

# Annual Audit Letter

Islington London Borough Council

Audit 2008-2009

December 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 gave an unqualified audit opinion on the Council's financial statements and on the pension fund financial statements on 30 September 2009.
  - 2 I cannot formally conclude and close the 2008/09 audit until an outstanding objection from a local government elector, relating to previous years accounts, is resolved. In addition, I am required to review information published with the pension fund financial statements, including the annual report. Since the annual report has not yet been published I am unable to conclude my audit. 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 The draft financial statements were submitted for audit in accordance with the agreed timetable. The financial statements were complete and contained no material errors.
  - 4 The Pension Fund financial statements contained a number of material errors which were adjusted by the Council, reducing net assets by approximately £2m. The arrangements for preparing the Pension Fund financial statements need to be strengthened.
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## Value for money

- 5 I am satisfied that the Council, having regard to the criteria specified by the Audit Commission, have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009. I issued an unqualified value for money conclusion on 30 September 2009.

**Table 1      Audit fees**

	<b>Actual</b> £	<b>Proposed</b> £	<b>Variance</b> £
Financial statements and annual governance statement	340,650	330,650	10,000*
Value for money	150,000	150,000	-
<b>Total</b>	490,650	480,650	10,000

\* Additional fees of £10,000 have been charged in respect of local elector queries.

- 6** In addition to the main audit fee, I am in the process of auditing 13 government grants and returns and the estimated fee for these is £125,000 (2007/08 £122,584).

### Actions

- 7** My recommendations are shown within the body of this report and have been agreed with the audited body.

### Independence

- 8** 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

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. I audit the financial statements and give an opinion on whether they present fairly the position of the Council and its expenditure and income for the year.**

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## Significant issues arising from the audit

- 9 There was one significant issue arising from the audit of the Council's financial statements. This related to amounts included in creditors in respect of potential repayments of housing benefits to the Government department as a result of claims made by the Council not yet being settled or in the case of 2008/09 not yet audited. My view was that the balance due may be overstated by between £4m and £7m and any balance should be included within provisions rather than creditors. Officers have agreed to review amounts due to Government departments in detail during 2009/10.
- 10 My audit of the Pension Fund identified a number of material errors which the Council adjusted. These were reported in detail in our Pension Fund Annual Governance Report to the Audit Committee on 24 September 2009.

### Recommendation

- R1** Strengthen arrangements for preparing the Pension Fund accounts and include management review processes before the accounts are presented for audit.
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## Material weaknesses in internal control

- 11 I did not identify any material weaknesses in your internal control arrangements. I did though make recommendations to improve current arrangements concerning the need to:
  - demonstrate that all fixed assets are revalued over a five year period;
  - review amounts due for major works to determine whether any bad debt provision is required;
  - review the method used for calculating impairments on assets that have been revalued in previous years; and
  - ensure that the audit of subsidiary companies have been completed in advance of the Council's deadline.
- 12 These issues were reported in my Annual Governance Report to the Audit Committee on 24 September 2009. The Council have agreed an action plan to address the issues raised.

### Accounting Practice and financial reporting

- 13** I considered the qualitative aspects of your financial reporting. The quality of the working papers supporting the main financial statements improved this year. There were no issues that I needed to raise.

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### International Financial Reporting Standards (IFRS)

- 14** The Council is required to prepare their financial statements under IFRS from 2010/11. The main impact of this is likely to be on the accounting treatment of fixed assets, leases, Private Finance Initiatives (PFI) and employee benefits. Some aspects of IFRSs relating to PFI though, need to be implemented from 2009/10.
- 15** The overall introduction of IFRS is challenging. The aspects relating to the Council's five PFI schemes are complex as the schemes need to have their accounting treatment revised retrospectively from the date that the original agreements were signed. Officers have put together a project plan and Members have been briefed on the impact of the introduction of IFRS. The Council will need to make sure that appropriate resources are available in order that the financial statements are prepared accurately, meeting statutory deadlines and in line with IFRS.

Recommendation
<b>R2</b> Monitor progress in implementing IFRS closely and take appropriate action, if necessary, to meet statutory deadlines.

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# Value for money and use of resources

I consider 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 assess 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

- 16** In forming my scored use of resources judgements, I have used the methodology set out in the [Audit Commission's 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.
- 17** 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. The Council's use of resources theme scores, and underlying KLOE scores are shown in Table 2 below.

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**Table 2** Use of resources scores

Use of resources theme and KLOE	Scored judgement
<b>Managing finances</b>	<b>3</b>
Financial planning	3
Understanding costs and achieving efficiencies	3
Financial reporting	3
<b>Governing the business</b>	<b>2</b>
Commissioning and procurement	2
Data quality and use of information	2
Good governance	3
Risk management and internal control	2
<b>Managing resources</b>	<b>4</b>
Use of natural resources	4
Strategic asset management	3

### Managing finances

- 18** The Council clearly integrates its financial planning with strategic and service planning on a long term basis. Medium term financial plans are approved each year alongside the budget. The Council has a good record of delivering on its annual budget plans. Reserves are maintained at the level determined by Members.
- 19** The Council has a good understanding of costs. Systematic value for money reviews, including benchmarking against others, have led to savings being realised. The Council planned and secured efficiency savings of £8m in 2008/09.
- 20** The Council has a robust budget monitoring process in place which delivers timely monitoring reports for all departments. Key variances are identified quickly, enabling timely intervention and forward planning. The financial statements were prepared in line with the timetable and there were no material errors in the main financial statements. There were though a number of material errors in the Pension fund financial statements which were subsequently adjusted by the Council.

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### Governing the business

- 21** The Council is clear about what it is seeking to achieve through its procurement and commissioning activity and has strong processes in place in involving partners and users in commissioning decisions. The procurement strategy is reviewed annually, and supports the Council's objectives. The introduction of e-invoicing has reduced the cost associated with processing invoices by 75 per cent. Contract monitoring is inadequate; a review of facilities management arrangements found that some contracts had schedules missing, there was lack of clarity around costs and that some contracts appeared to have expired.
- 22** The Council has a robust framework to oversee and improve the quality of the data upon which it relies and an agreed data quality strategy that clearly sets out roles and responsibilities. However, the Council was still conducting considerable data cleansing exercises to address areas of poor data quality such as in human resources and property services. The Council has a good performance and financial planning process that brings together both performance and financial information for management. Arrangements for sharing information with partners are good but further work is needed to fully integrate data quality into the Council and its partners' planning processes.
- 23** The Council has officer/Member protocols in place which sets out expectations regarding working relationships which are identified as working well. The Standards Committee plays a proactive role in promoting high standards of ethical behaviour and reports annually to the full Council. All Members allowances and expenses are published promptly after the year end.



## Value for money and use of resources

**24** The Council has a risk management strategy in place. Risk management reporting has been strengthened during the year with a quarterly report to the Executive, which includes the corporate risk register. There is scope for local risk registers to be expanded to cover all risks at a local level; this would assist in demonstrating that risks are managed locally and that risk management is embedded throughout the Council. The Council has a clear counter fraud and corruption strategy and the annual anti fraud internal audit programme looks proactively at potential fraud risk areas. The Council has appropriate standing orders, financial regulations and internal controls in place. The operation of financial systems could be strengthened as the number of fundamental systems receiving limited assurance opinions from internal audit increased in the year. This includes strengthening control account reconciliations.

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### Managing resources

- 25** Sustainability is one of the Council's key priorities and strengths. There is a solid framework in place to deliver its objective of reducing its impact on the environment supported by the sustainability action plan and resources made available. Investments have been made in renewable energy technologies including the installation of the largest collection of solar thermal panels on any leisure centre and solar arrays on a school. Water consumption is measured in all Council buildings and benchmarked against best practise and internal recycling is excellent with facilities at all buildings. The water saving measures at the top ten sites save an estimated 7,615 cubic metres of water a year and over 212 tonnes of material was recycled in 2008/09.
- 26** The Council's capital strategy and asset management plan guides effectively the Council's asset management. The Council's SMART programme, started in 2006, is a business process re-engineering programme that brings together new technologies and ways of working. This has generated ongoing revenue savings and capital receipts. The Council has managed its housing stock well with on average only 0.78 per cent of Council stock being vacant throughout the year and properties were let on average 19 days after they became vacant in 2008/09 which is line with the 5 per cent best performers in the country.

Recommendation
<b>R3</b> Strengthen contract monitoring arrangements.
<b>R4</b> Continue to improve the quality of data throughout the Council.
<b>R5</b> Record all local risks in risk registers.
<b>R6</b> Operate all controls within the financial systems in line with system procedures.

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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 specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.

**28** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Local risk work

**29** In addition to my work on use of resources and to support the value for money conclusion, I also reviewed the Council's arrangements in respect of school PFI schemes. The review examined the Council's initial assumptions from the business cases supporting the schemes and the risks in respect of the affordability of the PFI (schools) programme.

**30** I found that the Council had demonstrated good practice in:

- using prudent modelling to estimate costs;
- using market data to update cost estimates;
- using binding contracts to secure funding from schools; and
- undertaking a review of costs as price indexes change.

**31** I also found that the Council is aware of the risks to affordability and that the risk register identifies appropriate risks and reasonable actions to mitigate the risks.

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### Government grants

**32** The Council have submitted 13 claims and returns that require auditing in 2008/09. I have currently completed the audit of six of the claims. While there are no major issues to report, of these six claims, one required a qualification letter and four required amendments from the original claims submitted.

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### Current financial issues

**33** The economic downturn and banking crisis is having a significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.

**34** The current in year financial position for the first five months shows that General Fund services are projecting a year end overspend of approximately £5.2m. The main cost pressures are from Learning Disability service (£0.9m), parking income (£1.1m) and temporary accommodation (£0.9m). The Council is though expecting to deliver its overall budget for the year. Increases in salaries for 2009/10 had been corporately budgeted for above those agreed, better than expected investment returns have been achieved, as well as some planned borrowing being delayed, and there are built in contingencies held corporately as cost pressures were anticipated.

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## Value for money and use of resources

- 35** With the current economic outlook likely to result in tough financial settlements in the coming years and the demand for some services likely to increase, Council finances need to be kept under close review, both in the current year and over its three year medium term financial strategy.

### Recommendation

- R7** Continue monitoring the financial position closely and take appropriate action to meet expenditure constraints.

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# Closing remarks

- 36** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Executive on 14 January 2010 and the Audit Committee on 25 January 2010 and will provide copies to all Members.
- 37** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Islington Council during the year.

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**Table 3      Reports issued**

<b>Report</b>	<b>Date issued</b>
Audit and inspection plan	May 2008
Opinion plan	March 2009
Pension opinion plan	March 2009
Building Schools for the Future affordability	October 2009
Use of Resources	November 2009
Audit opinion and value for money conclusion	September 2009
Opinion memorandum	November 2009 (draft)

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- 38** The Council has taken a positive and constructive approach to our audit. I wish to thank Members and staff for their support and co-operation during the audit.

**Andrea White**  
**District Auditor**  
**December 2009**

# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
5	R1 Strengthen arrangements for preparing the Pension Fund accounts and include management review processes before the accounts are presented for audit.	3	Alan Layton, Director of Financial Management	Yes	Additional accounting support will be provided to the Head of Pension Fund and Treasury Management. This will free up that post to undertake more quality assurance. The Chief Accountant will also undertake a quality assurance review of the statements.	June 2010
6	R2 Monitor progress in implementing IFRS closely and take appropriate action, if necessary, to meet statutory deadlines.	2	Alan Layton, Director of Financial Management	Yes	Regular monitoring of progress is being reported to senior management and members. Action will be taken when necessary to ensure the statutory deadline is met.	June 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R3 Strengthen contract monitoring arrangements.	3	Andy Nutter, Director of Financial Governance & Transformation	Yes	Summary of action to be taken: <ul style="list-style-type: none"> <li>• Identification of contracts that have a strategic and financial importance to the Council.</li> <li>• Work to establish what contract management is currently in place for key contracts and to compile any best practice to be retained.</li> <li>• Identification of where contract management needs improvement for key contracts and immediate implementation of improved measures for these contracts.</li> <li>• Compilation of a strategy/generic model for contract management across the Council.</li> </ul>	September 2010
9	R4 Continue to improve the quality of data throughout the Council.	3	Lela Kogbara, Assistant Chief Executive (Performance & Equality)	Yes	Data quality action plan is being refreshed and further training is being rolled out. New corporate standards for data security are in place. The Data Strategy Group has been succeeded by a new Strategic Needs Assessment Group (SNAG) whose terms of reference include improvements in sharing, analysis and use of information.	January 2010

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R5 Record all local risks in risk registers.	2	Director of Financial Management	Yes	An issue in 2008/09 was that internal audit reported that they had identified risks that were not included within risk registers. During the summer a review of the 2008/09 audits was undertaken to identify these instances, and where appropriate, risk registers were updated. The new internal audit report format for this year is now clearly identifying risk issues. A further refinement of the risk process is being planned.	April 2010
9	R6 Operate all controls within the financial systems in line with system procedures.	2	Andy Nutter, Director of Financial Governance & Transformation /Alan Layton, Director of Financial Management	Yes	Audit and management effort is focussed this year on improving controls and the operation of those controls within the financial systems. More audits are taking place of key financial controls that had limited assurance ratings in 08/09 than in 07/08.	April 2010
11	R7 Continue monitoring the financial position closely and take appropriate action to meet expenditure constraints.	3	Alan Layton, Director of Financial Management	Yes	All departments will continue to monitor their budget every month and take all available management action. The Corporate Management Board and Executive will continue to receive regular monitoring reports reflecting the up to date financial position of the Council. At the appropriate time consideration will be given to the use of the contingency budget.	Ongoing

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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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