

# Annual Audit Letter

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London Borough of Islington

Audit 2009/10

**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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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 3 to 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 9).**

## **Audit opinion and financial statements**

**1** I issued an unqualified audit opinion on the Council's financial statements on 30 September 2010. The draft financial statements presented for audit did not contain any material errors affecting the Income and Expenditure Account or net assets. A material adjustment was made within the balance sheet, reclassifying £32 million of other creditors to deferred liabilities.

**2** My audit opinion on the financial statements included an unqualified opinion on the Pension Fund's financial statements. A material amendment was made to investments, increasing them and net assets by £2.1 million. Working papers provided for audit had improved from the previous year.

## **Value for money**

**3** I issued an unqualified value for money conclusion on 30 September 2010 stating the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

## **Current and future challenges**

**4** The Council over the past few years has showed that it manages its finances well but the future is more challenging than anything in recent years. The Council has identified a budget shortfall of approximately £100 million over the next three years. Major decisions will need to be taken by the Council on how it manages reductions in income and resources as well as continuing to deliver quality services while maintaining robust internal controls and governance arrangements.

**5** The Council continues to made good progress on the transition to accounting under International Financial Reporting Standards (IFRS). However, challenges remain, around accounting for leases.

# 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 gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010 within the statutory target date.**

## Overall conclusion from the audit

**6** I issued an unqualified audit opinion on the 30 September 2010. This included an unqualified opinion on the Council's Pension Fund. I 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.

**7** The draft financial statements of the Council and the Pension Fund were submitted for audit in line with the deadline of 30 June 2010. While improvements have been made from the previous year, there were problems in getting responses to some audit queries, which caused delays to my audit.

**8** The implementation of IFRS for accounting for Private Finance Initiatives and service concessions was a key technical challenge for the Council in 2009/10. I was satisfied with the Council's accounting treatment for these items.

**9** I reported the findings from my work in my Annual Governance Reports to the Audit Committee on 28 September 2010. The key items reported were:

- a reclassification of £32 million of other creditors to deferred liabilities;
- a number of unadjusted non-material misstatements relating to provisions, intangible fixed assets, finance leases and financial instruments disclosure;
- instances where evidence was not available to support items selected for testing in housing repairs and creditors;
- a material adjustment was made to the Pension Fund accounts that increased the value of investments by £2.1 million; and
- a number of unadjusted non-material misstatements in respect of the values of funds and disclosure of negative fair values.

**10** I completed additional testing on housing repairs and creditors to satisfy myself that the balances were not materially misstated.

### **Significant weaknesses in internal control**

**11** I reported to the Audit Committee on 28 September 2010 in my Annual Governance Reports significant weaknesses in internal control that I identified during the audit. The weaknesses related to controls over journal entries made to the general ledger and the timeliness and evidence of review of reconciliations.

### **Grant claims**

**12** I am required to certify 11 government grant claims for the Council. This work is in progress and no major issues have arisen so far. I will report the findings of this work to the Audit Committee in January 2011 when the certification work is complete.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**13** At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would stop immediately. The Audit Commission outlined that it would no longer issue scores for its use of resources assessments.

**14** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**15** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**16** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each audited body.

17 The following table represents a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Not assessed in 2009/10
Strategic asset management	Yes
Workforce	Yes

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

19 To reach this conclusion, I used my review of arrangements in 2008/09 as a baseline and concentrated on the areas where the Council could demonstrate improved outcomes. In addition, I reviewed workforce arrangements for the first time. As in 2008/09, the Council continues to perform well in all areas.

## Managing Finances

20 The Council continues to manage its finances to deliver value for money for residents. For example:

- annual budgets and the three year medium term financial strategy are formulated and agreed at the same time;
- the Council achieved £14 million of efficiency savings during 2009/10;
- systematic value for money reviews have been undertaken across departments; and
- the Council has strengthened its budget monitoring processes with a timetable in place allowing for prompt monthly close.



## Governing the Business

**21** The Council continues to successfully commission services and promotes the principles and values of good governance. For example, there is evidence that:

- the Council has a clear commissioning strategy and a detailed understanding of need which are used to focus the Council's work;
- data security arrangements have improved as the Council is now Code of Connection Compliant (CoCo);
- good governance arrangements are in place with officer and member protocols - these promote high standards of ethical behaviours; and
- the Council has strong internal control processes in place, risks are managed effectively and there is a clear counter fraud and corruption strategy in place.

**22** One area that the Council needs to improve is that of its contract monitoring arrangements. I am aware that the Council recognises this and is undertaking work in this area to enable the arrangements to be strengthened.

## Managing Resources

**23** The Council can demonstrate that it manages its resources (assets and workforce) to deliver its strategic priorities and service needs. For example, there is evidence that:

- the plans that outline service delivery are supported by the capital strategy and asset management plan.
- the Capital Asset Management Strategy group ensure that capital spend is aligned with corporate priorities; and
- the Council has raised £11 million in capital receipts to assist in the investment in key areas.

**24** We carried out a review of how the Council plans, organises and develops its workforce in 2010 and assessed that there were sound arrangements in place. A ten-year Human Resource plan is in place that is revisited regularly and has demonstrated an ability to respond to specific needs of its workforce, such as key worker housing.

**25** In addition, there are workforce plans in place that enabled detailed workforce profile analysis to be conducted during 2009. The Council shows a good awareness of potential efficiency savings. Already £3.2 million has been saved on agency staffing during the past three years and joint posts with NHS Islington in public and mental health have been in place for several years.

**26** The Council has demonstrated strong performance against equality targets and has a 'Dignity for all' policy. 88 per cent of staff agree with the policy and 75 per cent agree that the Council are serious about promoting equal opportunities. The Council is also committed to supporting its staff through organisational change with an Employee Assistance Programme available to all staff.

27 The Council will need to support staff following the Government's Comprehensive Spending Review and ensure that communications and good relationships are maintained with staff and stakeholders during this difficult period.

## **Risk-based performance reviews**

28 To support my review of the criteria I undertook the following studies:

- Health Inequalities - follow-up review.
- Community Safety - follow-up review.
- Performance Management in Partnerships.

29 I have reported my detailed findings to the Council in separate reports.

### **Health Inequalities - follow-up review**

30 In 2007/08 the Audit Commission conducted a review of the arrangements in place in Islington to tackle issues affecting the wide variations in life expectancy within the borough. It found that good arrangements to address this complex issue existed within Islington, with sound leadership, good partnership working and good access to and use of information on health needs. I made recommendations including the need to improve the overall strategic approach, scrutiny arrangements, engagement with major local health providers and increased public and service user involvement in initiatives.

31 The follow-up review confirmed good progress had been made in these areas against our recommendations. This includes the 'Tackling Health Inequalities in Islington' strategy being agreed, strengthened arrangements for monitoring and managing performance, the membership of the Health and Wellbeing Board being expanded and a Health and Wellbeing review committee being established by the Council. While there has been progress made on increased public and service user involvement, we recommended that both a community engagement framework for the Islington Strategic Partnership and a joint communication plan to ensure resources are used effectively in reaching all users are developed.

### **Community Safety follow-up**

32 The objective of the review was to assess the progress against the recommendations made in 2008/09. The Council has made sound progress including improving their communication with staff and have also carried out independent assessments of projects which now include specific, measurable outcomes. Limited progress has been made on the use of cost of crime data.

## Performance Management in Partnerships

**33** The objectives of this review were to assess how:

- the Council ensures performance is managed effectively within partnerships;
- effectively the Council works together with partners to deliver improved outcomes for local people; and
- effective governance arrangements are within partnership working.

**34** The Council ensures that performance is managed within partnerships effectively and the Council works well with partners to deliver improved outcomes for local people. The Council has adequate financial monitoring within departments although this could be strengthened by assessing the overall position by monitoring the consolidated funding. The Council also has adequate governance arrangements in place that set out how decisions are made, reported and how they are reviewed to ensure compliance with the Council's objectives.

## Questions from the public

**35** I have been contacted by a significant number of local electors with questions and/or concerns about the Council and its activities. While some of the questions raised are outside my remit, there has been a high proportion raising concerns about the controls in place around housing management.

**36** The Council is carrying out a review of the controls in place for work completed on leaseholder and Council houses. I am awaiting their findings that are due in January 2011 before I decide if I need to take any action. I have thus not yet issued my audit certificate for 2009/10.

## Approach to local value for money work from 2010/11

**37** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local VFM audit work. The Audit Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**38** My 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.

**39** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Financial Health

**40** The Council's finance monitoring report for 2010/11 as at 30 September 2010 shows a forecast year end under-spend of £1.35 million. The Council identified there were to be financial pressures arising during 2010/11 and increased the contingency held centrally to £5.5 million. This contingency is being released throughout the year to help manage some of the cost pressures such as environment, children services and housing.

**41** The wider financial outlook for local government bodies is extremely challenging and the government's Comprehensive Spending Review announcements on 20 October 2010 confirmed significant reductions in funding and resources across the public sector. The removal of ring fencing on certain grant areas was also confirmed giving the Council increased responsibility and discretion in how these monies are dispensed.

**42** The Council has estimated a total budget shortfall of approximately £100 million between 2011/12 and 2014/15. The Executive has already approved in-year 2010/11 savings of £7 million and vacancy management processes have been implemented. The Council is also considering developing closer working links with the London Borough of Camden. This includes the possibility of sharing a joint Chief Executive and senior management team.

**43** While the Council aims to achieve some of these savings through efficiencies, lean engineering and cross cutting work it is inevitable that reductions in funding to services as well as staff levels will be required. The Council will need to consider how reductions in staffing levels and any new working arrangements may impact on the quality of services as well as the internal control environment and governance arrangements.

## International Financial Reporting Standards (IFRS)

**44** Local authorities will prepare their financial statements under the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting from 2010/11. The move to IFRS does not mean wholesale change, but where changes do occur; a significant amount of work is needed to assess the impact on the accounts and this impact should inform the 2010/11 closedown planning process.

**45** The Council has carried out work to prepare for the implementation of IFRS and has identified the areas likely to be most affected. The Council is currently reviewing its leases, which are a complex area, and also identifying whether there are any other leases within current contracts. As this work is not yet completed this remains a risk area for the Council.

**46** The 2009/10 financial statements will need to be restated to provide the prior year comparators in the 2010/11 accounts and the Council is confident that these restated balances will be available by the end of December 2010. This work will need to be monitored to ensure this planned deadline is met. My team will work with the Council's finance team to discuss early accounting views where required and share good practice from other councils.

## **The Future of the Audit Commission**

**47** On 13 August the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

**48** My priority is to ensure that my team and I maintain our professional standards and commitment. The Audit Commission's Managing Director of Local Government and Community Safety wrote to the Chief Executive to confirm there is no immediate change to the audit arrangements for the Council.

**49** The Audit Commission is in discussion with the Department of Communities and Local Government about the proposed legislation and the details that will need to be worked through. At the moment the Department is looking at a mutually owned organisation being formed. I will keep the Council informed about the future audit programme and any changes to audit arrangements.

## **Other future developments**

### **Education**

**50** In July 2010, the Secretary of State for Education announced the end of the Building Schools for the Future investment programme. The Council have 9 schools which have been earmarked for development under this programme. Four school schemes have been completed, three are due to be completed in 2012 with guaranteed funding and the remaining two schemes are due to complete in 2013. The Council is awaiting the funding for these two schemes to be confirmed in December 2010. If funding is not received, these schemes will either need to be cancelled or the Council will need to provide the funding itself.

## Closing remarks

**51** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 27 January 2011 and will provide copies to all Members.

**52** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued (Main audit)	Date issued (Pension Fund audit)
Audit Fee Letter	April 2009	April 2009
Audit Opinion Plan	March 2010	April 2010
Health Inequalities - Follow-up	May 2010	n/a
Community Safety - Follow-up	June 2010	n/a
Performance Management in Partnerships	July 2010	n/a
Annual Governance Report	September 2010	September 2010
Opinion on financial statements	September 2010	September 2010
Value for Money Conclusion	September 2010	n/a
Opinion on Whole of Government Accounts	October 2010	n/a

**53** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Philip Johnstone  
District Auditor  
November 2010

## Appendix 1 Audit fees

<b>Main Audit</b>	<b>Actual (£)</b>	<b>Proposed (£)</b>	<b>Variance (£)</b>
Financial statements and annual governance statement	332,000	332,000	0
Value for money	147,000	147,000	0
Whole of Government Accounts	7,000	7,000	0
<b>Total audit fee</b>	<b>486,000</b>	<b>486,000</b>	
Certification of claims and returns (estimated)	125,000	125,000	0

<b>Pension Fund Audit</b>	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements and related notes	35,000	35,000	0
<b>Total audit fee</b>	<b>35,000</b>	<b>35,000</b>	<b>0</b>

## Appendix 2 Glossary

### **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, that local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

### **Audit opinion**

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.



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