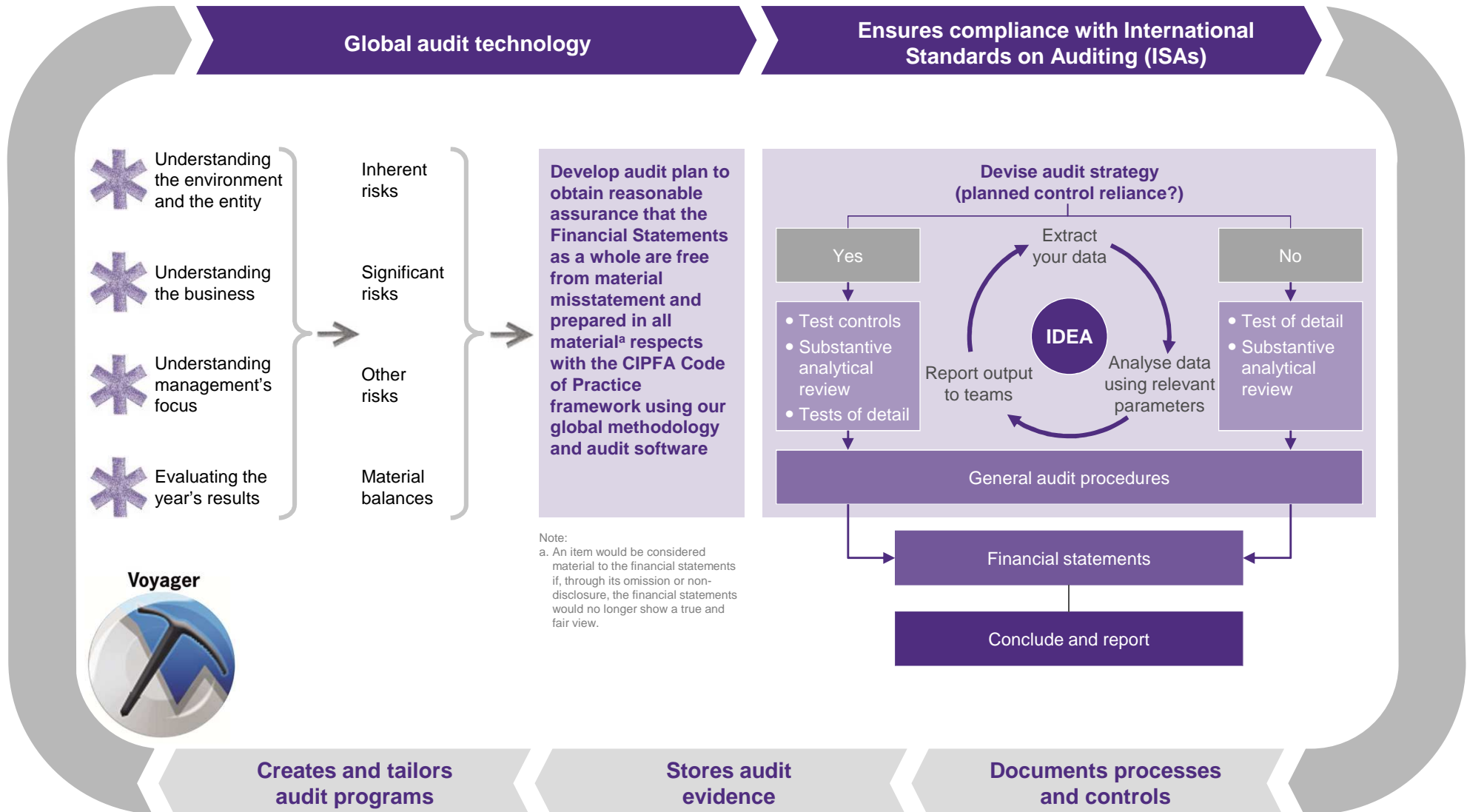
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing • schools are accounted for correctly and in line with the latest guidance 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Agreed approach with finance team to testing of material revenue streams <p>Further work planned:</p> <ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Performance of testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal controls and testing of journal entries (months 1-9) • Review of unusual significant transactions (months 1-9) • Early discussion of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries (months 10-12) • Review of unusual significant transactions (months 10-12)

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work We have set out our detailed testing requirements to enable selection of an early sample at the outset of our audit visit 	<ul style="list-style-type: none"> We will reconcile the subsidiary system interfaces and general ledger control accounts We will complete attribute testing on a sample of goods received notes or other confirmations to ensure that expenditure has occurred and has been correctly classified We will complete cut off testing (both before and after year end)
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work Through the use of attribute testing for months 1-9 (involving sample testing pay run data against individual payslips and contracts of employment) we have gained assurance that employees have been remunerated at correct rates during 2013/14 	<ul style="list-style-type: none"> We will reconcile the subsidiary system interfaces and general ledger control accounts Through the use of attribute testing for months 10-12 we will test a further sample of payroll payments to gain assurance that employees have been remunerated at correct rates during 2013/14 We will complete monthly trend analysis of payments recognised We will complete cut off testing (both before and after year end) We will complete sample testing on starters and leavers to verify that transactions for all appropriate entitlement periods have been recognised

Other risks identified (continued)

Other reasonably possible risks	Description	Work completed to date	Further work planned
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work 	<ul style="list-style-type: none"> We will reconcile the subsidiary system interfaces and general ledger control accounts We will complete initial DWP certification testing of Housing Benefits, including analytical review and verification of benefits awarded on a sample basis We will complete testing on a sample of Council Tax support payments
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work 	<ul style="list-style-type: none"> We will perform detailed analytical review procedures in order to gain assurance over the completeness of rental income We will perform testing from a sample of properties listed to verify the completeness of rental income
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified as a result of this work We have discussed with the Council the arrangements in place to value property, plant and equipment for 2013/14 	<ul style="list-style-type: none"> We will complete substantive testing of in-year additions and disposals We will perform existence testing on a sample of assets We will review the work carried out by the valuer, including ensuring that any valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake risk based work focussing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- review and update our risk assessment agreed during our 2012/13 financial resilience review to reflect the up to date position on arrangements relating to key indicators of financial performance, financial governance, strategic financial planning and financial control.
- consider the performance monitoring in place around the Capita CSG contract (an outsourced contract), comparing this to the monitoring in place around the new refuse contract (an in-house contract). This will include particular consideration of how value for money is intended to be achieved and measured
- consider the response made to the elector objections raised in 2012/13 and the progress made against improvement plans.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

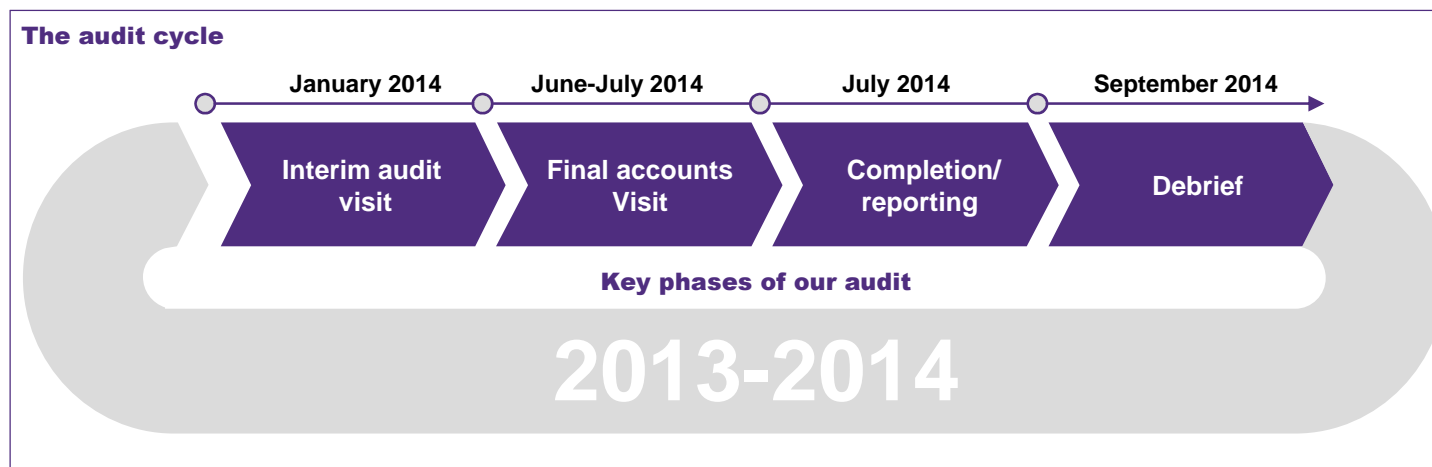
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>As part of the interim audit we have reviewed internal audit's overall arrangements. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.</p> <p>We have reviewed all reports issued by internal audit up to the point of the interim audit visit. This review has not highlighted any instances of material control weaknesses that would impact on our assessment.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>No issues were noted and in-year internal controls were observed to have been implemented in accordance with our documented understanding. We will gain further assurance in this area through substantive audit testing of year-end balances.</p>
Review of information technology controls	<p>Our information systems specialist is currently performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. This will include a follow up of any issues that have been raised in the previous year.</p>	<p>Work is on-going and any findings will be reported to the Audit Committee as part of our Audit Findings Report (Annual Report to Those Charged with Governance).</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year by extracting 'large and/or unusual' entries for further review. No issues have been identified from the testing to date.</p>	<p>No significant issues were identified in the review of journal policies and procedures.</p> <p>Our testing of journals at the interim audit has not identified any errors or inconsistencies. We have not identified any instances of fraud or potential fraud. No risk of material misstatement has been identified.</p> <p>Our interim testing covered the period of months 1-9. As part of our accounts audit we will complete the testing by reviewing journals from months 10-12.</p>
Employee remuneration testing	<p>We have reviewed a sample of 36 payments to employees between April 2013 and December 2013. To date we have confirmed that payments are correct for all records tested.</p>	<p>No errors have been identified in the records tested to date. We will test further records for months 10-12 when we complete our final audit procedures.</p>
Income testing	<p>We have reviewed the Council's income breakdown and identified individually significant income streams. From these streams we have selected 'large and/or unusual' items from months 1-9 for further review.</p>	<p>No errors have been identified from the review performed to date. We will consider any further 'large and/or unusual' items for months 10-12 when we complete our final audit procedures.</p>

Key dates



Date	Activity
December 2013	Planning
January 2014	Interim site visit
29 April 2014	Presentation of Audit Plan to Those Charged with Governance
June – July 2014	Year end fieldwork
July 2014	Audit findings clearance meeting
July 2014	Report Audit Findings Report to Those Charged with Governance
July 2014	Sign financial statements opinion and value for money conclusion
September 2014	Issue Annual Audit Letter
December 2014	Issue Certification Work report

Fees and independence

Fees

	£
Council audit (2013//14)	224,100
Grant certification (2013/14)	38,400
Total fees (excluding VAT)	262,500

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- Following the outsourcing of the finance function, both the Council and Capita will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan 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).

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 communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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