

London Borough of Barnet

Report to Those Charged With Governance (ISA 260)

For the year ended 31 March 2012

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1 Executive summary

1.1 Purpose of this report

The purpose of this report is to highlight the key issues affecting the results of The London Borough of Barnet (the Council) and the preparation of the Council's financial statements for the year ended 31 March 2012. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position. 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 (the Value for Money Conclusion).

We take responsibility for this report, which has been prepared on the basis of the limitations set out in 'The small print' (Appendix A).

1.2 Introduction

In the conduct of our audit we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated June 2012.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the Council's letter of representation;
- review of the revised Annual Governance Statement up to the date of signing the accounts;
- updating our post balance sheet events review, to the date of signing the accounts; and
- ongoing work to consider questions raised by the public.

1.3 Key audit and financial reporting issues

Financial statements opinion

We were presented with draft financial statements on 31 May 2012 and accompanying working papers on 11 June 2011. This is a week earlier than last year and a month earlier than most Councils and we recognise the significant effort by the Council's finance team in achieving 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 2011/12 (The Code), based on International Financial Reporting Standards (IFRS). Co-operation in dealing with audit issues has been strong, such that we are in a position to issue this report in draft, based on a substantially complete accounts audit, on 18 July 2012.

The audit adjustments processed were of a presentational nature only and had no overall effect on the Council's reported General Fund position at 31 March 2012..

The key messages arising from our audit of the Council's financial statements are set out in section 2.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified opinion.

Further details are set out in section 6.

1.4 Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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

1.5 The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Deputy Chief Executive and Chief Finance Officer and the senior finance team.

We have made a small number of recommendations, which are set out in the action plans within each relevant section of our report. Recommendations have been discussed and agreed with the Deputy Chief Executive and Chief Finance Officer and the senior finance team.

1.6 Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

July 2012

2 Key audit issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

2.1 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated June 2012.

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

Issue	Audit Areas affected	Work completed	Assurances gained
Financial performance	All areas of the financial statements	<ul style="list-style-type: none"> We used our knowledge from regular meetings with senior management and review of reports to inform our review of Council performance during the year and investigated variances from our expectations. Where appropriate we traced transactions and balances to independent evidence and supporting documentation as part of our standard audit procedures. Our work on Council reserves considered use of reserves during the year as well as the closing position to gain an understanding of the Council's financial position. As part of our value for money work we followed up on our financial resilience review which provided a further overview of the Council's financial position. 	<ul style="list-style-type: none"> Our detailed audit testing of the financial statements provided assurance that the published results are in line with Council activities during the year and our understanding of performance from discussions with officers and review of reports. We reviewed the Council's use of reserves during the year and are satisfied that their use is appropriate and that the accounting treatment is correct. Our work in this area did not identify any items of concern. The results of our value for money work are detailed in section 6.

Issue	Audit Areas affected	Work completed	Assurances gained
<p>Use of Estimates and Judgements</p>	<p>All areas of the financial statements</p>	<ul style="list-style-type: none"> • One key area of the Council's accounts which includes judgements and estimates relates to property valuations and specifically school assets. Work done in these two areas has been considered separately in this report. • The Council's accounts include £10.3m of provisions and as part of our audit testing we reviewed all individually significant provisions for compliance with the Code. This work also included review of the basis for the provision and any judgements or estimates used to calculate the provision. • The Council has accounted for its school bank accounts as at 15 March rather than 31 March as they consider any movements between the two dates to be immaterial. We have reviewed this assumption and considered any movements in balances between the two dates. 	<ul style="list-style-type: none"> • See comments below for assurances gained on judgements and estimates within property and school valuations. • When considering individual provisions we considered judgements and estimates made by the Council in reaching a value for the provision. We were able to gain assurance that all provisions had appropriate supporting evidence and were in accordance with the requirements of the Code. • Our review of changes in the bank balances between 15 and 31 March noted that overall there were minimal movements and as such we have gained assurance that the cash balance included in the accounts are not materially misstated.

Issue	Audit Areas affected	Work completed	Assurances gained
<p>HRA self financing and Housing Benefit</p>	<p>Income and expenditure & borrowing</p>	<ul style="list-style-type: none"> The Council received a final settlement position for HRA of £102m liability to DCLG which we have agreed to DCLG confirmation. To finance the HRA settlement the Council took a loan, which has been confirmed with the external lender. The Council's housing benefit expenditure includes a high volume of transactions. To gain audit assurance over the expenditure we have considered the Council's systems and processes associated with benefit payments. We have trend analysis of expenditure during the year seeking explanations for variances or unexpected movements. 	<ul style="list-style-type: none"> The HRA settlement is separately disclosed on the Income and Expenditure account, which is in accordance with the Code requirements for exceptional items. We have also reviewed the accounting for the associated loan and are satisfied that this is appropriate. Our work in the area of benefit expenditure has provided sufficient assurance that the expenditure in the accounts is not misstated.
<p>Employee remuneration</p>	<p>Income and expenditure</p>	<ul style="list-style-type: none"> Our work in this area has included detailed review of the payroll system and its integration with the income and expenditure account. We have tested a sample of employees' payroll information and ensured that their salary costs are included in the appropriate cost centre within the accounts. We have undertaken a detailed review of salary disclosures within the accounts for accuracy and for compliance with the Code . 	<ul style="list-style-type: none"> We have gained satisfactory assurance over the accuracy of employee information within the payroll reports and that associated costs are correctly classified within the accounts. Our work on the salary disclosures in the accounts has provided assurance that the disclosures are appropriate and in accordance with the Code requirements.

Issue	Audit Areas affected	Work completed	Assurances gained
<p>Accounting for property, plant and equipment (PPE)</p>	<p>Non current assets & income and expenditure</p>	<ul style="list-style-type: none"> • We have applied our audit methodology to all types of capital transactions entered into by the Council. This has included asset verification, PFI accounting, lease arrangements and asset classifications. • We undertook a detailed review of the Council's approach to property valuations, which included consideration of assumptions used. 	<ul style="list-style-type: none"> • We have undertaken detailed testing procedures on asset additions, disposals and reclassification movements within PPE as well as PFI and lease transactions. Based on the results of this work we have gained satisfactory assurance over the accounting for capital transactions • As part of our overall approach to review of PPE valuations we considered the Council's overall approach to valuations for different asset categories. We are pleased to report that the Council took on board our previous recommendation to document their approach to asset valuations. Using this document we were able to review key judgements and assumptions used in the valuation process and challenge the valuers on their appropriateness. Based on our work we have gained satisfactory assurance over the Council's approach to valuations. • On a sample basis we have tested individual asset valuations and the accounting is correct. We have also reviewed the valuation of Council dwellings for compliance with the Code and accuracy of the calculation.

Issue	Audit Areas affected	Work completed	Assurances gained
<p>Accounting for heritage assets</p>	<p>Non current assets</p>	<ul style="list-style-type: none"> • As this was a new accounting requirement for 2011/12 and our work initially focused on the Council's approach to identification of heritage assets. • We considered the approach to valuation of the identified assets and the appropriateness of the values included in the accounts. • As part of our work in this area we also considered the accounts disclosures associated with heritage assets for compliance with the Code. 	<ul style="list-style-type: none"> • The approach taken by the Council to identify heritage assets has been undertaken in a systematic way to ensure that all areas of the Council were considered and we are satisfied that the approach taken is reasonable. • The Council has taken a sensible approach to valuation of the identified items using their standard method for property assets and insurance valuations for mayoral regalia. In respect of collections of assets the Council has determined it not beneficial to obtain formal valuation as there are no individually significant items. We consider this approach to be acceptable in this context and are satisfied that the aggregate value of these assets would not be material to the accounts. • The Council has included significant disclosure in the accounts relating to its heritage assets, including their nature and valuation approach. We have reviewed these disclosures and are satisfied that they comply with the requirements of the Code.

Issue	Audit Areas affected	Work completed	Assurances gained
Accounting for schools	Non current assets & grants and contributions	<ul style="list-style-type: none"> • We undertook a thorough review of the Council's MEA (Modern Equivalent Asset) valuation approach. This included challenge of the assumptions within the calculation and re-performance of calculations to ensure accuracy of the final valuation figures. • Our review of the Council's accounting for schools also considered the treatment of different types of school within the accounts. 	<ul style="list-style-type: none"> • During our review of the Council's valuation working papers we identified a number of errors within the spreadsheet, which following discussion with officers were subsequently corrected and the accounts updated accordingly. • Our work on the assumptions within the valuation approach provided satisfactory assurance that the assumptions are reasonable and are supported by appropriate evidence. Although we have gained assurance that the assumptions are reasonable, they are the subject of judgement and estimate by the valuer and small changes can have a significant impact upon the resulting valuation. Accordingly we suggested that the obsolescence assumption be elaborated further as an estimate within the Council's accounting policies and an amendment has been processed.

2.2 Matters identified during the course of the audit

No other matters were identified during the course of our audit which should be brought to the attention of the Audit Committee.

3 Other reporting matters

3.1 Other assurance reviews

To support our audit opinion the following reviews have been undertaken as communicated as part of our audit planning:

Taxes

Our review of the Council's arrangements to account for VAT has not identified any areas of concern and the detail of our work in this area will be shared with Council officers.

We are keeping a watchful brief on outcomes from a recent Council submission to HM Revenue and Customs (HMRC).

Fraud

During the year a review of the Council's fraud and governance arrangements was undertaken through discussion with key officers. Key findings from this work are:

- The Council has a strong Corporate Anti-Fraud Team (CAFT) who together with the housing benefit team work hard to identify and recover Council assets which have been misappropriated.
- The CAFT team undertake proactive work with service areas to improve Council processes and are currently working with the HR team to strengthen the Council's recruitment processes.
- Throughout the year the Council have worked to improve their contract compliance and this work is ongoing.

3.2 Internal audit

Due to a change in the Council's Internal Audit strategic partner, we conducted additional procedures to review the working papers of the incoming provider PWC. This was to ensure that the work was of an appropriate quality, as defined by CIPFA, for us to use it in our audit planning. We reviewed their work on accounts payable and cashbook as a sample of the reviews carried out by them in year. We found that the work had been completed to a high standard, and we had no issues to report to the Council.

3.3 Annual governance statement (AGS)

We have considered the Council's arrangements and processes for compiling the AGS and considered whether it is either misleading or inconsistent with other information known to us from our audit work.

We have reviewed the draft AGS and consider that the information contained within the document is a fair representation of Council operations during the year and complies with the requirements of the Code.

We are pleased to note the approach that the Council is taking to fundamentally review the AGS to move beyond compliance and make it as understandable and useful as possible to readers. We consider that the Council has improved the document from previous years, that the information is well presented and the document compares favourably to others that we review.

3.4 Explanatory foreword

We have reviewed the Council's explanatory foreword to the accounts and we are content that the narrative communicates the required information. One addition regarding the HRA debt restructure has been made to further enhance the document.

3.5 Public challenge matters

We have met with and taken questions from local electors that we will respond to prior to issuing our audit certificate.

4 Audit adjustments

4.1 Misstatements

We are required to communicate all uncorrected misstatements to you, other than those considered to be clearly trivial. We are pleased to report that there are no uncorrected misstatements arising from our audit.

4.2 Impact of misstatements

All adjusted misstatements are set out in detail in section 4.3 below.

In addition to the adjustments detailed below there were a number of presentational and disclosure changes which arose during the course of our audit, the Council has reflected these in the financial statements.

4.3 Adjusted misstatements

	Detail	£000
1	Capital Grants – The adjustment is caused by the Code requirement that a transfer is made from the capital grants unapplied reserve to the capital adjustment account for any grants received in prior years and applied in the current year. This transfer was not processed in Note 7 of the draft accounts. There is no effect on the total value of the reserve but demonstrates a movement of funds during the year.	12,784
2	Valuation of Schools – The adjustment increases the valuation of Schools which were understated by a net amount of £619k in Note 12. The increase is recognised in the revaluation reserve. The effect of this is to increase the value of school assets held by the Council.	629
3	Financial Instruments – The adjustment corrects one loan that was incorrectly classified as current in Note 16 and needs to be reclassified to non-current. The 'Fair Value' amount was also adjusted. This adjustment has no overall effect on the balance sheet but reclassified one loan balance to non-current assets.	5,001
4	Financial Instruments – The adjustment relates to a misclassification of 'Interest and Investment Income' under 'available for sale financial assets'. The amount has been reclassified to 'Loans and Receivables' in Note 16. This adjustment has no overall effect on the income and expenditure account.	1,245
5	Investments – The adjustment corrects cash equivalents which were incorrectly classified as short term investments in Note 20. This adjustment has no overall effect on the balance sheet.	57,081
6	Collection Fund – The adjustment corrects the face of the Collection Fund to show debts written off in year. There is an equal reduction bad debt provision. This adjustment has no overall effect on the Collection Fund surplus for the year.	211
7	Group Comprehensive Income and Expenditure Account – This adjustment increases Financing and Investment gross income and gross expenditure in equal measure so income and expenditure with Barnet Homes is not netted off. This adjustment has no overall effect on the Group income and expenditure account.	1,496
8	Group Balance Sheet – The adjustment reduces short term debtors and short term creditors by an equal amount. This is to ensure consistent treatment of capital items. This adjustment has no overall effect on the Group balance sheet.	1,195
9	Group Cashflow Statement – The adjustments reclassifies amounts on the Cash Flow statement from 'Investing activities' to 'Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities' for consistency with the Council's main financial statements. This adjustment has no overall impact on the change in cash for the year.	13,552
10	Other Comprehensive Income – This error relates to other comprehensive income incorrectly classified as 'available for sale financial assets'. The net impact on the Comprehensive Income and Expenditure Account is nil. The amount should be treated as an 'Adjustment between Accounting Basis and Funding Basis under Regulations' in Note 7.	470

5 Design effectiveness of internal controls

5.1 Accounting system and internal control

Our audit is not designed to identify all significant weaknesses in the Council's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of the Council. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include all possible improvements in internal control.

See Appendix B for further details of our approach in respect of internal controls.

Our internal control findings are detailed in Appendix A.

5.2 Review of information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of our overall review of the internal controls system. We concluded that, from the work undertaken to date there are no material weaknesses that are likely to impact on the Council's financial statements for the year ended 31 March 2012.

Where we have identified areas for improvement these have been discussed with Council officers and are detailed in Appendix A to this report. In addition to the areas noted in this report a number of best practice recommendations were discussed with Council officers and we are pleased to report that in most cases these recommendations have been implemented by the Council prior to issuance of this report.

6 Value for Money

6.1 Value for money conclusion

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; and
- review regularly the adequacy and effectiveness of these arrangements.

We are 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 robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

As part of our work, we have considered the issues raised in the Internal Audit Annual Opinion, including the overall award of 'limited assurance' for the year, based on the specific issues raised.

6.2 Overall conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, 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 for the year ending 31 March 2012. We set out the basis for this conclusion in this section of the report.

6.3 Summary findings

Securing financial resilience

As part of the work informing our 2011/12 Value for Money (VFM) conclusion we have followed up of our detailed 2010/11 report on financial resilience. In doing so we reviewed the arrangements for any changes in areas previously assessed with a 'green' risk rating and focussed on those areas which were considered to have 'amber' risk rating (no areas were considered to present a 'red' risk).

This work enables us to conclude whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial for the foreseeable future (12 months from the date of this report).

Our overall conclusion is that whilst the Council faces significant financial challenges in 2012/13 and beyond its current arrangements for achieving financial resilience remain fit for purpose. We have assessed the key areas using a traffic light system to indicate risk as follows:

	2010/11	2011/12
Financial KPIs for 2011/12	 Green	 Green
Financial planning	 Green	 Green
Financial governance	 Green	 Green
Financial control	 Amber	 Amber

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

Financial Indicators

Benchmarked key indicators of financial performance indicate that Barnet is in line with other London boroughs for liquidity and has strengthened its position since 2010/11. Borrowing levels are up primarily as a result of HRA self-financing, in common with many other large councils.

The Council has been able to maintain a healthy level of useable reserves in 2012, Reserves have been purposely increased over the past few years in order to provide a buffer against future known and unknown financial risks presented by the current economic climate. Barnet's total useable General Fund reserves at 31 March 2012 were £15.7m (excluding schools) with a further £65.1m in Earmarked Reserves, allocated to specific areas of risk. The Council's total useable revenue reserves remain higher than the London borough average and includes £24.6m of additional Earmarked Reserves transferred in year. Increasing numbers of London borough Councils are under pressure to use their reserves to cover annual expenditure and this is expected to worsen up to the next government spending review in 2014 and beyond. Barnet is currently in a good position to withstand these pressures. As a result, 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.

The capital programme was underspent by £63.3m during 2011/12 (52% of the original budget). The Council recognised in 2010/11 that asset management planning was not well integrated into the business planning process, and capital programme delivery was not timely. In 2011 the Council enhanced the role of the Investment Appraisals Board to provide more oversight of the capital programme and associated project management.

The Council has a strong track record on managing sickness absence in recent years, and an average 7.7 days per FTE continues to compare favourably to other London boroughs and against the national average of 10.1 days. We noted that the Council had not achieved its stretch target of 6 days for 2011/12 and there is therefore scope for further improvement.

Financial Planning

The Council has strengthened its 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 current three year medium term financial plan sets out clear parameters for financial performance up to March 2015 and includes provision for upcoming financial pressures. This has resulted in a revised budget gap of £37 million over the three year period to be met primarily through savings built into the budget.

The approach used to identify savings opportunities is 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.

Whilst delivering a sound financial position remains challenging, the Council's established processes and track record of delivery, indicates that it is well equipped to deliver the required level of financial efficiencies, while maintaining or improving services in priority areas.

Financial Governance

The Council has a well established approach to financial governance that has delivered good results in recent financial years.

The council has an effective process of quarterly corporate performance monitoring, which includes financial performance across the services. This process is overseen by the Cabinet Resources Committee which provides a good platform for member challenge. The Council has an effective and influential Internal Audit service, which supports financial governance via the Audit Committee.

The Finance team are part of the Council's NSCSO project. This is being managed to ensure a smooth transition during April 2013 which will be the period that the Statement of Accounts is prepared.

Financial Control

We are aware that the Council is addressing a number of issues relating to the control environment, some of which have financial implications. However, we also note that significant progress has been made and that there is a positive direction of travel.

The Council's approach to financial and performance management, has helped the Council to deliver strong financial results in recent years. Budgetary control over revenue expenditure, including over savings plans, is robust and the Council has demonstrated the appropriate deployment of internal assurance mechanisms. There remains an issue over the delivery of the capital budget, as discussed under 'Financial Indicators' above.

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, particularly for areas outside of the core financial systems, but which nevertheless may have financial or value for money implications. As evidenced by the internal audit annual programme, this remains a work in progress, although there are signs of improvement in many areas, for example in the uptake and implementation of internal audit recommendations. We also note the generally high level of assurance that has been attributed to the core financial systems in the year.

We note the Council's Assistant Director of Audit and Risk (Internal Audit) again 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 Internal Audit programme has a deliberate focus on areas considered to present a risk and therefore that the proportion of limited assurance reports is not necessarily indicative of the overall effectiveness of the control framework. We also note that the position had improved since the prior year, with a reduced proportion of limited assurance reports. We acknowledge that this is indicative of the more robust approach taken to internal audit and risk assurance since 2010/11 that is driving improvement in the control environment.

Whilst key financial systems have generally been reliable in enabling the Council to manage financial risks, there was a notable weakness identified in 2010/11 in regard to the controls over supplier contracts linked to the procurement process. We also noted that the Council had not consistently observed the Council's procurement rules in the use of delegated powers to extend contract terms. We are satisfied that the Council continues to address these issues as a matter of priority and that significant improvement has been made over the course of the year, including in the level of compliance. The culture of compliance is embedding and we will continue to monitor further improvement over the course of the following year.

Our risk assessment in this area remains amber, until this issue is fully resolved and full compliance with policies can be demonstrated for both legacy contracts and new contracts coming on stream.

Challenging economy, efficiency and effectiveness

We have reviewed at a high level the extent to which the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. We have reviewed key developments in Council operations and focused on those areas which have been identified as a risk in the past and those which will have a key role in future development.

Overall we consider that the Council has put in place adequate arrangements for challenging economy, efficiency and effectiveness in its use of resources.

Through discussion with the Council, close liaison with internal audit and review of relevant documents, we have focused on the following key areas:

- progress in the transformation programme (One Barnet)
- overview and scrutiny
- performance management.

We have also undertaken a review on the governance arrangements of the newly implemented Barnet Group structure.

Council transformation (One Barnet)

We continue to review the high level arrangements for the Council's various transformation projects in order to contribute to our overall VFM conclusion.

We have:

- followed the progress of key One Barnet phase 1 projects, including the procurement phase of the Development & Regulatory Services (DRS) and New Support Organisation/ Customer Services Organisation projects (NSCSO).
- drawn on the work of internal audit who have provided coverage of the key risk areas, including in regard to project governance arrangements.
- held preliminary meetings to help us understand the nature and potential content of the second phase of One Barnet projects.
- reviewed the governance arrangements for Barnet Group.

Our conclusion is that adequate arrangements are in place for the overall governance of the transformation projects. We will continue to review arrangements as part of our 2012/13 audit.

Member Scrutiny of Council Decisions

We have refreshed our understanding of the Council's arrangements for member scrutiny, following on from preliminary work in the prior year. We found that overall, the arrangements continued to be in line with the expected standards in local government. We have provided feedback that should help the Council to consolidate best practice in the following areas:

- The Council has been exploring the opportunity for a greater level of pre-decision scrutiny, to be facilitated by providing more advanced warning of upcoming decisions from services, via the Cabinet forward plan. This has already seen improvement over the last year, with the number of post decision member 'call-ins' reducing although there remains further scope for improvement.

- A communications plan to promote the role of member scrutiny
- Potential for greater use of independent and specialist advisory members.

We do not consider the identified areas for improvement to be of concern for our audit opinion but have highlighted them for consideration by the Council.

Performance Management

We have reviewed the Councils newly revised performance management approach used for the quarterly corporate reporting cycle. We found that it is bedding in well and provides a focused tool for management and members. The new report integrates financial, service, workforce and risk information in a single format.

We noted that the Council has rationalised the number of performance indicators reported at corporate level to provide focus, while the full list of performance indicators is still in existence at directorate level and published on the internet as part of the transparency agenda. In addition, the information is now geared towards providing a clear view on how the Council was managing change, again through the selective use of key indicators. This has the effect of directing member and officer focus towards the key risk areas requiring decision, while retaining a sufficiently comprehensive overview of operations as a whole.

The Council is looking to drive forward a number of further improvements, including the increased use of benchmarking information in the services, embedding of the use of a VFM comparative tool for services and the inclusion of data quality indicators on the face of the report.

Member review is carried out by the Cabinet Resources Committee (CRC), and the information is also challenged at both the AD Group and the Corporate Directors Group. This process includes challenge in regard to the completion of mitigating action agreed at the previous quarter, which helps ensure that momentum is maintained.

The Quarter 4 performance report highlighted a number of performance pressures, and some cross service issues in regard to workforce. Overall performance across the range of operations in 2011/12 demonstrates that the Council's priorities and financial targets continue to be delivered.

Barnet Group

During our 2011/12 audit planning, we identified the need to conduct an assessment of the governance arrangements of the newly implemented Barnet Group Local Authority Trading Company (LATC) to provide overall assurance over the governance arrangements to support our 2011/12 Value for Money conclusion. The detailed findings from our work and points for improvement have been shared with the Board of Barnet Group.

Effective governance arrangements are key to ensuring that service standards are maintained within the new organisation and that it is able to meet the needs of service users economically, effectively and efficiently. To test the extent to which the governance framework in place meets best practice, we have met with senior officers, reviewed key documentation and assessed our findings against recognised best practice.

Whilst we acknowledge that Barnet Group and the LATC is still in its infancy, our review identified a number of findings which indicate that the governance framework is developing well: Arrangements for scrutiny and review are also in place, although yet to be fully tested.

It is clear from our review that, given the age of the organisation, it is too early to make judgements in many areas. Barnet Group, itself, is planning to undertake further work, on this aspect of its business, later in the year, when the framework has been more thoroughly tried and tested.

As the arrangements bed down, it is inevitable that some refinements will be needed. Our work has identified a number of matters that we will bring to the attention of the Group to enable the Group to develop best practice in its operations.

6.4 Action plan arising from our value for money audit

No.	Priority	Recommendation	Management Response	Responsible officer and deadline
Contract management				
1	Medium	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.	All supplier contracts are now recorded against a central register. Spend through the SAP system is now linked to contracted values. The Assistant Director of Commercial Assurance continues to monitor compliance on a weekly basis. Contract Management eLearning training has been rolled out to all contract managers and further training is planned along with process improvements to contract monitoring	Director of Commercial Services Ongoing
Managing capital spend				
2	Medium	The Council should take action to understand why the capital budget continues to underspend and take action to improve performance in this area.	Agreed. Actions will be put in place to ensure that profiling of budgets and effective project management of the capital programme are in place for 2012/13	Director of Commercial Services, AD Strategic Finance and Service Directors Ongoing

Scrutiny					
	Priority	Revised recommendation	Original management response	Updated position	Responsible officer & deadline
3	Medium	<p>The Council should continue to move the emphasis of Overview & Scrutiny towards participation in pre-decision scrutiny of strategy formulation, and away from challenging decisions which have already been made by the Executive through the 'Call in' process.</p> <p>To enable this, the Council should work to extend the notice period for key decisions reflected in the Scrutiny Forward Plans.</p>	<p>Accepted</p> <p>The requirement to work with the Administration and Opposition Members, and Council Directors on developing a framework for pre-decision scrutiny has already been identified by the Scrutiny Office.</p> <p>The Head of Governance has commenced a piece of corporate work to improve decision-making processes corporately.</p> <p>As part of this work, the Cabinet Forward Plan will be reviewed and it is intended that the Plan will covers forthcoming key decisions over an extended period (currently four months).</p>	<p>Satisfactory progress made with further development underway.</p> <p>The Cabinet forward plan does not currently look far enough ahead in all areas as 4-6 months' notice is required in order to properly schedule pre-decision scrutiny.</p> <p>There has been a push corporately to improve this and the Council has reduced the number of 'call in' cases over the last 12 months. For example, potential One Barnet projects are being subject to pre decision scrutiny via outline strategic cases presented to members. But in many other areas, there is still not enough warning of key decisions in advance, from the services. This is a prerequisite of enabling greater levels of pre-decision scrutiny.</p> <p>Further work will be done by the Corporate Governance Team in co-operation with the services to obtain greater advance notice of key decisions.</p>	<p>Overview and Scrutiny Manager</p> <p>March 2013</p>

Scrutiny					
	Priority	Revised recommendation	Original management response	Updated position	Responsible officer & deadline
4	Low – Best practice	The Council should develop a Communications Plan for publicising the role of Scrutiny and consider a variety of methods in addition to the website.	Accepted. An officer has been assigned responsibility for delivering this project and will be working closely with the House of Commons Select Committee Media Officer and our internal Communications Team on scope and delivery.	Deferred. Not yet implemented, pending the re-organisation of corporate services. Has been carried forward into the 2012/13 plan.	Overview and Scrutiny Manager March 2013

A Internal control recommendations

Key to assessment of internal control deficiencies

- ▲ Material weakness - risk of material misstatement
- Significant deficiency - risk of significant misstatement
- Deficiency - risk of inconsequential misstatement

Findings for our accounts audit work

	Assessment	Issue and risk	Recommendation	Implementation
1	● Deficiency	Valuation reports From our review of a number of property valuation reports we noted that whilst all reports have the required information, the presentation and level of detail included in the reports is inconsistent between valuers. This is particularly evident in the documentation of method and assumptions used in reaching the final valuation.	We understand that the Council has a range of assets that require different levels of detail in reaching valuation decisions. However, we recommend that the valuers are provided clear guidance regarding the information to be contained within a valuation report ,especially around assumptions and judgements. Management response: Agreed. To ensure consistency, guidance notes will be updated further to ensure clarity over assumptions and presentation.	Property Ongoing

Findings from our review of information technology

	Priority	Issue and risk	Recommendation	Implementation
1	Medium	<p>Change control set up (SAP) In our review of the production clients setup, we noted the following:</p> <ul style="list-style-type: none"> • Except for SAP AG and the production clients, the other clients (001, 066, and 999) are open to changes. This means that users with the relevant access could make changes to these environments. Compensating control is that all changes are logged. • Except for client 400, other production clients (000, 001, 066, and 999) allow cross-client changes. As a result, when changes are made affecting tables that are being used in other production clients including "Production", these changes may also be implemented to the other production environments. 	<p>We recommend management to set T000 values in SAP as follows:</p> <ul style="list-style-type: none"> • Under Transport Connection, all production clients should have a value of 2 which would effectively close the system to changes. • Under "No Cross Client", all production clients should have a value of 3 which would lockdown the changes to the intended specific environment. <p>Management response: Accepted and implemented.</p> <p>Changes assessed, reported and implemented by Logica SAP Managed Service on 28/05/12.</p>	<p>Improvement and Control Officer</p>
2	Medium	<p>Leavers process (Open Revenues) No regular list of leavers is received from SAP that could indicate the leavers on a more frequent basis. From inquiries, the team is not aware of the SAP extract that is routed to system managers on a daily basis through the service desk system.</p> <p>The risk of unauthorised access or alteration of sensitive data increases when logon IDs belonging to leavers are not deleted, blocked or revoked on a timely basis.</p>	<p>The Revenue and Benefits Control team should request to be included in the distribution of the daily SAP extract of leavers.</p> <p>Management response: Agreed, the request has been lodged with the SAP team. In addition a review of inactive user accounts is also undertaken on a monthly basis. Inactive users are then suspended from accessing the system.</p>	<p>Revenue and Benefits Control Manager</p> <p>Target date 1 August 2012.</p>

B ISA 260 reporting arrangements

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

Purpose of report

This report has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee of London Borough of Barnet and the Council's senior management team.

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 2012.

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

We would 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 to third parties without our prior written consent.

Responsibilities of Council officers and auditors

The Council's officers 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 memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of 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 Council 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 our 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.

Independence

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

- the appointed engagement lead and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and directors and the audit team have no family, financial employment, investment or business relationship with the Council; and
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual engagement lead.

In accordance with best practice, we analyse our fees below:

	£
Statutory audit	373,500
Other assurance services - pension fund audit	35,000
Total	408,500

Audit quality assurance

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

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



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