



London Borough of Barnet

Annual Audit Letter - 2008/09

December 2009

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1 Executive Summary

1.1 Purpose of this Letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at the London Borough of Barnet ('the Council') during our 2008/09 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The Letter will be published on the Council's website.

1.2 Responsibilities of the External Auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering financial and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions.

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

1.3 What this Letter Covers

This Letter covers the audit work we have carried out in 2008/09, including key messages and conclusions from our work in:

- Auditing the 2008/09 year end accounts (Section 2)
- Assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3)
- Certifying claims and returns (Section 4).

We have not repeated recommendations agreed with the Council during the year in this Letter. A list of the reports issued can be found at Appendix A. Our actual and budgeted fees for 2008/09 are set out in Appendix B.

The findings of our work in 2008/09 contribute towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Barnet. The results of this work will be reported separately to the Council by the Audit Commission.

* Note: An audit opinion is deemed to be 'un-qualified' when the auditor does not have any significant reservations about the validity of the figures presented in the accounts. A 'qualified' opinion may arise where such reservations exist, for example, if significant values presented in the accounts are not thought to be accurate or cannot be verified.

1.4 Overall Conclusions

The Council performed well in respect of the key aspects of our 2008/09 audit:

- The Council continues to prepare good quality accounts that are free from material misstatement. We provided an 'unqualified' opinion on the Authority's Statement of Accounts (including the Pension Fund), by the statutory deadline of 30 September 2009*.
- We provided an unqualified conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.
- In the Use of Resources Assessment for 2008/09, the Council achieved an overall level 3, reflecting good financial and performance outcomes, in line with around two thirds of London Boroughs.

1.5 Key Areas for Council Consideration

We highlight the following key areas for consideration by the Council in 2009/10.

- The Council should ensure that the Future Shape strategy continues to be supported by robust financial and performance governance arrangements.
- The Council should ensure that the Building Schools for the Future programme is supported by sound procurement processes.
- The Council should address the Internal Control issues arising in the year and reflected in its Annual Governance Statement, in particular the continued development and strengthening of the Internal Audit Service.
- The Council should ensure that its medium term financial planning continues to take account of the current economic climate and the likely reductions in public spending in the short to medium term, as well as the impact of the recession on Council income.
- The Council should continue its preparations for the introduction of accounting under International Financial Reporting Standards (IFRS), including ensuring that asset valuation procedures are sufficiently robust and accounting for fixed assets is further strengthened.
- There are a number of areas which require attention arising from the Use of Resources Assessment, which will help the Council to maintain or improve performance in future years (see section 3.4).

1.6 Concluding Statement

This Letter was agreed with the Chief Financial Officer in December 2009 and will be presented to Audit Committee early in 2010.

We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
December 2009

2 Statement of Accounts

2.1 Introduction

We issued an unqualified opinion on the Council's 2008/09 accounts on 29 September 2009 (including the Pension Fund), ahead of the statutory certification deadline. Our opinion confirms that the accounts 'present fairly' the financial position of the Council.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (for the purposes of accounts approval this is the Audit Committee). We presented our findings to the Audit Committee on 29 September and summarise only the key messages in this Letter.

2.2 Quality of the Accounts

The Council produced a set of draft 2008/09 accounts for audit on 29 June 2009 (prior to submission of full draft accounts on 30 June 2009). Closedown was well managed by the Council and there was clear commitment to producing good quality accounts. This resulted in a relatively smooth audit process and a reduced level of proposed adjustments. Additionally, the Council has taken forward planning for accounting under International Financial Reporting Standards (IFRS).

The Council continues to prepare good quality accounts that are free from material misstatement and which are supported by good working papers. The audit identified a small number of changes to disclosures in the notes and there were also a small number of minor adjustments which were not adjusted on grounds of materiality. The matters identified in our *Annual Report to those Charged with Governance (ISA 260)* had no material impact on the General Fund balance or charges to Council tax payers.

2.3 Financial Performance

The Council has produced good financial results for the 2008/09 financial year, which are broadly in line with its medium term financial plans.

The General Fund exists to finance the Council's day to day costs of providing services. The Council increased its General Fund by £1.37 million in the year, bringing the total General Fund balance at year end to £17.48 million (excluding a further £13.23 million allocated to schools). This is after taking into account a £4.31 million impairment to reflect the predicted fall in value of deposits held with Icelandic Banks, as well as a net increase in pension costs of £6.53 million.

Earmarked Reserves are amounts of money set aside to cover expenditure in future years on specified projects or major initiatives. The Council has increased its Earmarked Reserves by £13.33 million in year, bringing the total balance of Earmarked Reserves to £31.9 million. This includes additional funds to cover potential lost revenue in future years as a result of the economic downturn.

The Council's financial strategy determines that finances should be managed in order to maintain a minimum balance of £15m on the General Fund. Recent financial information (September 2009), indicates that this condition is likely to be met for the financial year 2009/10. This information projects a potential reduction in the General Fund that, if realised, would reduce the fund from £17.5m at 31st March 2009 to £15.8m at 31st March 2010. This is partly due to the occurrence of budget deficits in some of the Council's service areas, which are linked to the economic downturn. The Council is taking action to address these variances in order to bring expenditure back into line with the 2009/10 budget and minimise the potential impact on the general fund.

2.4 System of Internal Control

We undertook sufficient work on key financial controls for the purpose of designing our programme of work for the accounts audit. Our evaluation of the Council's key financial control systems did not identify any control issues that presented a material risk to the accuracy of the accounts.

Our accounts audit work identified some areas where the Council should continue to work to improve its financial systems and controls. The key areas for improvement are set out in our *Annual Report to those Charged with Governance (ISA 260)*, along with an action plan, and include:

- *Treasury Management* - monitoring the effectiveness of actions taken to strengthen controls over treasury management in the aftermath of the collapse of the Icelandic Banks.
- *Standing Financial Instructions* - Standing Financial Instructions and Standing Orders should be reviewed to ensure that they are up-to date and help promote a stronger control mechanism across the Authority.
- *Fixed Asset Register* - development of the asset management system to ensure that ongoing issues with the accuracy of the accounting records are addressed.
- *Fixed Asset Valuation* - the policy of revaluing land and building assets on a five year cycle should be considered to ensure that asset values fairly reflect movements in prices in each year.
- *Pension Fund Bank Account* - In the light of updated guidance on cash sharing arrangements, the Pension Fund operate its own bank accounts.

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our accounts opinion.

2.5 Internal Audit

The Council's internal audit service helps to support its internal control and risk management arrangements. The service reviews various aspects of operational activities, including accounting and financial management, on a cyclical basis. As the Council's external auditors, we look to use the work of Internal Audit to support our audit of the accounts, where possible. We reviewed the work of Internal Audit and concluded that the quality of the work was appropriate to support our work in auditing the Council's 2008/09 Statement of Accounts. There were no fundamental control issues arising from the work of Internal Audit that impacted on our planned audit strategy.

However, we had previously agreed with the Authority that a three year internal audit cycle for core financial systems could be accommodated in our audit process. In doing so we recognised that this would affect the level of reliance we could place from the work done on key processes not directly covered in the financial year.

The Internal Audit service is currently under review by the Council and we understand that key operational processes will be tested annually in future in order to strengthen the internal control framework. The review should help to improve the coverage, focus and corporate impact of the Internal Audit service, including the mechanism for ensuring that audit recommendations are followed through to completion. During the financial year 2009/10 we have been working closely with the Council to help develop the service.

2.6 Annual Governance Statement

We examined the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. Whilst we made a number of recommendations to enhance the coverage of the AGS, we concluded that overall, the AGS was consistent with our knowledge of the Council.

It is important for the Council to ensure timely and robust action is taken to implement the control improvements identified in the AGS.

2.7 Icelandic Bank Deposits

The Council had invested £27.4 million in two Icelandic banks, Landsbanki and Glitnir, at the time that they went into administration in October 2008. Subsequent guidance issued to local authorities indicated that the majority of the outstanding balance would be recoverable, but that a proportion of the balance should be accounted for as a potential loss or 'impairment'. The Council duly calculated the impairment on its investment in accordance with the guidance and recognised a net impairment of £4.31m in 2008/09.

2.8 Treasury Management

The Council reported in its Annual Governance Statement that a review process had been initiated to investigate suspected non-compliance with the Treasury Management Strategy during the year. A special scrutiny committee was appointed by the full Council, and this body commissioned an independent investigation to review both management and performance in relation to the introduction, implementation and monitoring of the Treasury Management Strategy. The investigation found significant deficiencies in the control environment over Treasury Management. Prompt remedial action has been taken to address those deficiencies.

In light of the Icelandic bank crisis, auditors were requested by the Audit Commission to review the treasury management arrangements in place at local authorities. Our review of the Council's arrangements demonstrated that significant and immediate steps had been taken to improve treasury management arrangements. We confirmed that all deposits held at year end complied with the relevant version of the revised Treasury Management Strategy (excluding the deposits held with the Icelandic banks).

We therefore concluded that the procedures in place for the year ending 31 March 2009 were sufficiently robust to support our audit opinion, our VFM conclusion and our Use of Resources assessment. We identified scope for further improvement regarding the extent of member training on treasury management issues.

2.9 Members Expenses & Allowances

Due to the high profile coverage of Parliamentary expenses during 2008/09, we looked at members' and senior officers' allowance and expenses in greater detail than in previous years. Our review found that appropriate procedures and controls are currently in operation at the Council.

2.10 Looking Ahead

We would like to draw your attention to significant changes that will happen to the statement of accounts in future years, and specifically, the implementation of International Financial Reporting Standards (IFRS) as the basis for preparing the 2010/11 accounts. IFRS will replace the existing set of accounting rules and presentational conventions that have been used for the 2008/09 accounts. Although 2010/11 may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the content and appearance of the accounts in future years.

We recognise that the Council has already started to address IFRS with the appointment of a lead officer, the development of an implementation plan and involvement in local IFRS forums. There remain some significant challenges, particularly around fixed asset accounting and valuations, but the Council is well placed to take IFRS implementation forward.

3 Use of Resources

3.1 Introduction

We issued our annual VFM conclusion on 29 September 2009, at the same time as our accounts opinion. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Prior to giving our VFM conclusion, we summarised the basis of this conclusion in our *Annual Report to those Charged with Governance (ISA 260)*, which we presented to the Audit Committee on 29 September 2009. We provided further detail and set out the results of our assessment of the Council against the use of resources framework in our Use of Resources 2009 report, which was presented to Audit Committee on 16 December 2009. In this Letter we summarise the key messages from this work alongside relevant current findings, and look forward to forthcoming challenges for the Council.

3.2 The VFM Conclusion for 2008/09

Our VFM conclusion was informed by our use of resources work which, in councils, is based on the Audit Commission's new use of resources (UoR) assessment. The new framework emphasises outcomes over processes, and brings new areas into the assessment such as environmental management. It presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect an objective change in performance.

In order for us to provide an unqualified conclusion, the Council needed to achieve an 'adequate' assessment (score of at least 2) for each component of the UoR assessment. Our UoR assessment concluded that the Council had at least adequate arrangements in all areas and our VFM conclusion was unqualified.

3.3 The Use of Resources Assessment

We have assessed the Council as performing well in the areas of managing finances and managing resources. In reaching this assessment we considered the continued strong outcomes delivered by the Council in terms of financial management and service performance.

The managing finances assessment reflects particular strengths in the areas of integrated financial and service planning and financial reporting. We have assessed the Council as performing well overall in the good governance theme, based on good performance in the areas of 'use of data', and 'good governance'. The Council has adequate arrangements for managing natural resources and assets.

To support our conclusions in the good governance theme, we undertook spot-checks of four performance indicators and found no significant data quality issues. We also considered the results of our mandatory work on housing benefits, which did not give rise to any significant data quality concerns.

The prevailing use of resources score nationally was an overall level 2, although London Boroughs tended to be assessed at a slightly higher level, with approximately two thirds achieving an overall level 3.

The 2008/09 scores by Key Line of Enquiry (KLoE) area are shown in the table below.

Table 1: UoR scores 2008/09

Theme / KLoE		Score
Theme 1 - Managing finances		3
1.1	Financial planning	3
1.2	Understanding costs	2
1.3	Financial reporting	3
Theme 2 - Governing the business		3
2.1	Commissioning and procurement	2
2.2	Use of data	3
2.3	Good governance	3
2.4	Internal control	2
Theme 3 - Managing resources		2
3.1	Managing natural resources	2*
3.2	Asset management	2
3.3	Workforce management	N/A*

Scoring scale:

1 - Below minimum requirements - inadequate performance
 2 - Only at minimum requirements – adequate performance
 3 - Consistently above minimum requirements – performing well
 4 - Well above minimum requirements – performing strongly

* Within the Managing Resources theme, in 2008/09, environmental management has the greater weighting and workforce management is not assessed

3.4 Areas for Council Consideration

In order to sustain and improve the Use of Resources score in future years we have identified a number of recommendations which the Council should address, particularly around aspects of internal control. These were set out in our Use of Resource report, including an action plan. The key high priority considerations arising from our assessment include:

- Embedding recent improvements in the control framework around treasury management through relevant training sessions for those elected members with responsibility for governance of the treasury management function.
- Reviewing the causes of slippage on the Capital expenditure programme for 2008/09 and consideration of the need to strengthen the planning, procurement and management arrangements for the Capital programme.
- Review of the governance arrangements for the audit and accounts sign off in order to optimise the level of scrutiny by elected members.

- Ensuring that the Council is able to clearly articulate and quantify the financial and non-financial benefits arising from all areas of the Future Shape and core efficiency programmes, showing that service review and analysis activity is leading to the targeted levels of improvement.
- Clarifying the impact of the 'Future Shape' programme on commissioning and procurement arrangements.
- Showing that the identified weaknesses in internal control have been successfully addressed, in particular improving the coverage and strategy of internal audit, and improving the organisation's performance in responding to arising action plans as well as Members demonstrating more impact on risk management arrangements.
- Showing that the Council has a clear understanding of carbon emissions and water consumption and is proactively delivering reductions.
- Showing that the new Capital, Assets and Property strategy is being effectively implemented and is leading to improved outcomes and that development of an integrated asset register has been successful.
- Clarifying the impact of the future shape programme on asset management arrangements corporately and with partners.

3.5 Follow-up of Local Value for Money (VFM) Work in 2008/09

In 2007/08 we undertook a review of the arrangements in place between the Council and local NHS Services, to tackle Health Inequalities in the Borough. Through our work on Use of Resources in 2008/09 it is apparent that the Council and its partners are making progress on developing joint commissioning arrangements, rooted in the Health and Wellbeing Framework and the completed Joint Strategic Needs Assessment. We will continue to review progress within our Use of Resources work in 2009/10.

3.6 National Fraud Initiative

The National Fraud Initiative provides local authorities with an internet based reference tool to help identify instances of potential fraud, including benefit claims. We have recently completed a mandatory National Fraud Initiative (NFI) risk assessment for the Audit Commission, based on the Council's progress in investigating potential data matches identified on the system. The assessment was based on a 'traffic light' marking system and in common with most of our local authority clients, we assessed the Council as 'amber', reflecting that satisfactory progress is being made. We will continue to monitor progress as part of our 2009/10 work.

3.7 Challenge Issues

Under the Audit Commission Act 1998 - section 15(2), at the request of a local government elector, the auditor shall give the elector, or any representative of his, an opportunity to question the auditor about the accounts. The role of the auditor is set out in the Audit Commission Act 1998. As external auditors, we concluded one notice of objection during 2008/09 in respect of equipment purchased as part of a refurbishment of the Council's office accommodation. We didn't uphold that objection but made a number of recommendations for improvement. We would also note that the long standing objection to the 2001/02 accounts in respect of the land sale to Barnet football club was also resolved in 2008/09. We received a number of other enquiries from local authority electors during the year and have responded appropriately. We can confirm that the Council's 2008/09 accounts were certified as closed with no outstanding questions or objections in respect of that year and earlier.

3.8 Looking Ahead

We agreed our indicative 2009/10 audit fee with the Council in March 2009. The letter set out our initial assessment of the local issues which may require specific work to support our Value for Money Conclusion and Use of Resources work. The key considerations for 2009/10 include:

- The Council's arrangements for managing its workforce will be reviewed for the first time in 2009-10 as part of the Use of Resources assessment.
- The Council has set out an ambitious strategy for high quality service delivery and community leadership via its Future Shape Strategy. This will underpin the development of the Borough's infrastructure and physical estate. However, the Council recognises that resources to put this into practice are likely to be more restricted in future. Consequently, the Council is pursuing proposals for securing additional funding (Barnet Financing Plan), looking at different ways of doing business (shared services, partnerships, outsourcing etc) and also assessing service prioritisation.

We confirm that these assumptions remain relevant and we will build these into the risk assessment for our 2009/10 plan, along with specific follow up of our 2008/09 recommendations, and any new risks emerging, when we agree our full plan in December 2009.

4 Certification of Claims & Returns

4.1 Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide certificates on the accuracy of grant claims and returns to various government departments and other agencies.

4.2 Key Messages

Each year, following certification of the programme of claims and returns we produce a summary report for the Council and agree an action plan in respect of any identified improvement areas. We presented our Grants Report 2007/08, to the Audit Committee in February 2009 and are nearing completion of the certification of 2008/09 claims and returns.

In February 2009 we reported that the Council has improved its performance against key targets as a result of implementing most of the recommendations made in our previous Grants report and in particular:

- All grant claims that required certification were submitted on time.
- The quality of working papers provided to auditors had improved, with most claims and returns reconciling back to the general ledger.
- Key officers have been provided with training in preparation of claims and returns and the certification process.
- The grants co-ordinator liaised with the audit manager and grant compliers to ensure that work on the claims and returns was completed by the certification date.

Our certification programme for 2008/09 has yet to be completed. From the work undertaken to date, we can report that the Council's performance has been satisfactory overall, but with some scope for development.

To date, we have completed the certification of eleven Claims and returns in 2008/09. Nine of these claims have been provided with 'unqualified' audit certification and two claims were 'qualified' due to incomplete or un-reconciled data in the returns. In addition, we noted that a further two claims had not been submitted for audit certification by the required date, which led to one of these being certified after the mandatory deadline had passed.

In regard to Housing Benefit claims, the Council performed well, with no significant errors or control issues detected. The Housing Benefit return was duly certified in time for the mandatory deadline.

The quality of working papers provided to auditors was considered to be of a good standard. Key officers had been provided with training in preparation of claims and returns and the certification process. It was also noted that the grants coordinator had liaised with the audit manager and grants officers to help ensure that work on the claims and returns was completed by the certification date.

On completion of our work on claims and returns, our detailed findings and recommendations will be included in a separate audit report. This will be presented to those charged with governance in due course.

A Reports Issued

Report	Date issued
Data Quality Report 2007/08	February 2009
Grants Report 2007/08	February 2009
Indicative Fee Letter 2009/10	April 2009
IT Controls Report	April 2009
Audit Strategy Document	June 2009
Annual Report to those Charged with Governance (ISA 260)	September 2009
Use of Resources Report	December 2009
Audit Plan 2009/10	December 2009
Annual Audit Letter	December 2009

B Appendix: Audit Fees

Audit Area	Planned Fee 2008/09	Actual Fee 2008/09
Accounts	£135,000	£135,000
Use of Resources / VFM Conclusion	£285,000	£285,000
Subtotal	£420,000	£420,000
Pension Scheme Audit	£40,000	£40,000
Total Audit Fee	£460,000	£460,000
Certification of Claims and Returns	£85,000	£70,265



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