

London Borough of Barnet

Annual Report to Those Charged With Governance (ISA 260)

25 August 2011



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1. Executive summary

Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of London Borough of Barnet (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail in Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial statements opinion

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 normal and we recognise the significant achievement by the Council's finance team in managing this. The working papers were of a high quality and the financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS). Co-operation in dealing with audit issues has been strong, such that we were in a position to issue this report in draft, based on a substantially complete accounts audit, on 15 July 2011.

We identified seven adjustments, that did not impact upon the general fund but that have an impact on the Council's income and expenditure position (comprehensive income and expenditure statement). The audit adjustments on the balance sheet (statement of financial position) were of a presentational nature only and had no overall net effect on the Council's reported assets and liabilities.

The key messages arising from our audit of the Council's financial statements are:

- The Council has successfully made the transition to accounting under International Financial Reporting Standards (IFRS).
- Significant changes in the valuation of property plant & equipment have been reviewed and found to be in line with accounting standards.
- There were a small number of significant accounting adjustments (Summarised in Appendix B).
- There were a number of control issues arising that the Council should address (summarised in Appendix C).

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 6 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for Money Conclusion

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

However, we would like to draw attention to the control weaknesses around contract management identified by internal audit. It is important that the Council carefully manages the completion of a number of current actions to improve contract management controls. We, and internal audit, will continue to monitor and report on progress until we have sufficient assurance that the identified weaknesses have been fully resolved.

Further details of the outcome of our value for money review are given in section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Chief Finance Officer. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Chief Finance Office and the senior finance team.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

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

Grant Thornton UK LLP
25 August 2011

2. Financial statements

Matters identified at the planning stage

We report our findings in line with our planned approach to the audit which was communicated to you in our Audit and Approach Memorandum dated April 2011.

Our response to the matters identified at the planning stage are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none">• We have reviewed the Council's process for restating the 2009/10 account balances, that form the comparative and opening balances in the 2010/11 accounts. This was necessary to bring the 2010/11 accounts into line with new Code of Practice for Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS). Prior to 2010/11 Local Government Accounts had been based on UK accounting standards. As a result of this change, the Council made a number of adjustments to 2009/10.• We have reviewed the Council's revised accounting policies to ensure compliance with the new Code and we tested accounts balances to ensure that these followed the revised policies.• We have considered the information contained with the note to the accounts which details the impact of the transition to IFRS and reviewed the content for compliance with the Code.	<ul style="list-style-type: none">• As previously reported, our work on the processes put in place by the Council for IFRS restatement provided assurance that the key changes had been made.• The accounting policies followed by the Council are compliant with the Code . We have found that transactions are processed in line with the stated accounting policies.• Our detailed review of the note to the accounts provided assurance that the significant changes were identified and that the note complied with the Code requirements.

Issue	Audit areas affected	Work completed	Assurances gained
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> • Using our knowledge from regular meetings with senior management we completed a detailed analytical review of the Council's performance for the year, investigating variances which were not inline with our expectations and agreeing them to independent evidence. • We have used substantive testing, taking a risk based approach to determine sample sizes, to test a sample of payments made in April and May 2011. This work included consideration of existence, the value and the timing of the transaction. In addition we reviewed the creditor listing, tracing key balances to supporting information and ensuring that where necessary accruals had been appropriately recognised. • We considered the provisions recognised by the Council at year end, together with movements against previously recognised provisions for appropriateness. We also used our knowledge of the Council and information gained from other areas of our audit work to ensure that all required provisions had been recognised. • Our work on Council reserves considered the use of reserves during the year and the balances held at year end to understand the Council's financial position at year end. 	<ul style="list-style-type: none"> • Our review of the Council's performance for the year included review of financial information and discussion with officers. Our work on the financial statements at year end provided assurance that published results are in line with Council activities during the year. • The work completed on creditors, payments and accruals has provided sufficient assurance that amounts have been appropriately recognised and in the correct period. • Detailed testing of the Council's provisions, including additions during the year, confirmed that provisions are reasonable and in line with the accounting standards. Our knowledge of the Council has not indicated the omission of significant provisions at year end. • The Council's reserves have been reviewed for accounting treatment and the appropriate use of reserves. This did not identify any areas of concern.

Issue	Audit areas affected	Work completed	Assurances gained
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> The new Code of Practice for Local Authority Accounting requires that the Council continue to value its 'specialist assets', which do not have a readily ascertainable market value, at Depreciated Replacement Cost, but that this now be derived using the Modern Equivalent Asset (MEA) valuation technique. The intention is that this would provide a more accurate value than the old methodology, as it recognised the difference between a modern building and a like for like replacement of an old building. The MEA approach currently allows for a wide range of interpretation of what constitutes a modern equivalent building and therefore requires significant judgements to be made by management. In the Council's case this resulted in a significant net increase in the value of these assets in 2010/11 compared to values in the prior year. We therefore reviewed in detail the Council's approach to this change in the valuation methodology, including the Council's treatment of different types of specialist assets (schools, libraries, leisure centres, recycling depots, registry offices, museums, mortuaries, cemeteries and crematoria). Our work in this area included a detailed review of the methodologies applied by the Council and the assumptions on which these were based. 	<ul style="list-style-type: none"> The Council's approach to MEA is to use the current cost of providing the same function as the existing asset, including the need to meet modern regulations. Where available, as in the case of schools, the cost is based on actual build costs derived from recent local projects. This provided the explanation of why the Council has seen a net increase in value. We examined the Council's approach in the light of the Code and other available guidance. We concluded that the Council's methodology was robust, had a strong rationale and did not contravene existing accounting guidance as it currently exists. Where actual local cost information is not available, as for the other types of specialist assets, national information on contract pricing from the Building Cost Information Service (BCIS) is used as a basis for the valuation adjusted to reflect the existing state of repair. The Council's accounting policy reflects this approach.

Issue	Audit areas affected	Work completed	Assurances gained
<p>Revaluation of fixed assets</p>	<p>Property, plant and equipment</p>	<ul style="list-style-type: none"> • Using a risk based sampling approach we reviewed the valuation changes processed through the Council's accounts for appropriateness of the accounting entries processed and compliance with the accounting standards. • Under IFRS when recognising upward valuations the Council should reverse impairments previously recognised against that asset since the last formal valuation for that asset. We tested a sample of such assets to ensure that appropriate entries had been processed to reverse previous impairments through the income and expenditure account. • The basis for the calculation of Housing Stock values changed during the year and we checked to ensure that the new guidance had been correctly implemented. 	<ul style="list-style-type: none"> • We have reviewed this approach and determined that it is a reasonable compromise where information on cost, that incorporates modern regulations and planning intentions, is not available. We are satisfied that the approach taken by the Council is reasonable and acceptable within the Code of Practice for Local Authority Accounting. • In testing a sample of assets valued in 2010/11 we noted that the calculation of the reversal for previous impairments, did not extend to the asset's last full valuation. An adjustment has been agreed with management to correctly account for this adjustment. • The new guidance on the calculation of Housing Stock values changed during the year and this was correctly reflected in the 2010/11 balances. A prior year adjustment was also implemented to correct the interpretation of the guidance in prior years. • Our testing in all other areas of valuations has provided satisfactory assurance that such transactions are correctly accounted for.

Issue	Audit areas affected	Work completed	Assurances gained
Revaluation of investment properties	Property, plant and equipment	<ul style="list-style-type: none"> Our work programme included a review of the Council's approach to valuation of investment properties, including consideration of asset reclassifications into investment properties for compliance with accounting standards. The Council's approach to investment properties is for all assets to be valued on a 5 year cycle, which is consistent with its policy for all other assets. We understand that the property team consider market changes throughout the year and that if necessary complete additional valuations. 	<ul style="list-style-type: none"> Our testing demonstrated that documentation of the valuations process appropriately considered market conditions. However, the Code requires all investment properties to be valued at 'fair value' (in an arms length transaction). The Council should evidence their review of market conditions which may take the form of an overarching document to support the approach taken and compliance with the Code.
Accounting for fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> As part of our IFRS restatement work we reviewed a sample of lease contracts held by the Council to determine whether the substance of the contract was one of a finance lease and the asset should be included in the Council's accounts or an operating lease where only the rental charges are reflected in the accounts. Our IFRS restatement work also included review of the Council's asset reclassifications to assets held for sale and surplus assets for compliance with the Code. 	<ul style="list-style-type: none"> Our testing of leases did not identify any contracts which were incorrectly categorised which provided assurance that the Council's review of all leases was satisfactory and had considered the correct factors to reach a decision. Whilst there were significant asset reclassification entries processed as part of the IFRS transition, our work provided assurance that the entries were in accordance with the definitions for each asset category as set out in the Code.

Issue	Audit areas affected	Work completed	Assurances gained
<p>Accounting for fixed assets</p>	<p>Property, plant and equipment</p>	<ul style="list-style-type: none"> Our audit approach included substantive testing of all fixed asset transactions, including additions, disposals, depreciation, assets under construction, non-enhancing expenditure and the PFI scheme. 	<ul style="list-style-type: none"> Our work in these areas has identified some classification adjustments and some disclosure amendments, which have subsequently been processed by management. We have gained satisfactory assurance that the accounting entries processed for fixed asset transactions are appropriate and supporting evidence is available.
<p>New revenue and benefit system</p>	<p>Housing and council tax benefit expenditure</p>	<ul style="list-style-type: none"> We have maintained regular contact with the Council throughout the implementation process and were aware of all operational issues associated with the project. Consequently, we undertook a detailed review of the reconciliation performed on the "go live" transition date to gain assurance over the accuracy of data transfer between the two systems. 	<ul style="list-style-type: none"> The reconciliation was performed by the software provider and while this work identified benefit entitlement differences between the two systems, the Council continued payment at the old rate and are currently working through the differences to ensure correct entitlement information is recorded in the new system. We tested a sample of such instances and gained assurance that payments continued to be made at the old rate throughout 2010/11, whilst also noted that many had been subsequently corrected in 2011/12. The work completed has provided overall assurance that the benefit expenditure recorded in the accounts is not materially misstated.

Issue	Audit areas affected	Work completed	Assurances gained
<p>Use of estimates and judgments</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> • Our testing of provisions identified those balances where judgement was considered to be significant and reviewed the evidence provided by the Council to support those provisions. • When auditing the debtor balances contained in the Council's accounts we undertook discussions with Council officers to understand the basis for their expected future recovery and why the proposed level of provisions were appropriate. • In our review of the Council dwelling valuation we specifically considered the indices and assumptions used by the Council in preparing this valuation. 	<ul style="list-style-type: none"> • Our review of the provisions noted that where new provisions are created or values increased these are supported by documentation explaining the need for the provision. This is then reviewed and signed off by the Chief Finance Officer as approved. This process used by the Council provides satisfactory assurance that judgemental provisions are reviewed and considered prior to recognition in the accounts. • Detailed debtor testing did not identify any concerns over the judgements made regarding recoverability of debtor balances. • In our work on the Council dwelling valuations we noted that the assumptions were clearly documented and our work concluded that the judgements made in preparing the valuation were reasonable. • The Council should ensure an overarching document is prepared to support the approach taken to valuations.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for grants	Income and expenditure account and reserves	<ul style="list-style-type: none"> The Council has a number of capital grants where monies had been received at year end but not yet utilised. We tested a sample of these grants and the conditions attached to determine the appropriate accounting treatment. 	<ul style="list-style-type: none"> The Council has treated £25m of capital grants as liabilities on the balance sheet where the funds have not yet been utilised. We sampled £14m of these and noted that there is no evidence to suggest the grant conditions will not be satisfied. The Code requires such grants to be recognised in full through the income and expenditure account with the portion of funds not utilised transferred to a 'capital grants unapplied' reserve. The Council has agreed to process an adjustment to reclassify these balances in line with the Code.

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete although we are finalising our procedures in the following areas:

- sign off of the audit of the Council's Pension Fund
- review of the final version of the financial statements as part of our normal audit sign-off procedures
- obtaining and reviewing the Council's letter of representation
- reviewing post balance sheet events, up to the signing of the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 6 September 2011.

In addition, we would like to acknowledge that the Council's finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

A small number of additional issues arose during the course of the audit, which whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Other matters arising from the financial statements audit

Following certification by the Council's responsible Finance Officer, we were presented with draft financial statements for audit. We are pleased to report that the financial statements were accompanied by high quality working papers and that finance staff provided us with a high level of support.

Segmental Reporting

Under the requirements of the Code based on IFRS, Councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's chief operating decision maker ("CODM"), to assess the segment's performance and allocate resources. The Council disclosed nine operating segments in its 2010/11 financial statements, namely Adults, Central expenses, Chief executive, Children's services (net of DSG), Commercial services, Deputy chief executive, Environment and operations and Planning, housing and regeneration.

We have reviewed the disclosure presented in the accounts against the information presented to the Council's Cabinet Resource Committee regarding financial performance and note that the information is consistent. On the basis of this Committee being the CODM we are satisfied that the disclosures made comply with the requirements of the Code.

Transition to IFRS

As previously reported the Council commenced its work on transition to IFRS early and we were able to review the arrangements for transition and key accounting changes prior to year end. We would like to formally recognise the work done by the finance team in this area and their approach to working with us at an early stage to review the work done prior to the main audit.

Disclosure of the Remuneration of Senior Employees

In the draft accounts the Council did not include senior employee disclosures for those individuals who have held office at the Council in 2010/11 on a temporary or interim basis (i.e. not paid through payroll). We received a formal question under the Audit Commission Act 1998 from a local elector on this matter.

Following discussion with management that the note has been amended to include details for interim postholders.

Supplier payments

We received a formal elector question and associated documentation about the adequacy of controls over purchase orders and the payment of invoices, from a local elector. We incorporated this into our work in testing supplier payments and confirmed that there were some system weaknesses around the completeness and timeliness of purchase orders against which supplier payments were made. We note that this issue was raised by internal audit during the year and that the Council has since made changes to the IT system to rectify the problem.

We found no evidence of inappropriate payments and note that the Council had arrangements in place to mitigate the risk by matching of goods or services received to invoices prior to payment, and through the overriding budget monitoring controls.

Other accounts issues arising

In addition to the matters raised above, there were a number of minor presentational changes that arose during the course of our audit that have been made to the financial statements, including:

- Revision of the property, plant and equipment note to the accounts including some minor disclosure amendments.
- Correction of some figures within the financial instruments note to enable reconciliation with other areas in the accounts.
- Inclusion of details relating to the Council's valuation team.
- Amendment to the maturity analysis of PFI liabilities.
- Some minor amendments to the Housing Revenue Account to ensure figures reconcile with the main accounts where appropriate.
- Inclusion of additional information in the accounting policy for property, plant and equipment to increase the clarity.

Misstatements

A number of misstatements were identified during the audit the most significant of these are detailed below. The adjustments processed have had no impact upon the Council's general fund.

- Recognition of decanted Council dwelling incorrectly removed from the asset valuation totalling £3.1m.
- Impairment of buyback properties disposed of as part of the Edgware regeneration project totalling £4.9m.
- Reduction of £4.2m from school valuations due to application of incorrect obsolescence rate.
- Recognition of £3.4m of benefit expenditure relating to 2010/11 paid in 2011/12 together with corresponding subsidy income receivable from central government.

- Reversal of impairments recognised in prior years totalling £6.7m in the income and expenditure account.
- Recognition of capital grant income received in the income and expenditure account and unutilised monies included in the capital grants unapplied reserve.
- Reduction in government debtors due to incorrect classification of £1.5m between business rate debtors and council tax debtors.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them. Our audit has not identified any amendments to the financial statements that have not been processed by management. All of the misstatements are set out at Appendix B.

Evaluation of key controls

Internal Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any significant control issues, additional to those already identified by internal audit, that present a material risk to the accuracy of the financial statements. Where we have identified issues relating to the Council's internal controls and made recommendations for improvement these are detailed in Appendix C.

Review of IT

We performed a high level review of the IT control environment as part of our review of the internal control system. We concluded that there were no material weaknesses within the IT arrangements that could impact on our audit of the accounts. There were two main control weaknesses, on which we have made recommendations (Appendix C):

- The review of IT user access rights is inconsistent across different systems, affecting individuals who change roles or functions.
- We noted that there is no Intrusion Detection System (IDS) to alert the Council to instances of unauthorised access to its network (although we acknowledge that the Council undertakes penetration testing of its network security to identify improvement areas.)

We have also identified a number of minor IT control issues which have been communicated to management. These do not present a material risk to the accuracy of the financial statements or in regard to fraud, and are therefore not detailed in this report.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in March 2011 concluded that the Council met these requirements. We consider that the Council has put in place sufficient resource to deliver the internal audit plan and has an appropriate risk based methodology, which is comparable to other London Boroughs. We also considered whether the Council had sufficient flexibility in its resource to respond adequately to unplanned risks arising in the year. We are satisfied that the existing arrangements are sufficient to achieve this.

We draw on this work in forming our overall Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

Where internal audit have identified control issues, or where there has been no internal audit coverage we have not placed reliance on internal controls and have taken a more substantive based audit approach. This means that we place more reliance on analytical procedures and detailed transaction testing. Where issues arising from our audit work have been identified these are reported as part of our key findings from the audit. Where we have identified additional internal control issues, not previously reported by internal audit or other sources, we have made recommendations for improvement (Appendix C).

Internal audit opinion

We noted that the Council's Assistant Director of Finance - Audit and Risk Management provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to a number of limited assurance opinions given in respect of work done during the year.

The concerns raised related to specific areas of the control framework which we took into account when designing our audit approach.

Management of the risk of fraud

We have sought assurances from the Chief Finance Officer and the Chair of the Audit Committee in respect of processes in place to identify and respond to the risk of fraud at the Council. We have also considered the work of the Council's counter fraud service. From these enquiries we have established that those charged with governance have sufficient oversight over these processes to give them the assurances they require in regard to fraud.

In the course of our accounts audit work, we did not uncover any evidence of fraud or previously undisclosed control weaknesses which might undermine the Council's process for mitigating the risk of fraud.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We reviewed the draft AGS and considered the document to be satisfactory in terms of content, a fair representation of Council operations during the year and in line with the Code. We concluded that although there were some areas for improvement, the overall arrangements were satisfactory and appropriate to ensure that management actions are reviewed effectively.

Public questions

We received questions from the public in respect of the financial statements for the year ended 31 March 2011. These related to senior officer remuneration disclosures and supplier payments. We have considered the points raised, as required under the Audit Commission Act 1998, and set out our response to these matters in this report (page 13). No formal audit action will result from this work.

Next steps

The Audit Committee is required to approve the financial statements for the year ended 31 March 2011 on behalf of the Council. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

3. Value for money

Value for money conclusion

The Audit Commission Code of Audit Practice 2010 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.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

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

In order for us to provide an unqualified conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

We expect to present an unqualified Value for Money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources. We set out the basis for this conclusion in this section of the report, with reference to the control weaknesses around contract management and other issues referred to in the Assistant Director of Finance - Audit and Risk Management's annual opinion.

Programme of work - review of proper arrangements

Our work considered proper corporate performance and financial management arrangements as defined by the Code. The findings from our risk assessment and work in these areas is summarised below:

Area	Work completed	Conclusion
Planning finances effectively to deliver strategic priorities and secure sound financial health	Reviewed as part of financial resilience work and from our overall review of Council performance against its strategic targets.	Proper arrangements considered to be in place.

Area	Work completed	Conclusion
Having a sound understanding of costs and performance and achieving efficiencies in activities	Considered in our review of the Council's financial resilience	Proper arrangements considered to be in place.
Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people	Reviewed as part of financial resilience work and our audit of the financial statements.	Proper arrangements considered to be in place.
Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money	Considered in our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. We have also considered the effectiveness of the Council's actions to address control weaknesses identified in recent internal audit reports.	In the context of Council operations as a whole, our conclusion is that the identified control weaknesses, whilst significant, are not so fundamental as to result in a qualified VFM conclusion. (See pages 20 to 23 for more detail).
Producing relevant and reliable data and information to support decision making and manage performance priorities	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	Proper arrangements considered to be in place.

Area	Work completed	Conclusion
Promoting and demonstrating the principles and values of good governance	Considered in our review of the Council's financial resilience and review of the AGS.	Proper arrangements considered to be in place
Managing risks and maintaining a sound system of internal control	Considered in our review of financial resilience and review of the AGS. We have also considered the Council's current and planned actions to address various control weaknesses identified by internal audit.	There are known control weaknesses in contract management and other areas, as identified by internal audit. However, we consider that actions have and are being taken to address these weaknesses and conclude that they are not sufficient to result in a qualified VFM conclusion this year.
Making effective use of natural resources	Considered as part of our risk assessment of the Council's arrangements to make effective use of natural resources.	Proper arrangements considered to be in place.
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.	Proper arrangements considered to be in place.
Planning, organising and developing the workforce effectively to support the achievement of strategic priorities	Considered in our review of the Council's financial resilience and as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.	Proper arrangements considered to be in place.

Matters arising from the review of Value for Money

Key outcomes from our local programme of work are detailed below.

Securing Financial Resilience

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 its:

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

Our summary findings are that the Council's financial performance indicators are in line with expectations and overall compare favourably in the context of other London Boroughs. The Council has adequate arrangements around financial planning, governance and control in overall terms, subject to our comments elsewhere in this report around contract management.

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 adequate.

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:

- 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 although there were some areas for improvement, 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 also considered issues raised with us by local electors in relation to the financial statements (referred to on pages 13 and 15) when forming our conclusion on VFM.
- We considered the control weaknesses that resulted in the Council's Assistant Director of Finance - Audit and Risk Management, issuing a 'limited assurance' internal audit opinion of the Council's system of internal control in 2010/11. Although the number of limited assurance conclusions is a concern, evidence demonstrates 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.
- We reviewed the Council's investigation into contract management issues following the recent internal audit report on the contractual failings in relation to the use of MetPro. The results of this work are set out below.

Contract management

Contract management was an area of specific concern raised during the year by electors and the Assistant Director of Finance - Audit and Risk Management. Following the internal audit report on MetPro, the following actions were agreed:

- management would implement the action plan in relation to the identified specific failings
- management would carry out a further review to establish the extent to which the Council was entering into arrangements with suppliers without having a formal signed contract
- internal audit would review progress and provide quality assurance and internal challenge over management actions
- we would review progress and carry out further work necessary to be assured over the Council's response.

The agreed actions have been carried out by management and internal audit as planned.

We have reviewed the Council's progress in implementing the MetPro recommendations. It is our view that the Council is on track to deliver the required actions by the agreed deadlines.

The Council's further investigation into contract management has included extensive work in producing a current contracts register and collating underlying records. Internal audit has been involved in reviewing the process. A report of the key findings has been produced for the Audit Committee.

Our work involved interviews with directors, procurement managers, service management and internal audit and review of the contract register and supporting evidence.

We sought to establish whether:

- the recently compiled contracts register was sufficiently complete to use for our testing to support our conclusion on VFM
- the entries on the register suggesting that a contract was in place were supported by appropriate evidence
- in the absence of a signed contract there were adequate arrangements in place to ensure VFM
- the extent of unmitigated VFM risk was so fundamental as to result in a qualification of our VFM conclusion or to require the use of our special reporting powers under the Audit Commission Act 1998.

Our findings are set out in overleaf.

Issue	Audit areas affected	Work completed	Findings
Contract Management	Securing Economy, Efficiency and Effectiveness	<ul style="list-style-type: none"> • The Council has recently completed an exercise to produce a register of all arrangements requiring a contract under Council policies. • We conducted work to assess the completeness and accuracy of the register and analysed the extent of arrangements with suppliers that did not have a formal signed contract. 	<ul style="list-style-type: none"> • Although the register requires further review and validation by management to ensure it is fully complete, the content was sufficient to allow us to carry out our VfM assessment work. • We tested a sample of 40 items from the contracts register to confirm that contracts were actually in place. Our work confirmed that the underlying evidence supported the entries in the contract register, either through a formal signed contract or formal sign-off under delegated authority limits. • The Council's register indicated that approximately 18% (£94.9m) of the total value of current arrangements that should be subject to contract under the Council's financial regulations, did not have fully compliant contracts in place. The Council has benchmarking information that suggests that this is not unusual compared to other London Boroughs. • Within this figure, the majority related to arrangements to purchase accommodation and care - approximately 75% (£71.4m) within Adults and 18% (£16.7m) within Children's services. The remaining 7% (£6.8m) related to other contracts across the services. • We acknowledge that the specific nature of social care spot contracting arrangements requires a more flexible approach to contracting than, for example, an arrangement to supply goods. We also note that contract management had already been raised as an issue in Adults Services, with associated actions agreed, in an internal audit investigation in January 2011. • The main reasons for non compliance were contracts being drawn up but not being signed and arrangements covered by a contract being rolled forward without formal sign off.

Issue	Audit areas affected	Work completed	Findings
Contract Management	Securing Economy, Efficiency and Effectiveness	<ul style="list-style-type: none"> We undertook further work on arrangements within Adults and Children's where the register indicated that complaint contracts were not in place. This looked at the extent to which adequate processes were in place to manage value for money in terms of four key elements: cost, public safety, quality and fraud. This focused on the perceived greatest area of risk, specifically private sector placements (rather than other public sector bodies with whom the Council enters into supplier arrangements). 	<ul style="list-style-type: none"> For Adults we found that in most cases overall framework contracts and individual placement contracts with suppliers had been issued, but copies signed by the supplier had not been obtained. However, in mitigation the day rate paid for each placement had been set by the Council, providing a control over cost. In addition, we found that the Council's annual inspection process for both venue and resident was in operation provided a control over safety, quality and fraud. For Children's we found that in the majority of cases, overall framework contracts were in place and individual funding agreements had been signed by suppliers. An effective inspection process was also in place. We noted that in both cases, the majority of suppliers were subject to central government regulation (primarily CQC and Ofsted) providing additional assurance in regard to safety, quality and fraud. We noted that significant number of suppliers in this category were other governmental bodies (such as the NHS) or were in regard to specialist care, where a competitive market for services purchased did not exist, further mitigating VFM risk in these cases.

Contract management conclusions:

- Weaknesses in contract management have been identified by the Council, most notably around not having formally signed contracts for significant numbers of supplier arrangements.
- The Council's work in this area demonstrated that there are mitigating controls in place to ensure safeguarding and service quality, guard against fraud and to provide some assurance that expenditure represents value for money.
- No evidence was found to indicate the presence of improper persons or activity in arrangements not covered by compliant contracts and there have been no instances of fraud reported by the Council's counter fraud service in relation to suppliers deemed non-compliant on the asset register.
- Our review of this work and further testing supports the conclusions reached by management and internal audit.
- There is a clear need for the Council to 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 (see action plan at Appendix C).

In the context of Council operations as a whole, our conclusion is that the identified contract management control weaknesses, whilst significant, are not so fundamental as to result in a qualified VFM conclusion.

Value for Money Conclusion

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

Based on our findings, the existing level of public reporting of the identified weaknesses and the progress that the Council is making in dealing with these, we confirm that we do not, at this time, need to exercise our statutory reporting powers under the Audit Commission Act 1998.

We stress the importance of the Council carefully managing the completion of a number of current actions to improve contract management controls. We, and internal audit, will continue to monitor and report on progress until we have sufficient assurance that the identified weaknesses have been fully resolved.

Appendices

A. The reporting requirements of ISA 260

Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors

The directors are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Committee that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit Committee.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

£

Audit services

Statutory audit	415,000
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Other services

Grant certification work	85,000*
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* estimated based on charge for 2009/10

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

B. Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the financial statements

Classification - The movement of a balance from one location in the accounts to another

Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	£3,130	Council dwellings	The adjustment increases the value of Council dwellings and reduces the value of impairments charged to the income and expenditure account during the year in respect of assets incorrectly removed from the valuation. The value of this adjustment is then reversed from the general fund to the capital adjustment account as part of the Council's unusable reserves.
Misstatement	£4,955	Investment properties	The adjustment decreases the value of investment properties relating to council property buy backs disposed of by the Council during the year as part of the Edgware regeneration project. The impairment of these assets is processed through the income and expenditure account and then reversed from the general fund to the capital adjustment account as part of the Council's unusable reserves.
Misstatement	£3,387	Provision of services	The adjustment increases the service expenditure in respect of benefit payments relating to 2010/11 not paid until April 2011, however, a corresponding income adjustment is also processed to reflect the subsidy income would be received from central government in respect of the Council's expenditure.
Misstatement	£6,690	Financing income	The reversal of impairment charges recognised in previous period following an asset valuation is processed as income through the income and expenditure account. The balance is then reversed from the general fund into the capital adjustment account as part of the Council's unusable reserves.

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	£4,225	Other land and buildings	The adjustment decreases the gross value of schools by £4,391, less a reduced depreciation of £166 due to application of the incorrect obsolescence rate when calculating year end valuation. The adjustment to gross book value is processed against the revaluation reserve and the reduced depreciation charge is reversed from the general fund to the capital adjustment account as part of the Council's unusable reserves.
Misstatement	£25,582	Capital grants unapplied	The Council can be reasonably expected to satisfy the conditions attached to these utilised capital grants and therefore should be recognised in full through the income and expenditure account . The unspent monies would then be reversed between the general fund and capital grants unapplied reserve account.
Misstatement	£1,502	Government debtors	The adjustment relates to the Council's share of £1,918 misclassified as business rate debtors. The misclassification of the balance between business rate debtors and council debtors also reduces the surplus on the collection fund by £1,918 .

C. Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	Documentation to support decisions, judgements and estimates New auditing standards introduced in 2010/11 (the clarity ISAs) have required us to place an increased emphasis on the judgements and decisions made by the Council in preparing their accounts. and how this is documented. In line with these new requirements, the Council should prepare an overarching document to set out the approach taken for property valuations.	Medium	Property Services currently documents the approach taken for each property valuation it undertakes. The council accepts that it may be useful to have a summary document that sets out the general approach to each category of asset and will work to produce this in time for inclusion in next year's Statement of Accounts working papers.	Responsibility: Property Services 31 March 2012
2	Leases Our testing of lease contracts noted that of the 40 tested in 6 cases documentation was insufficient with either no documentation, unsigned lease contracts or lease contracts which had expired with no contractual extension. The Council should undertake a complete review of all such lease contracts to ensure that appropriate documentation is present and where required seek to agree updated lease contracts.	Medium	Property Services will check that all legal documents now form part of the asset valuation process. This should ensure that within the 5 year rolling programme, all documents are available. Any that are unavailable will be noted on a separate list with reasons.	Responsibility: Property Services 31 March 2012 (for those asset in current year valuation cycle)

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
3	<p>Follow up of internal audit recommendations</p> <p>We noted that some in some specific service areas there was evidence that internal audit recommendations had not been progressed in line with agreed timescales. In these areas there is a need for improved management oversight and more proactive risk management in their work to address the issues raised. The Council should take steps to change and improve the management culture in this regard.</p>	Medium	<p>The quarterly and annual internal audit report documents any high priority recommendations that have not been implemented by management. This report is presented to the Statutory Officers Group and the Audit Committee on a quarterly basis. Where relevant senior management respond to Audit Committee regarding why the recommendation has not yet been implemented in the agreed timescales.</p> <p>Each service has an Assistant Director nominated as an audit lead who receive regular updates of agreed dates for action of all priority 1 recommendations, they act as the point of contact for Internal Audit to liaise with if any problems are noted.</p>	<p>Responsibility: Assistant Directors / Deputy Chief Executive / Internal Audit</p> <p>31 March 2012</p>
4	<p>Regular Review of Access Rights</p> <p>The review of IT access rights is inconsistent across different systems, affecting individuals who change roles or functions within the Council.</p> <ul style="list-style-type: none"> Access rights for all systems should be reviewed on a periodic basis (at least quarterly) to identify any inappropriate settings. The Council should ensure that when a member of staff changes job role, the line manager notifies the Information Systems team promptly so that the access levels can be amended accordingly. 	Medium	<p>The council is working internally to streamline the process so that IS are informed in a timely fashion when staff change job roles. IS will work with managers and HR to achieve this.</p>	<p>Responsibility: Information Systems</p> <p>31 March 2012</p>

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
5	Intrusion Detection Systems (IDS) In order to mitigate the risk of unauthorised access to Council IT systems, the Council undertakes penetration testing of its network security. This identifies areas for improvement. We noted that there is no Intrusion Detection System (IDS) to alert the Council to instances of unauthorised access to its network. We suggest that the Council considers and formally concludes on whether this control should be introduced.	Medium	The council will continue to assess risk to its network security and as part of this, if IDS is shown to provide value for money and remove clear risk, it will be considered for implementation.	Responsibility: Information Systems 31 January 2012
6	VFM and Compliance with Contract Policies 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	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.	Responsibility. Director of Commercial Services Ongoing



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