

**Report of: Corporate Director of Finance**

Meeting of:	Date	Agenda item	Ward(s)
Audit Committee Standards Committee	27 January 2011 3 February 2011	<b>B1(a)</b> <b>6</b>	

Delete appropriate	Exempt	Non-exempt
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## **SUBJECT: ANNUAL AUDIT LETTER 2009-10**

### **1. Synopsis**

- 1.1 The Audit Commission is required to report annually on its audit findings for the London Borough of Islington.

The Annual Audit Letter 2009-10 (attached at Appendix 1) sets out its key findings for two elements of assessment;

1. The audit of the council's financial statements;
  2. It's evaluation of the Council's arrangements to secure Value for Money across the organisation.
- 1.2 The Audit Commission issued an unqualified audit opinion on the Council's financial statements for 2009-10, including an unqualified opinion on the Pension Fund financial statements.
- 1.3 The Audit Commission also reached an unqualified conclusion that the Council has proper arrangements in place to secure value for money in its use of resources.

### **2. Recommendations**

- 2.1 To note the contents of the Annual Audit Letter 2009-10 and to welcome the positive assessment of the Council's financial statements and performance in securing Value for Money.
- 2.2 To note that the areas of further improvement mentioned in the letter and previously reported to the Audit Committee are being taken forward and that the Council is taking very seriously its duty to maintain its financial health whilst coping with unprecedented cuts to its funding.

### **3. Background**

#### **Financial Statements & Annual Governance Statement**

- 3.1 The Council's financial statements and Annual Governance Statement are an important means by which the Council accounts for its stewardship of public funds.
- 3.2 The Audit Commission issued an unqualified audit opinion for the Council's financial statements on the 30 September 2010, which included an unqualified opinion on the Council's Pension Fund. They also certified that the Council's Whole of Government Accounts return was consistent with the audited financial statements on 1 October 2010, in line with the government's deadline.
- 3.3 The auditors were also happy that with the way the Council dealt with the technical challenge of implementing the requirements of the new International Financial Reporting Standards, and were satisfied with the Council's accounting treatment of those items that required change.
- 3.4 There were some issues identified with the financial statements, where there is further scope for improvement. These issues included a reclassification of £32m of other creditors to deferred liabilities on the balance sheet, and a material adjustment of the Pension Fund accounts which increased the value of investments by £2.1m.
- 3.5 A significant weakness in internal control, relating to journal entries to the general ledger and the timeliness and evidence of review of reconciliations was also identified in the Annual Governance Report.
- 3.6 No major issues have been identified so far in relation to certification of grant claims; however this work is still ongoing.

#### **Value for Money**

- 3.7 The Audit Commission also assessed whether the Council managed its money, time and people to deliver value for money during 2009-10.
- 3.8 Despite the abolishment in May 2010 of the Comprehensive Area Assessment, which encompassed the Use of Resources framework, the Audit Commission is still required by the Code of Audit Practice to make an assessment of the Council's achievement of value for money. As much of the work on the Use of Resources assessment had been carried out by the end of May, the auditors used their findings from this work to inform their conclusion. Their work used the 2008-09 findings as a baseline and concentrated on examining areas where the Council could demonstrate improved outcomes. In addition Workforce arrangements were examined for the first time.
- 3.9 The Audit Commission found that there were adequate arrangements in place across all the Key Lines of Enquiry set out under the Use Of Resources framework, which are grouped into three themes: 1) Managing Finances; 2) Governing the Business and 3) Managing Resources. They issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 3.10 One area where improvement is needed was identified, in relation to contract management arrangements; however it was recognised that the Council is already undertaking work to strengthen this area.
- 3.11 Further to this, the Audit Commission also undertook three risk based performance reviews

covering:

- 1) Health Inequalities
- 2) Community Safety
- 3) Performance Management in Partnerships

#### Health Inequalities

- 3.12 This was a follow-up to a review carried out in 2007-08 of the arrangements in place to tackle variations in life expectancy across the borough. The follow-up review found that good progress has been made against the previous recommendations. It made a further recommendation that a community engagement framework and a joint communication plan should be implemented to ensure that resources are used effectively to reach all users.

#### Community Safety

- 3.13 This was also a follow-up review against recommendations made in 2008-09. This review found that sound progress had been made in improving communication with staff and in measuring outcomes, however only limited progress had been made on the use of cost of crime data.

#### Performance Management in Partnerships

- 3.14 This review found that performance within partnerships is managed effectively and that the Council works well with partners to deliver improved outcomes for local people. It found that the Council has adequate financial monitoring of partnerships within departments, although this could be improved by monitoring the consolidated position. The Council also has adequate partnership governance arrangements in place.

#### Public Questions

- 3.15 The auditor noted that he had been contacted by a significant number of local electors regarding concerns around housing management. The auditor is aware that the Council is carrying out a review of the controls in place for work completed on leaseholder and council houses and he is awaiting the findings of this review in January 2011 before deciding whether to investigate this further.

#### Approach to Value for Money work from 2010-11 onwards

- 3.16 The Audit Commission aims to introduce a new, more targeted and better value approach to its local VfM audit work from 2010-11.

Their work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

- 3.17 The Audit Commission will determine a local programme of VfM audit work based on an audit risk assessment, informed by these criteria and by their statutory responsibilities. They will no longer be required to provide an annual scored judgement but will instead report the results of all local VfM audit work, alongside the key messages for the Council, in the annual report to those charged with governance and in the annual audit letter.

#### Current & Future Challenges

- 3.18 A number of current and future challenges for the Council are noted by the Commission including:

- 1) Maintaining financial health while delivering an estimated £100m of savings in the next four years

- 2) Moving to the International Financial Reporting Standards Code of Practice for Local Authority Accounting from 2010-11

These challenges are set out in more detail in the report

## 4. Implications

### Financial implications:

- 4.1 These are contained within the body of the report.

### Legal Implications:

- 4.2 None

### Environmental Implications:

- 4.3 None

### Equality Impact Assessment:

- 4.4 No equalities impact assessment has been carried out on this report.

## 5. Conclusion and reasons for recommendations

- 5.1 The Annual Audit Letter is a positive demonstration of the further progress the council has made over the past year and the soundness of the financial and internal controls in place. Further improvements to address the recommendations will be made in the year ahead.

### Appendices

A - Annual Audit Letter 2009-10

### Background papers: (available online or on request)

Annual Governance Report: Audit Committee 23 September 2010

Annual Governance Report – Pension Fund: Audit Committee 23 September 2010

Final report clearance:

Signed by:



Corporate Director of Finance

Date

Received by:

Head of Democratic Services

Date

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