

Government and Public Sector

October 2009

London Borough of Redbridge

2008/09 Annual Audit Letter

The Members
London Borough of Redbridge
Town Hall
128-142 High Street,
Ilford, Essex
London IG1 1DD

28 October 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members on 16 November 2009.

Yours faithfully

PricewaterhouseCoopers LLP
Encs

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Contents

Section	Page
Introduction	4
Audit findings	5
Matters affecting future accounting periods	9
Summary of recommendations.....	10

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at London Borough of Redbridge that is accessible for members and other interested stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance as follows:

- Audit opinion for 2008/09 financial statements dated 30 September 2009, incorporating the conclusion on Use of Resources
- Report to those charged with Governance (ISA (UK&I) 260) dated 30 September 2009
- Report to the Chief Executive following the conclusion of our Use of Resources work.

The matters reported here are those that we consider are most significant for the Council and a summary of the key recommendations that we have made can be found in Appendix A.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Council's Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued on 4 June 2008.

Audit findings

Accounts

We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

We identified the following key issues from our audit of accounts:

- **Adjustment and disclosure amendments in relation to fixed assets:** During the course of the audit of the statement of accounts, we identified one significant difference amounting to £2.2 million relating to an under-accrual of an invoice for an asset under construction. The draft statement of accounts also contained errors with respect to fixed asset disclosures. The net effect of these changes was to increase the value of additions by £2.9 million but does not impact on the total value of fixed assets. These errors were corrected by Management.
- **Revaluation of capital assets:** The Kenneth More Theatre was revalued and its value increased from £224k to £6.1 million, based on the open market value. The new value represents a change in the basis of valuation and is a result of the Theatre being part of the town centre area earmarked for regeneration. As the Theatre is a specialised asset, it should be valued on a Depreciated Replacement Cost basis, rather than the current market value. In spite of this, it is not expected that the different valuation basis would result in a material variance to the financial statements. We understand that the Council is committed to the proposed regeneration of the area.
- **Single status reserve:** The statement of accounts include an earmarked reserve of £4.2 million as well as disclosure of a contingent liability

relating to the Single Status. We have discussed the current position of the Single Status reserve with Management and are comfortable that the accounting treatment and disclosure are adequate. We recommend that there is continued monitoring of single status claims to evaluate any implications it would have on the Council.

We have reported all of these matters to Management and agreed an appropriate course of action. We will follow up the implementation of our recommendations next year.

Use of Resources

The Audit Commission requires us to assess the overall arrangements that the Council has in place in the following three areas:

- Managing finances
- Governing the business
- Managing Resources.

We evaluated the arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately

- 3 Exceeds minimum requirements –performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs then determines the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Council.

Managing Finances

We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry	Score
The Council plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
The Council has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
The Council's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3

The council has good financial management arrangements in place which deliver improved outcomes in areas of priority focus. Financial reports include high quality information which incorporates both financial and non-financial performance indicators. Financial reporting arrangements and accounting practices are forward looking and have resulted in a smooth close-down process to produce the statement of accounts and high quality supporting working papers. Sound treasury arrangements are in place at the council and there is active monitoring across these functions.

The Council has a sound understanding of its costs with linked finance and performance information and has exceeded efficiency targets and cashable savings while maintaining high performance.

Overall, members and the corporate management team provide scrutiny and challenge to financial plans and financial management arrangements to ensure they remain robust and fit-for-purpose.

We drew attention to the following examples of areas for improvement:

- Continue to ensure that financial statements and related disclosures comply with the Statement of Recommended Practice requirements.
- Seek the views of external audit on changes to accounting requirements and the treatment of potentially contentious items of account in advance of the final audit.

Governing the business

We have scored the KLoEs for governing the business as:

Key Line of Enquiry	Score
The Council commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	3
The Council produces relevant and reliable data and information to support decision making and manage performance	3
The Council promotes and demonstrates the principles and values of good governance	3
The Council manages its risks and maintains a sound system of internal control	4

The Council has a wide understanding of its diversity of its local communities, as obtained through ward profiles, which help to understand in more depth the needs of the people in the borough. This includes the use of forums and holding of events to understand future commissioning arrangements, with the voluntary and independent sector, as well as service users and providers. This understanding is incorporated into the underpinning Sustainable Communities Strategy and integrated into service planning and commissioning.

High data quality standards are maintained and lead to reliable and relevant information being provided to users. The Council's data quality strategy in

place is aligned with the service planning process, and includes need to maintain good quality data according to Audit Commission definition.

The Council Constitution implicates the working relationships between members, the corporate management team and staff. The council equips members and senior officers to carry out their roles and responsibilities through investment in widespread training. The Council has a strong and effective audit committee which underpins the Council's ethical framework and culture, which is supported by robust internal audit arrangements and risk management processes.

We drew attention to the following examples of areas for improvement:

- Strengthen the automation and controls of the Council's primary performance system to reduce manual interference to avoid the risk of human error and fully apply the principles of Collect Once Use Numerous Times (COUNT).
- Continue to improve the clarity and quality of information provided to members, for example, by combining various performance indicators and financial metrics in one report to provide a holistic view of performance.
- Consider the scope to increase reliance on the framework of internal control assurance and to incorporate more added value work in the internal audit programme

Managing resources

We have scored the KLoEs for managing resources as:

Key Line of Enquiry	Score
The Council makes effective use of natural resources.	3
The Council manages its assets effectively to help deliver its strategic priorities and service needs.	3

The Council has a Cabinet approved Energy Action Plan that addresses

areas of sustainable development, climate change, natural environment and heritage, pollution and waste, and management. The Climate Change strategy establishes a CO2 reduction target of 15% by 2011 based on a 2005 baseline and there have been year-on-year reductions from the baseline. This strategy is aligned to National Indicators and linked to the Local Development Framework.

The Asset Management Plan provides the wider context and framework to which asset management contributes and the Corporate Property Strategy is the Council's objectives for its property assets to support service delivery in achieving its vision/aims. Redbridge Conversation, a Council-wide consultation exercise, took place during the year which has impacted the future use of assets as well as the Council's wider strategy over the coming years.

We drew attention to the following examples of areas for improvement:

- Continue to leverage results from the Redbridge Conversation into long-term strategic asset planning to deliver sustainable efficiencies and outcomes, and meet overall priorities of the Council's communities
- Establish a single, overarching reduction target for waste production and recycling and measure performance against the target, going beyond extrapolations. Audits on waste production information should be performed on estate wide information on tonnage to provide robust performance data

Conclusion on Use of Resources

We were also required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 30 September 2009.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is included in the financial statements.

We reviewed the AGS to consider whether it complied with the relevant guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern in terms of the content of the statement.

Data Quality spot check

In order to enable us to comment on the appropriate use of resources sections and to meet Audit Commission reporting requirements, we have undertaken some targeted work on data quality.

The five indicators selected were for additional homes provided, percentage of vulnerable people achieving independent living, self directed support received by social care clients, council tax collection rates, and CO2 reduction. We raised no significant issues on the quality of the data tested.

Treasury Management

As part of our work on Use of Resources we carried out a programme of work on Treasury Management mandated by the Audit Commission.

We did not identify any issues of concern. A restricted lending list was in operation during the year due to in view of the higher risks in the investment market, however the Council managed to achieve above benchmark returns on surplus cash investments.

Members' Allowances

As part of our work on Use of Resources we also reviewed the Council's scheme for members' allowances. We reviewed whether the Council is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme. We did not identify any issues of concern to report.

London Borough of Redbridge Pension Fund

We have completed our audit of the Council's Pension Fund and did not identify any significant issues to be brought to the attention of the Statement of Accounts Committee. We issued an unqualified opinion on the Pension Fund Accounts on 30 September 2009.

Project Management Arrangements

We are in the process of reviewing the Council's project management arrangements as set out in the 2008/09 audit plan. We will report our findings to Management in December 2009.

Matters affecting future accounting periods

Transition to International Financial Reporting Standards (IFRS)

There are proposed changes to the basis of financial reporting which are being introduced across the public sector. This will apply to accounting periods starting on or after 1 April 2010. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The Council will need to be aware of the additional requirements for assets and transactions that will be required to comply with IFRS from this date.

In advance of full adoption, the 2009 SORP adopts IFRS accounting principles for PFI schemes and similar service arrangements. Under IFRS there is an expectation that more of these types of schemes will be accounted for as “on balance sheet”, in contrast with current practice under UK GAAP and the SORP, where many schemes are predominately accounted for as “off balance sheet”.

The Authority has a good grasp of the changes to accounting requirements and that it has plans in place to enable collection and processing of the information needed to comply with the new requirements.

In our experience the key features of a successful IFRS conversion project have proven to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all members and officers with IFRS involvement.

These measures are being put in place at the Council by the Finance Department.

Summary of recommendations

Page	Recommendation	Management Response	Target Implementation Date
5	Single status reserve We recommend that there is continued monitoring of the single status claims to evaluate any implications it would have on the Council.	All single status claims are being monitored to evaluate any potential impact on the Council.	31/03/2010

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2009 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.