

# Annual Audit Letter

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Greenwich London Borough Council

Audit 2008/09

November 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

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## Audit Opinion

- 1 I issued unqualified audit opinions on the Council's financial statements and the Pension Fund accounts on 30 July 2009.
- 2 However, I cannot formally conclude the audit and issue a certificate as objections made to prior year financial statements are not yet resolved. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

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## Financial Statements

- 3 I made one material and a small number of non-trivial amendments to the Council's financial statements. None of these changes had an impact on the level of available revenue reserves.
- 4 I identified only one non-trivial amendment in the Pension Fund accounts which management agreed to correct.

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## Value for money

- 5 I issued an unqualified conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate.
- 6 The specified key lines of enquiry for the Audit Commission's new use of resources assessment framework form the basis of the auditor's value for money conclusion. The Council's overall use of resources score for 2008/09 was assessed as level 3, performs well.
- 7 The Council's scores for each of the three use of resources themes are set out below in Table 1.

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**Table 1 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

**Table 2    Audit fees**

	<b>Actual</b>	<b>Proposed</b>
London Borough of Greenwich audit	£449k	£449k
Greenwich Pension Fund audit	£38k	£38k
<b>Total audit fees</b>	£487k	£487k
Non-audit work	-	-
<b>Total</b>	£487k	£487k

**Actions**

- 8** Recommendations are shown within the body of this report and have been agreed with the audited body.

**Independence**

- 9** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement - London Borough of Greenwich

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## London Borough of Greenwich

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

- 10** I have reported separately to the Council on the issues arising from the 2008/09 audit and issued the audit report, providing an unqualified opinion on your accounts.
- 11** However, the audits for 2006/07 and 2007/08 cannot be completed as the appointed auditor is currently considering objections in relation to payments made to a consultant during those years and income and expenditure associated with the Council's Building Schools for the Future (BSF) programme. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

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## Significant issues arising from the audit

- 12** I issued an unqualified opinion on the Council's financial statements on 30 July 2009.
- 13** My audit identified a material amendment to the draft financial statements. During 2008/09 the Council undertook a revaluation of part of its schools estate which identified that the value of schools land had increased considerably since the last valuation in 2005/06. I identified that the remainder of the schools estate may have undergone a similar increase in value and, consequently, the valuation of school assets in the draft statements may be materially understated. The Council commissioned a full revaluation of the schools estate that established the draft values had been materially understated resulting in a net increase of £142.5m to the value of the schools estate disclosed in the Council's balance sheet. This amendment increased the net worth of the Council but had no effect on the level of available revenue reserves.
- 14** A small number of other non-trivial adjustments were also made to the draft financial statements although, taken together, these did not affect the level of available revenue reserves.

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## Material weaknesses in internal control

- 15** I did not identify any significant weaknesses in your internal control arrangements.

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## Accounting Practice and financial reporting

**16** I considered the qualitative aspects of your financial reporting. I recommended improvements in two key areas.

- In order to produce the financial statements, the Council makes a series of adjustments outside of the ledger. Usually, changes to the ledger are made via journals which pass through a process of review and control. Adjustments outside of the ledger may not consistently be subject to equivalent controls which introduces a greater risk of error. This has been the practice at the Council for a number of years but with the forthcoming move to new ledger software the opportunity exists to make greater use of the ledger and associated journal controls to govern these adjustments.
- The Council's process for identifying related party disclosures draws its information principally from declarations requested of all Members and Senior Officers during the closedown process, a large number of which were outstanding at the time the draft accounts were passed to audit, although all but three had been provided by the time I reported to those charged with governance. Amendments were required to reflect late declarations received. The Council could mitigate this risk by drawing more from information already held, such as registers of interest and expenditure records. This would reduce the relative importance to the process of self-reporting which could then be undertaken earlier in the year.

Recommendation
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<b>R1</b> Monitor progress and outcomes against the action plans in place to address the recommendations made in the London Borough of Greenwich 2008/09 Annual Governance Report.
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# Financial statements and annual governance statement - Greenwich Pension Fund

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## London Borough of Greenwich Pension Fund

**The Pension Fund's financial statements and annual governance statement are an important means by which the Fund accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 17** I issued an unqualified opinion on the pension fund's financial statements on 30 July 2009.
  - 18** Only one non-trivial error was noted in the financial statements where the draft statements gave the value of a particular investment as that disclosed by the custodian rather than the fund manager, a difference of £1.583m. The Council reviewed this discrepancy and identified that the figure from the custodian was incorrect. An amendment was made by management.
  - 19** I also reviewed the pension fund annual report for consistency with the pension fund financial statements.
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## Material weaknesses in internal control

- 20** I did not identify any significant weaknesses in the internal control arrangements.
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## Accounting Practice and financial reporting

- 21** I considered the qualitative aspects of your financial reporting. I recommended improvements in two key areas.
    - As in previous years, during 2008/09, the Council did not maintain a separate bank account for the pension fund. Although this was not a requirement, and I was able to verify the cash balance to supporting records, holding pension fund cash in a dedicated account would improve transparency and governance. I understand that the Council is planning to establish a dedicated pension fund bank account during 2009/10.
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- In order to produce the Pension Fund financial statements, the Council makes a series of adjustments outside of the ledger. For example to account for notional items such as market value fluctuations. Usually, changes to the ledger are made via journals which pass through a process of review and control. Adjustments outside of the ledger may not consistently be subject to equivalent controls. This introduces a greater risk of error. This has been the practice at the Council for a number of years but with the forthcoming move to new ledger software the opportunity exists to make greater use of the ledger and associated journal controls to govern these adjustments.

### Recommendation

**R2** Monitor progress and outcomes against the action plans in place to address the recommendations made in the London Borough of Greenwich Pension Fund 2008/09 Annual Governance Report.

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# Value for money and use of resources

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I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 22** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 23** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 24** My use of resources judgement will be combined with the managing performance theme score to form the organisational assessment for the Council. This, and the area assessment, will be reported to the Council by the Comprehensive Area Assessment Lead in December 2009.
- 25** The Council's overall use of resources score for 2008/09 was assessed as level 3, performs well. The Council's use of resources theme scores are shown in Table 2 below.

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

- 26** The key findings and conclusions for the three themes, and scores for each of the underlying KLOE, are summarised in Appendix 1. A more detailed use of resources report has been issued to the Council.

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### VFM Conclusion

- 27** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are also set out in Appendix 1.
- 28** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Other matters

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## Community Safety Inspection

- 29 The 2008/09 Audit and Inspection plan included a Community Safety inspection with a focus on the approach being taken to identify and deal with particular types of crime.
- 30 The inspectors concluded that the service is 'fair' (one star) and has 'promising' prospects for improvement. The detailed findings from this inspection were reported to the Council in December 2008.

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## Grants

- 31 Central Government grants are a significant source of income for the Council which is paid to cover the cost of specific activities. The schemes are defined and regulated by a variety of government departments and agencies. Similarly, the Council makes a number of returns to Central Government where it has collected money on its behalf.
- 32 Under section 28 of the Audit Commission Act 1998, we have been appointed to certify those claims and returns which are subject to external audit certification.
- 33 All but two of the Council's claims and returns submitted for certification during 2008/09 have now been certified. Audit work on the remaining grant claims has commenced and the audits are expected to conclude within the required timeframe.
- 34 All 2008/09 claims and returns were received from the Council within the required timeframe and the quality of working papers has generally improved since last year.
- 35 A detailed report of the findings from the grants audit work will be issued to the Council in January 2010.

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## Building Schools for the Future

- 36 In February 2009, we reported that the Council had experienced delays with its BSF programme due to some site specific issues, difficulties in appointing contractors for parts of the schemes, and in finding the finance provider particularly in light of the recent economic downturn.
- 37 Progress is now being made with commercial close having been achieved in September 2009 for the two PFI schools, Crown Woods and Thomas Tallis.
- 38 We will continue to liaise with officers on the Council's programme of plans for rebuilding its schools.

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# Closing remarks

- 39** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit and Risk Management Panel on 2 December 2009.
- 40** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3**

Report	Date issued
London Borough of Greenwich Annual Governance Report	July 2009
Opinion on London Borough of Greenwich financial statements	July 2009
Pension Fund Annual Governance Report	July 2009
Opinion on Pension Fund financial statements	July 2009
Value for money conclusion	July 2009
Opinion audit accounts memorandum	October 2009
Use of Resources Report	October 2009
Community Safety Inspection	December 2008

- 41** The London Borough of Greenwich has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Sue Exton  
 District Auditor  
 November 2009

# Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

## Managing finances

<b>Theme score</b>	<b>3</b>
Key findings and conclusions	
<p>The Council has a strong financial planning process which closely aligns itself to corporate objectives. Budget setting processes are robust. Stakeholder engagement on financial matters is effective and spending reflects the priorities of residents. Its strong financial position enabled the Council to freeze Council Tax and discretionary charges for 2009/10 at 2008/09 levels.</p> <p>The Council has a good understanding of its costs and benchmarks itself effectively, particularly in Education and Young People. Service reviews in Transport, Adult Social Services and Libraries have demonstrated an understanding of the cost drivers in key services. Efficiency savings for 2008/09 were comfortably achieved in line with the National Indicator 179 target of £12m.</p> <p>Budget monitoring information is reliable and accurate. The Council manages its overall budget effectively. The Council continues to deliver against its commitment to producing early draft statements and amended all errors identified by audit. Public reporting is timely and accessible and there is some engagement on reporting preferences. Reporting of the Council's environmental impact could be strengthened.</p>	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b> <b>Score</b> <b>VFM criterion met</b>	<b>3</b> <b>Yes</b>
<b>KLOE 1.3 (financial reporting)</b> <b>Score</b> <b>VFM criterion met</b>	<b>3</b> <b>Yes</b>

### Governing the business

<b>Theme score</b>	<b>3</b>
<b>Key findings and conclusions</b>	
<p>The Council governs itself well. The vision in the Greenwich strategy shapes procurement and commissioning services. Procurement arrangements have enabled local businesses to tender for work and have facilitated the improvement in local employment.</p> <p>There is an effective performance framework in place to ensure delivery against the agreed targets and the Greenwich Management Team meets fortnightly to review performance issues only. This gives a clear focus and profile to performance.</p> <p>Data quality is reasonable with an effective strategy in place although there is not a programme of internal data quality reviews in place and more could be done to gain assurance over the quality of data provided by third parties.</p> <p>The Council has a strong public service ethos which is evident from its leadership arrangements and the commitment to providing better outcomes for local people. The Council's strategy is based on consultation with local people which is successful in capturing the views of local users.</p> <p>Risk management arrangements are good and these have helped deliver a number of projects. Risk management has incorporated partner risk into the Greenwich risk framework and addresses opportunities as well as risks.</p> <p>There is a robust system of internal control in place and the Council has made a number of improvements to the internal audit service including the introduction of a mixed economy arrangement with PWC. The Council's counter fraud arrangements are very good and the counter fraud team has achieved a strong anti-fraud culture through effective training and publicity around prosecutions.</p>	

## Appendix 1 – Use of resources key findings and conclusions

<b>KLOE 2.1 (commissioning and procurement)</b> Score VFM criterion met	<b>3</b> <b>Yes</b>
<b>KLOE 2.2 (data quality and use of information)</b> Score VFM criterion met	<b>2</b> <b>Yes</b>
<b>KLOE 2.3 (good governance)</b> Score VFM criterion met	<b>3</b> <b>Yes</b>
<b>KLOE 2.4 (risk management and internal control)</b> Score VFM criterion met	<b>3</b> <b>Yes</b>

**Managing resources**

<b>Theme score</b>	<b>2</b>
Key findings and conclusions	
The Council has a good understanding of how it uses its natural resources and has a good baseline of environmental impact information but this has not yet translated into outcomes. It has an effective biodiversity action plan in place which has made its parks and open spaces environmentally sustainable. Asset management at the Council is very good with the modernisation programme delivering regeneration of run down areas using council assets and providing up to date office accommodation.	
<b>KLOE 3.1 (use of natural resources)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 3.2 (strategic asset management)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>

# Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Monitor progress and outcomes against the action plans in place to address the recommendations made in the London Borough of Greenwich 2008/09 Annual Governance Report.	2				
8	R2 Monitor progress and outcomes against the action plans in place to address the recommendations made in the London Borough of Greenwich Pension Fund 2008/09 Annual Governance Report.	2				

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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