

AGENDA ITEM: 11 Page nos. 90-138

Meeting	Audit Committee
Date	31 August 2005.
Subject	Interim Report to Management 2004/05 audit
Report of	Borough Treasurer
Summary	This report summarises the key issues raised in the external auditor's interim report to management 2004/05 audit and sets out the authority's response to the Action Plan points within the report. The auditors report is attached at Annex 1, together with the completed Action Plan, which is included in the auditors report as Appendix A.
Officer Contributors	Borough Treasurer Head of Finance – Core Accountancy Chief Internal Auditor Corporate Anti Fraud Team
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Annex 1 External Auditor's Interim Report to Management 2004/5 Audit Appendix A within Annex 1 includes completed action plan
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Pam Kettle - Head of Finance – Core Accountancy on 020 8359 7249.

1 RECOMMENDATIONS

- 1.1 That the Committee note the contents of the external auditors' report at Annex 1 and agree the management response to the Action Plan set out in Appendix A, within Annex 1.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 It is important that Members review key reports from the External Auditor.

4 RISK MANAGEMENT ISSUES

- 4.1 As part of the risk management process, it is important that issues raised by the external auditor are considered and an action plan agreed.

5 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 The one area where financial implications might arise is in the strengthening of the Corporate Anti Fraud Team (CAFT) to enable it to undertake more proactive work. The level of referrals that currently need to be responded to leave proactive work as a lower priority when there are competing demands for resources.

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 This report falls within the responsibility of the Audit Committee to consider. Refer to Section 3 of the constitution (pages 89 and 90) which detail the Audit Committee's functions including "Reassuring the council that the scope and depth of external audit work and the annual External Audit Plan are sufficient and conducted competently".

8 BACKGROUND INFORMATION

- 8.1 The interim management report forms part of the external auditor's initial work programme prior to undertaking the final accounts audit. It also has a bearing on the Corporate Performance Assessment (CPA) - Use of Resources judgement. The report is attached as Annex 1.
- 8.2 The interim audit work covers Financial Aspects of Corporate Governance. This informs the approach to the annual accounts audit. It forms part of a continuing dialogue between ourselves and our external auditor.

- 8.3 In undertaking this work the external auditor Robson Rhodes has had regard to the wider issues facing the authority including, Modernising Core Systems (MCS), existing internal control issues in the key financial systems and the financial position at the start of 2004/05.
- 8.4 The detailed findings are set out in the report and the key issues are summarised as follows:

Financial Standing:

- Overall financial health of the Council has strengthened;
- Financial Challenges in 2005/06 and beyond, include delivering the budget and savings targets, realising longer term savings arising from the implementation of MCS, developing budget holders to monitor and manage their budgets effectively, strengthen balance sheet reporting, financial and risk management of contract with Barnet Homes; and effective capital monitoring within the prudential framework.

Systems of Internal Financial Control:

- The key financial systems within MCS need to gain satisfactory assurance by 2006/07.
- The need to take account of the 2004/05 audit assurances in the Statement of Internal Control and the CPA Use of Resources Assessment

Standards of financial conduct and the prevention and detection of fraud and corruption:

- The Council has made good progress in prevention and detection of fraud and corruption, but some aspects need strengthening further to ensure overall framework is sound. This includes developing work of CAFT to be more proactive and preventative, clearer processes for officers on declaration of interests, gifts and hospitality; and internal control weaknesses addressed within systems.

Legality of transactions that might have a significant financial consequence:

- Arrangements remain sound in this area.
- Procedures are in place for taking forward new legislation, eg. Freedom of Information Act, the Civil Contingencies Act and the Proceeds of Crime Act.
- With regard to the Civil Contingencies Act the Council has considerable work to do in cascading the concept through the organisation as well as rehearsal and maintenance of its plan.

Key Systems for producing the Accounts

- Of the 12 systems reviewed 9 provide adequate assurance for annual accounts audit. This is an improvement of one on the previous year.

8.5 The auditors recommendations are set out in the Action Plan which is Appendix A to the auditor's report (Annex 1), and the management response is also included on the specific issues raised. Members are asked to agree this as part of the recommendations to this report.

9 LIST OF BACKGROUND PAPERS

9.1 None

BS: Jeff Lustig
BT: Clive Medlam
Pam Kettle

Annex 1

London Borough of Barnet

Interim report to management 2004/05 audit

July 2005

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1 Executive Summary

Introduction

- 1.1 We have completed our interim audit visit at London Borough of Barnet ('the Council'). The interim audit visit is primarily concerned with reviewing areas of Financial Aspects of Corporate Governance and considering the impact of our findings on our annual accounts audit approach. In addition we have carried out work on aspects of performance management arrangements at the Council, which have been reported separately.
- 1.2 In planning and carrying out our interim audit work we have had due regard to the Statement of Responsibilities, issued by the Audit Commission, which sets out the respective roles and responsibilities of the Council and its auditors.
- 1.3 It is the Council's responsibility to ensure that its operations are conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that resources are used economically, efficiently and effectively. Our role is to give an independent opinion on the Council's financial statements and report on aspects of the Council's governance and performance management arrangements.
- 1.4 Our overall audit responsibilities are governed by the Audit Commission Act 1998, supported by the Code of Audit Practice (the Code) issued in 1998, which defines the scope of our audit to include:
- Financial Aspects of Corporate Governance;
 - Accounts; and
 - Performance Management.
- 1.5 This will be the last year we will be undertaking work under the 1998 Code. Our work from 2005-06 onwards will be governed by a new Code of Audit Practice, which was approved by Parliament in March 2005.
- 1.6 The purpose of this report is to summarise for management the findings of our interim audit visit. Key matters, and any which may remain unresolved, may also be reported separately to the Council in our Annual Audit and Inspection Letter upon completion of the financial statements audit.
- 1.7 This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance which third parties may place on it.

Scope and objectives

1.8 The scope of our interim audit visit was to undertake work on financial aspects of corporate governance, together with some preparatory work on the accounts opinion. The scope of our audit work including interim visit and further planned work is detailed in Table 1 below:

Table 1: Scope of audit work for 2004-05

Code Area	Interim Visit	Further Work Planned (April –October 2005)
Financial Aspects of Corporate Governance	– Systems of Internal Financial Control	– None
	– Review of the Council's arrangements for ensuring the legality of financial transactions	– Review of any significant transactions which may arise
	– Review of financial standing	– Ongoing review of financial position
	– Review of the Council's arrangements for standards of financial conduct, and the prevention and detection of fraud and corruption	– None
	– Review of Internal Audit on key financial systems	– None
	– Follow-up of last year's interim report	– None
Accounts	– Review of the financial ledger system	– Audit of the financial statements
	– Review of Internal Audit work on high level controls	– None
	– Planning for final accounts visit	– Follow-up of last year's key issues
Performance Management	– Reported separately	– BVPP & BVPI audit – Reviews of specific aspects of performance management
Grant Claims	– Report summary issues arising from audit of grant claims and returns in 2003-04	– Agree timetable for preparing and auditing specific claims
CPA	– draw on 2004/05 work to support overall conclusion on Use of Resources as part of CPA 2005	– Additional work on published UOR framework in August/September 2005

Context

1.9 We recognise that the interim audit has taken place in the wider context of a number of developments and challenges facing the Council, including:

- The Modernising Core Systems project (MCS) which is planned to go live from August 2005. MCS is designed to improve the efficiency of business processes and improve management information for decision-making;
- Significant internal control issues in key financial systems as identified in the Council's Statement on Internal Control (SIC) in 2003/04;
- A difficult financial position at the start of 2004/05 which has improved through a clearer focus on budgetary control, savings and efficiencies and which has left the Council well placed to address the Gershon agenda;
- A weak control environment which has contributed to several payroll frauds, although there is now a clear mechanism for taking forward suspected frauds following the establishment of a Corporate Anti-Fraud Team in May 2004, and
- Staff and management restructuring, which among other things has created a new post of Director of Resources which co-exists with statutory roles such as that of s151 officer (held by the Borough Treasurer) and that of monitoring officer (which sits with the Borough Solicitor).

Key matters arising from the audit

Financial Standing:

1.10 The overall financial health of the Council has strengthened in 2004/05 with a predicted outturn of over £5m in available general fund balances (subject to any changes in insurance provisioning). This represents a real and consistent improvement following the Section 11 notice issued in January 2004. In setting the 2005/06 budget and in planning for future years, the Council has recognised the need to continue to strengthen general fund balances.

1.11 There remains however a number of significant financial challenges in 2005/06 and beyond which include:

- Delivery of the 2005/06 budget including a package of £15m in further savings which is pivotal to both maintaining financial balance and delivering Gershon efficiencies;
- Realising the longer term savings inherent in the MCS project and controlling any unplanned costs which result from the new systems implementation;
- Ensuring that budget holders' capacity to monitor, manage and report their budgets is effectively enhanced by the MCS project;
- The need to strengthen balance sheet reporting so that there is an increased focus given to the management and recovery of debtors and overall treasury management arrangements;
- Ensuring that best practice financial and risk management is embedded into the contract management arrangements with Barnet Homes;
- Ensuring that arrangements to manage an effective capital programme with the framework of the Prudential Code continue to be strengthened.

Systems of internal financial control:

1.12 Our interim audit in 2003/04 identified that only 4 of the 12 key financial systems obtained satisfactory assurance from internal audit. The position has seen some improvement in 2004/05 in areas such as Council tax and treasury systems with other systems remaining with limited or no assurances. Some systems have not been reviewed in detail in 2004/05 prior to the implementation of MCS. Overall, arrangements were not adequate in 2004/05. The majority of the limited assurance systems are part of MCS implementation. This raises two specific issues for the Council:

- The vital importance of ensuring that the MSC project embeds a framework where all key financial systems are able to gain satisfactory assurance by the end of 2006/07;
- The need to take account of the 2004/05 audit assurances when considering its use of Resources self assessment and the reporting of internal control weaknesses in the SIC.

Standards of financial conduct and the prevention and detection of fraud and corruption:

Overall arrangements

1.13 The Council has made good progress in respect of the prevention and detection of fraud and corruption. Our work has identified a number of strengths in the Council's arrangements. In particular the Council has:

- a dedicated Corporate Anti-Fraud Unit (CAFT) which has operated since May 2004, undertaking preventative and detective work in relation to allegations of fraud and corruption including housing benefit fraud;
- a Counter Fraud Framework and strategy which was approved by Members and has been in place since June 2004, and
- clear focus and commitment to taking forward the results of the National Fraud Initiative, with good joint working arrangements between CAFT, the Council's Benefits Investigation Team and designated NFI leads in other Council departments.

1.14 However to ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:

- there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventative work as appropriate;
- there is a clearer system for all officers across the Council to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas, and
- internal control weaknesses including the fundamental flaws in the HR systems and the lack of up to date procedures, give rise to fraud risks which must be comprehensively addressed by the MCS project and other associated procedures and training.

Legality of transactions that might have a significant financial consequence:

Overall arrangements

- 1.15 The Council continues to have sound arrangements for ensuring legality of transactions that might have significant financial consequences, most notably through the requirement for specific commentary on the 'corporate governance, financial and legal implications' in proposals put before Members.
- 1.16 There is also evidence that the Council has procedures in place for taking forward new legislation. The most recent examples include the Freedom of Information Act, the Civil Contingencies Act and the Proceeds of Crime Act.
- 1.17 The Freedom of Information Act (FOI) introduced new duties on public bodies from February 2005. It is early days yet in terms of implementation but the Council has put in place a Publication Scheme which is available to the public and has designated an officer with responsibilities for co-ordinating FOI requests.
- 1.18 The Civil Contingencies Act, which took effect from April 2005, introduces new duties on local authorities and other public sector bodies to have in place a Business Continuity Plan in the event of civil disasters or emergencies. The Council still has considerable work to do in terms of cascading the concept to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans.

Key Systems for producing the Accounts

- 1.19 As part of our interim audit we reviewed the key controls within the 12 key systems used for the production of the accounts in order to determine the level of reliance that could be placed upon them.
- 1.20 Last year we concluded that 8 of the 12 systems reviewed provided adequate assurance for our annual accounts audit purposes. The remaining 4 systems provided no assurance. This year we are pleased to report that the overall position has improved with 9 systems reviewed providing adequate assurance for our annual accounts audit purposes, although as reported earlier, significant weaknesses remain in terms of the overall financial control framework in some systems.

The way forward

- 1.21 Our detailed findings are reported in Sections 2 and 3 and recommendations are included in the Action Plan at Appendix A.

Acknowledgement

- 1.22 Our audit covers a broad range of areas involving many of the Council's services. We would like to take this opportunity to thank Council staff for their assistance and co-operation during the course of the audit.

RSM ROBSON RHODES LLP
JULY 2005

2 Financial Aspects of Corporate Governance

Introduction

2.1 We detail in this section the principle areas of work undertaken and the matters arising from our review of financial aspects of corporate governance. Our work has been designed to review the adequacy of the Council's arrangements for:

- financial standing;
- systems of internal financial control;
- standards of financial conduct, and the prevention and detection of fraud and corruption, and
- ensuring the legality of financial transactions.

Financial Standing

2.2 It is the Council's responsibility to implement appropriate arrangements to ensure that its financial standing is soundly based, having regard to:

- compliance with statutory financial requirements, targets and relevant codes and guidelines;
- the level of balances, reserves and provisions;
- financial reporting and monitoring arrangements, and
- the impact of planned future policies and known or foreseeable future developments.

2.3 It is our responsibility to consider whether the Council has put in place adequate arrangements to ensure its financial standing is soundly based. Our work in respect of financial standing included:

- review of overall arrangements to ensure sound financial standing;
- consideration of the Council's medium-term financial strategy, and
- review of progress in implementing the Prudential Code for capital finance in local authorities.

2.4 We set out below our findings in each of these three areas.

Overall arrangements

2.5 We have concluded that arrangements in place at the Council are sufficient to ensure that information produced in relation to its financial position is largely soundly based. In addition we have concluded that the Council has adequately designed budgetary control and management accounting arrangements.

2.6 Our work in respect of the Council's overall arrangements for ensuring financial standing involved:

- overview of budgetary control and management accounting procedures, and

2 Financial Aspects of Corporate Governance

- consideration of financial performance against budget and current year-end forecasts.

An overview of budgetary control and management accounting procedures

2.7 There is now more regular monitoring of the revenue and capital position at senior officer and Member level. This has been achieved through the monthly Directors' Group and a challenge event attended by 2 councillors with responsibility for financial monitoring with the Borough Treasurer.

2.8 As these monitoring processes continue to develop, the Council should consider the following:

- Monitoring of the Council's balance sheet position with respect to NNDR and Council Tax collection, debt management and treasury management (on borrowing and investment) which, although taking place at the operational level, is not currently reported to the same extent as the revenue and capital position. We consider that there is scope for these areas to be integrated into the current system for financial monitoring and reporting, and
- Although financial reviews prepared by individual service departments as part of the Monthly Revenue Monitoring Report are now prepared on a more consistent basis, there is scope to improve the commentary on significant variances by the time they reach the Core Team for consolidation (**Recommendation 1**).

Financial performance against budget

2.9 High level financial monitoring outturn reports are prepared using data derived from the ledger as well as services' best estimate of budget commitments to the year-end. This will be the last year financial monitoring will be prepared using this system with a new integrated system for recording expenditure and commitments due to be implemented as part of MCS. We will undertake a detailed review of financial monitoring as part of our 2005/06 audit work once the new system has bedded in.

2.10 At the time of our interim audit visit, there were no indications of significant issues around the current year's financial position with the Council projecting the following year end position:

- General Fund – projected outturn revenue balance of £4.941m based on financial monitoring information as at December 2004, updated for February 2005 movements. Early indications from the Council's latest drafts of General Fund outturn for 2004/05 (prepared in June 2005) are that revenue balances would be better than expected, at around £5.739m at year-end. The final figures are still being verified and will be presented to Members later in the summer.
- Housing Revenue Account - projected to break even at year-end based on financial monitoring information prepared by the ALMO as at December 2004.

2.11 Progress against the capital programme is slower than expected, particularly on the non-housing aspects of the programme. In summary the position based on capital monitoring information as at January 2005 is as follows:

- Non-Housing – there is an underspend of £24.704m against a budget of £67.366m. The majority of the underspend is related to Education (£11.800m underspend relating to capital expenditure directly managed by schools).
- Housing – there is a projected underspend of £2.129m against a budget of £25.055m, £1.111m of which relates to HRA and the other £1.018m relates to Housing General Fund.

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- 2.12 More up to date figures relating to the capital outturn for Housing and non-Housing were being finalised at the time we drafted this report, and so will be reviewed when we carry out our final accounts audit.
- 2.13 Overall the General Fund position appears to have improved in 2004-05. As summarised in the Table 2 below, this is mainly attributable to:
- planned contribution to balances of £3m in the revenue budget for 2004-05;
 - the Council having a clearer and more sustained focus on savings which is actively monitored through a traffic light savings plan;
 - more regular monitoring and reporting to Members of the revenue and capital position, with revenue reported every 2 months and capital reported every 3 months. As part of the MCS implementation the Council should ensure that robust arrangements for regular financial monitoring and reporting are fully embedded in the new processes, and
 - a release from provision into the General Fund of £1.1m which was approved by Cabinet Resources on 10 February 2005. This comprises £0.785m relating to unclaimed NNDR overpayments in prior years and £0.4m relating to the reversal of a debt previously thought repayable to Transport for London.

Table 2: Anticipated General Fund Balance movements

Element	As at Feb 2005	As at June 2005
	£m	£m
General Fund balance at 1 April 2004	(0.9)	(0.9)
Contribution to balances as budgeted for 2004-05	(3)	(3)
Add release from provision in 2004-05	(1.1)	(1.1)
Net impact of in year changes	0.1	(0.7)
Anticipated General Fund balance at 1 April 2005	(4.9)	(5.7)

- 2.14 The Council is in the process of finalising its outturn figures for 2004-05.
- 2.15 Our review of the Council's financial position is therefore still ongoing. We will conclude our review of the Council's year-end financial position as part of our final accounts audit. We will focus our work on a number of items which may have an impact on the reported financial position, in particular insurance liabilities (following a recent actuarial review), the release of provisions, debtors and creditors as well as capitalisation of expenditure.
- 2.16 We will formally conclude our comments on financial standing in the annual audit and inspection letter.

Medium-term financial strategy

- 2.17 The Council's financial settlement for 2005-06 was better than in the previous two years, with Barnet's settlement having increased by 5.9% (compared to a London average 5.8%). However, from the Council's perspective, the overall settlement has not improved significantly when viewed in the overall context of funding from central government and when taking into account income from grants.

2 Financial Aspects of Corporate Governance

- 2.18 The Council is forecasting pressures on the General Fund in the medium term arising from continuing service pressures and the need to keep Council tax increases at an acceptable level while improving the Council's underlying revenue reserves. As a result the Council will need to maintain a clear and continuing focus on savings in 2005-06 and beyond.
- 2.19 The Council's general fund revenue reserve as at 31 March 2005 is now projected to be around £5.7m. The Council plans to build this up by £3m every year for the next few years through further savings and efficiencies, which are yet to be fully identified.
- 2.20 The Council's medium term financial strategy envisages better performance on the HRA in the shorter term. However there is expected to be additional pressure on HRA balances in 2008-09 as a result of the anticipated rent loss of around £1m through vacated dwellings. Nevertheless, the Council expects to be able to keep HRA balances above the target of £4.3m to cover the risk of underwriting agreements for regeneration schemes. The summary HRA position over the medium term is outlined in Table 3 below.

Table 3: Projected HRA balances in the medium term

	2005-06	2006-07	2007-08	2008-09
	£m	£m	£m	£m
HRA balance at start of year	(6.0)	(6.6)	(7.457)	(7.096)
Required contribution from/(to) working balances	(0.634)	(0.857)	0.361	1.124
HRA balance at end of year	(6.6)	(7.457)	(7.096)	(5.972)

- 2.21 The Council will need to continue to apply prudent financial planning and management to ensure it is able to meet pressures arising in the medium term for which the full financial impact and deliverability will need to be identified.

Financial reporting and the ALMO

- 2.22 The Council established an ALMO to manage its housing stock from 1 April 2004. Financial performance of the HRA is currently monitored by the ALMO. The Council does not currently receive copies of these financial monitoring reports from the ALMO and during 2004-05, the financial position of the HRA was not reported to Members. This is an area of potential risk given that the ALMO has only been established from April 2004, and in view of the lack of continuity in the Head of Finance for Housing where the role of client monitoring resides. The Council went through a period where interim appointments were made to the role following the secondment of the previous postholder to the MCS implementation team.
- 2.23 There were however meetings between the ALMO and the Council (as client) arranged at regular intervals but the Council will recognise that with the appointment of a new Head of Finance for Housing since May 2005 brings fresh opportunities for arrangements to be strengthened ensuring that:
- contracts and SLA's document relationship and working arrangements with the ALMO;

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- the Council receives regular financial and performance monitoring information
- regular liaison meetings with the ALMO include standing items on financial performance
- appropriate reporting on progress and financial performance takes place at Member level. **(recommendation 2)**

Progress in implementing the Prudential Code

2.24 As part of our work in 2003/04, we reviewed the Council's arrangements for implementing CIPFA's Prudential Code for capital finance in local authorities which came into effect on 1 April 2004.

2.25 Under the prudential code, local authorities are free to borrow and/or invest so long as their capital plans are affordable, prudent and sustainable. The objective of the prudential code is to provide a framework for capital finance to ensure that:

- capital expenditure plans are affordable;
- external borrowing and other liabilities are within prudent and sustainable levels;
- treasury management decisions are in accordance with professional good practice;
- the authority is accountable; and
- the risks from not appropriately considering the above are highlighted.

2.26 The prudential code provides the framework for the self-regulation of an authority's borrowing and capital investment plans and the financing and other revenue costs flowing from them. Within that framework, the prudential code specifies arrangements for authorities to:

- set estimated prudential indicators and impose limits for a 3 year period covering
 - affordability;
 - prudence;
 - capital expenditure, external debt and treasury management;
- monitor and revise the indicators; and
- report and publish details of actual performance.

2.27 The Council set its prudential limits in February 2004 as set out in Table 4 overleaf:

Table 4: Prudential Limits from 2004-05 to 2006-07 (as at February 2004)

	2003-04	2004-05	2005-06	2006-07
	probable outturn	estimate	estimate	estimate
	£m	£m	£m	£m
Projected capital expenditure (NON HRA)	50.899	57.842	24.184	11.816
Projected capital expenditure (HRA)	10.476	18.142	23.995	24.528
Projected capital expenditure (TOTAL)	61.375	75.980	48.179	36.344
Authorised limit for external debt ¹	35.000	137.780	212.080	280.600
Operational Boundary for external debt ²	30.140	82.200	113.200	145.200

2.28 The Council's performance against these limits has been monitored by officers during 2004/05 although progress has so far not been formally reported to Members. We understand that there are plans to report the outturn for 2004-05 to members later this year. The predicted outturn for 2004-05 was reported to Members in March 2005 as part of the Prudential Strategy for 2005-06 and beyond.

2.29 As summarised in Table 5 below, the likely outturn for 2004-05 indicates that:

- progress on non-housing capital schemes has been slower than expected, and
- the Council is likely to remain within the expected levels of debt.

Table 5: Likely outturn on 2004-05 Prudential Indicators

	2004-05	2004-05	Variance	Variance
	estimate	probable outturn	(Under)/over spend	(Under)/over spend
	£m	£m	£m	%
Projected capital expenditure (NON HRA)	57.842	47.155	(10.687)	(18.5)
Projected capital expenditure (HRA)	18.142	18.311	0.169	0.9
Projected capital expenditure (TOTAL)	75.980	65.466	(10.514)	(13.8)
Authorised limit for external debt	137.780	113.497	-	-
Operational Boundary for external debt	82.200	67.000	-	-

¹ The maximum level of debt the Council is expected to enter into.

² Estimate of the most likely level of borrowing and other long-term liability.

2 Financial Aspects of Corporate Governance

2.30 The Council's projections for 2005-06 and beyond, as outlined in Table 6 below, indicate that projected movements for the authorised limit for external debt and the operational boundary for external debt do not mirror those in projected capital spend especially around 2006-07 and 2007-08. The Council will need to ensure that capital planning especially in the medium term is robust to ensure that appropriate and relevant debt levels are set.

Table 6: Prudential Limits from 2005-06 to 2007-08 (as at March 2005)

	2005-06	2006-07	2007-08
	estimate	estimate	estimate
	£m	£m	£m
Projected capital expenditure (NON HRA)	62.642	28.427	18.446
Projected capital expenditure (HRA)	28.668	27.679	29.628
Projected capital expenditure (TOTAL)	91.310	56.106	48.074
Authorised limit for external debt	173.777	216.446	239.713
Operational Boundary for external debt	120.000	162.000	180.000

2.31 We consider that there are a number of areas where the Council will need to improve its processes in order to fully embed the Prudential Code and realise its full potential. In particular the Council should:

- further develop the capital strategy as part of medium term financial planning, ensuring that there is a robust system for devising a capital plan from individual investment proposals based on a proper system of option appraisal. Without an appropriate capital strategy, the Council will not be able to set or achieve robust prudential indicators;
- continue to improve planning for risk, recognising that good risk management for affordability is not just about robust financial modelling at the outset but equally robust financial monitoring and project management to ensure complex capital projects are delivered on cost and in time, and
- report regularly the actual performance against prudential indicators and integrate monitoring and reporting against Prudential Indicators into the existing financial reporting framework, to include treasury management performance (**Recommendation 3**).

2.32 We will review compliance with these limits as part of our financial statements audit and update any comments in this area in the Annual Audit and Inspection Letter.

Systems of Internal Financial Control

- 2.33 The Council has responsibility for developing and implementing systems of internal financial control, and for putting in place proper arrangements to monitor their adequacy and effectiveness in practice.
- 2.34 Under the Code of Audit Practice we are required to assess whether the Council has adequate arrangements to satisfy itself that its systems of internal financial control are adequate and effective in practice.
- 2.35 To address the requirements of the Code of Audit Practice, our work on the systems of internal financial control included an assessment of:
- the Council's overall arrangements for satisfying itself that systems of internal financial control are adequate and effective;
 - Internal Audit work on key financial systems,
 - the operation of high level controls over key financial systems, and
 - the Council's progress in implementing risk management. Our work on risk management has been reported separately.

Overall arrangements

- 2.36 Our overall assessment is that the Council has less than adequate arrangements in place to satisfy itself that its systems of internal financial control are operating as expected. The Council is aware that it needs to improve its overall financial control environment as part of the MCS implementation through the design and use of new financial systems. The Council also needs to ensure that adequate procedure notes are in place to support users for all systems (**Recommendation 4**). We will undertake a detailed review of the operation of the new financial systems as part of our 2005/06 audit.

Review of Internal Audit work on key financial systems

- 2.37 Under the 'managed audit' approach, we review work undertaken by Internal Audit on key financial systems where this has been completed and undertake further work as appropriate on areas not specifically covered by Internal Audit during the financial year.
- 2.38 Table 7 overleaf shows the assurance provided by Internal Audit for each of the key financial systems in 2004/05.

Table 7: Summary of Internal Audit assurance on key financial systems in 2004-05

System	Internal Audit Assurance 2003-04	Internal Audit Assurance 2004-05	New system part of MCS?
Financial Ledger	None	Satisfactory (1)	Yes
Fixed Assets	None	Limited	Yes
Stock	Limited	None	Yes
Debtors	Limited	Limited	Yes
NNDR	Satisfactory	See Note (5)	No (2)
Council Tax	Limited	Satisfactory	No (3)
Treasury management	Limited	Satisfactory	No
Cashiers	Limited	None	Yes
Creditors	Limited	See Note (6)	Yes
Housing Benefits	Limited	See Note (7)	No (4)
Payroll	None	Limited	Yes
Pensions systems review (investments)	Satisfactory	Satisfactory	No
Pensions Administration	-	Limited	No
Rents	Satisfactory	See Note (8)	No

KEY

- (1) This conclusion is being revisited following further follow-up work.
- (2) New system Pericles from January 2005
- (3) Planned for Pericles from October 2005
- (4) Currently being considered for Pericles
- (5) Audit deferred to June 2005 by agreement as a result of Pericles implementation
- (6) Follow-up audit planned for later following recent review around fraud-based controls
- (7) Follow-up audit planned for later following completion of prior year audit in August 2004
- (8) Work just completed – not yet reviewed by internal audit

2 Financial Aspects of Corporate Governance

- 2.39 We note from Internal Audit's reports completed to date that they have concluded that key controls on few systems provide at least satisfactory assurance that risks material to the achievement of system objectives are adequately managed. The key weaknesses and areas for improvement identified by Internal Audit in relation to key financial systems which they have reviewed are summarised in Appendix B.
- 2.40 We understand from Internal Audit that they will be revisiting the overall assurance for their report on Financial ledger following further follow-up work, in the context of some inconsistencies they have identified in the priority ratings assigned to some key recommendations within the report.
- 2.41 For 2004-05, we have also carried out our own enquiries to ascertain the operation of some high-level controls relating to NNDR, council tax, payroll, sundry debtors and creditors to the extent that these had not been specifically addressed by Internal Audit in their work for 2004-05.
- 2.42 Our testing of high-level controls over systems not reviewed by Internal Audit in 2004-05 relating to the NNDR and creditors systems identified that although there is a weekly reconciliation of NNDR income to the ledger, there has been some delay in inputting valuation changes on the system due to implementation of Pericles. The Council will need to ensure that the overall debit raised is reconciled to all relevant valuation reports as at 31 March 2005 (**Recommendation 5**).
- 2.43 There has been no detailed coverage of controls in the housing benefits system by Internal Audit in 2004-05 as their work in the prior year had been finalised in August 2004. In line with our risk-based audit approach, we plan to undertake a full substantive audit approach to the audit of housing benefits as part of our grant claim audit later this year.
- 2.44 There has been a lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase systems to the financial ledger during the year. The Council envisages that these issues will be addressed by the implementation of an integrated financial system. These systems must be fully reconciled to the ledger as at 31 March 2005 before data is rolled forward into new systems (**Recommendation 6**).
- 2.45 Internal Audit's testing of systems of internal financial control has identified a number of improvements with respect to the operation of financial systems which have already been identified and discussed with officers in their reports. The Council will need to ensure that significant control weaknesses as identified by Internal Audit are reflected as appropriate in the Council's Statement of Internal Control for 2004-05, and also taken into account in the design of new systems as part of MCS (**Recommendation 7**).
- 2.46 Overall we consider that Internal Audit continues to provide an important risk assurance service to the Council in challenging circumstances by reviewing the Council's business critical systems, a number of which are considered to be weak, and by reviewing the Council's response to new developments such as the Prudential Code and the Freedom of Information Act as well as responding to emerging risks on ad hoc projects such as MCS.
- 2.47 Based on our review of Internal Audit work as part of our 'managed audit' approach this year, we have identified and discussed with Internal Audit some scope for Internal Audit to strengthen their overall assurance role. Specific suggestions discussed include:

2 Financial Aspects of Corporate Governance

- clearer mapping of the high-level controls we consider to be key to the effective functioning of financial systems into internal audit coverage of individual systems. We have recently agreed with Internal Audit clearer protocols for addressing this issue going forward in 2005/06 under which Internal Audit would complete a self-assessment of our high-level controls checklist before we commence our interim audit, and
 - a more consistent approach to the issue of sample sizes where detailed testing is undertaken, especially on systems considered to be high risk (**Recommendation 8**).
- 2.48 We will update our comments on the Council's system of internal financial control once we have completed appropriate audit work, as part of our audit of the financial statements and grants later this year, particularly in the following areas:
- Appropriate substantive audit as part of our accounts and grants audit around those systems found not to be operating satisfactorily either by Internal Audit or ourselves;
 - Review of year-end control account reconciliations, and
 - A detailed and substantive approach to the audit of housing benefits grants claims.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 2.49 The Council has responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct, and that it has put in place arrangements to prevent and detect fraud and corruption.
- 2.50 Our duties under the Code of Audit Practice are to consider whether the Council has put in place adequate arrangements to maintain proper standards of financial conduct, and to prevent and detect fraud and corruption.
- 2.51 We have discharged our duty under the Code by reviewing the:
- adequacy of the Council's overall arrangements for ensuring that its affairs are managed in accordance with proper standards of financial conduct;
 - management arrangements for preventing and detecting fraud and corruption, and
 - arrangements in place to follow-up the Audit Commission's National Fraud Initiative (NFI) results.

Overall arrangements

- 2.52 We understand there are also plans to develop the reporting and operational arrangements for CAFT, including:
- Raising the profile of CAFT successes on investigative work, through more regular reporting to Members and, adapted as appropriate to staff, in the Council. We understand that there are plans for CAFT to report quarterly to the Corporate Management Board and Audit & Resources Overview and Scrutiny Committee in 2005-06, which have now been agreed with a first report

from CAFT completed and due out shortly. In addition, CAFT has now been included in the Council's constitution;

- Further consideration of the preservation of the integrity and confidentiality of data as the complexity of investigative work grows. Examples include:
 - the security around the NFI spreadsheets could be improved through the use of password protection. We understand that the Council has taken this up with NFI directly as they do not protect the spreadsheets via the CD sent to local authorities, and
 - the integrity of information systems used to record and monitor progress of investigations. All benefits fraud investigations are held on the secure fraud investigation management system (FIMS) and CAFT have made a separate bid for a secure bespoke system to deal with corporate investigations.

National Fraud Initiative

2.53 The Audit Commission undertakes a data matching exercise on a two yearly basis, comparing payroll and benefits datasets provided by public sector bodies. Any suspicious matches are then forwarded to Local Authorities for further investigation. To ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:

- there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventive work as appropriate;
- there is a clearer system for officers to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas; and
- the relevant parts of the Constitution are regularly updated and tracked as such. For example, we observed that the Contract Procedure Rules on the intranet at the time of our interim audit were dated September 2003, while several key documents such as Standing Orders and Standing financial Instructions on the intranet do not appear to be dated in terms of when last prepared or updated (**Recommendation 9**).

2.54 We have reviewed the arrangements put in place by the Council to follow up the data matching results from the Audit Commission. The initial analysis of the data matches is undertaken by a designated lead within CAFT, and then handed to nominated service leads to decide what, if any, further investigation should take place before handing back to CAFT.

2.55 Discussions with officers and review of progress meeting notes to date indicate that there is not only a good awareness of NFI, but also a clear process for working through the implications of suspect matches across all relevant areas. As the work progresses, there may be further scope for improving the profile of work in this area through more detailed reporting to Members in the planned quarterly reports from CAFT (**Recommendation 10**).

Legality of Transactions that may have a financial consequence

- 2.56 It is the Council's responsibility to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations.
- 2.57 The Code requires us to consider whether the Council has put in place adequate arrangements to ensure the legality of transactions that might have significant financial consequences. We are not required to form our own opinion on the legality of transactions.
- 2.58 The work we have performed to discharge our responsibilities consisted of an overview of the Council's management arrangements with regard to addressing legal issues, and its procedures for implementing major new legislation.
- 2.59 There is also evidence that the Council has procedures in place for taking forward new legislation. The most recent examples include the Freedom of Information Act, the Civil Contingencies Act and the Proceeds of Crime Act.
- 2.60 The Freedom of Information Act (FOI) introduced new duties on public bodies from February 2005. It is early days yet in terms of implementation but the Council has put in place a Publication Scheme which is available to the public and has designated an officer with responsibilities for co-ordinating FOI requests.
- 2.61 The Civil Contingencies Act, which took effect from April 2005, introduces new duties on local authorities and other public sector bodies to have in place a Business Continuity Plan in the event of civil disasters or emergencies. The Council still has considerable work to do in terms of cascading the concept to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans. The Council needs to undertake further work to cascade business continuity to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans (**Recommendation 11**).
- 2.62 The Council has made progress in implementing the Proceeds of Crime Act which places new responsibilities on authorities for dealing with suspected money laundering. The Council has identified a dedicated Money Laundering Reporting Officer, a role held by the Head of the CAFT.
- 2.63 During the year, CAFT has undertaken some investigations in relation to suspected money laundering activities arising from overpayments of rent and council tax using stolen credit cards. These investigations have so far not uncovered any loss to the Council. There may be scope to strengthen the Council's framework for taking forward anti-money laundering procedures through:
- the introduction of clear strategies, policies and procedures on anti money laundering which may be incorporated into the counter-fraud policy;
 - appropriate training for staff working in areas most at risk of dealing with potential money laundering activities (e.g. those collecting rent, council tax, debtors and housing benefits overpayments), so that they may be more alert to the risk and be better able to identify it and report it when it arises; and

- establishing a clear corporate framework for passing any relevant intelligence or suspected cases of money laundering to the appropriate authorities such as the police and the National Crime Investigation Squad (NCIS) (**Recommendation 12**).

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3. Accounts

Introduction

- 3.1 The Council has responsibility for maintaining proper accounting records and preparing financial statements that present fairly its financial position.
- 3.2 Under the Code of Audit Practice, we are required to audit the financial statements and to give an opinion on the accounts including whether they present fairly the financial position and whether they have been prepared in accordance with relevant legislation and applicable accounting standards.
- 3.3 In preparation for our audit of the Council's 2004-05 financial statements, we have:
- reviewed the Council's closedown preparation, in light of the earlier accounts approval and publication deadline for 2004-05, and
 - considered our findings in respect of systems of internal financial control on the reliance we can place on key systems and the impact on our final accounts audit approach.
- 3.4 Our findings in these areas are set out in further detail below.
- 3.5 We have provided officers with our Arrangements Letter in February 2005, which sets out our requirements in respect of final accounts supporting evidence. As with last year, we ask that all items set out in the Arrangements Letter are made available, cross-referenced, with a named contact at least a week before our final accounts audit visit which commences in August 2005.

Closedown

- 3.5 In preparation for the Whole of Government Accounts, the accounts approval and publication deadlines for local government are being brought forward according to the timetable in Table 8.

Table 8: Statutory timetable for accounts approval and publication

Year ending	Accounts approved by	Accounts published by
31 March 2005	31 July 2005	31 October 2005
31 March 2006	30 June 2006	30 September 2006

- 3.6 This is the third year of our appointment as the Council's external auditors. Arrangements to ensure the Council publishes its accounts on time appear to have improved since we first became the Council's external auditors in 2002-03. The Council closed down on time and had its accounts approved and certified according to statutory timescales in 2003-04. For 2004-05, the Council plans to present its accounts to the full Council for approval in July 2005.
- 3.7 The core officer team responsible for closure has been strengthened which should help provide a clearer focus on year-end statutory financial reporting in the context of other priorities and pressures, in particular MCS implementation.

3 Accounts

- 3.8 Working arrangements with the Council's new ALMO created on 1 April 2004 are still developing. We will review the impact of the new working arrangements when we undertake our audit of the financial statements and relevant housing grants later in the year.

Review of high level controls

- 3.9 We have reported the overall outcome of our work in detail under section 2. Details of our key areas of audit focus and weaknesses to be addressed are set out in Appendix C. We plan to tailor our audit approach at final accounts and grants audits, in the context of Internal Audit's findings this year and our knowledge of the Council's systems from our interim audit visit. In particular, we plan to:

- Undertake appropriate substantive audit as part of our accounts and grants audit around all systems found not to be operating satisfactorily either by Internal Audit or ourselves;
- Review year-end control account reconciliations where available and consider the implications of any unresolved discrepancies arising on our audit opinion; and
- Adopt a detailed and substantive approach towards the audit of the Council's significant grants and returns including the housing benefits grants claims, housing subsidy and NNDR.

Appendix A: Recommendations and Action Plan

The key recommendations arising from our interim audit visit are detailed in this Appendix, along with management responses to the recommendations and agreed actions plans.

We have not repeated within this report recommendations raised by Internal Audit as these are already being addressed by management.

Key to priority ratings

PRIORITY	
1	Significant effect on control system
2	Effect on control system
3	Best practice

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
1	2.8	<p>Financial monitoring and reporting</p> <p>There is room to improve current arrangements for financial monitoring and reporting by:</p> <ul style="list-style-type: none"> ensuring clearer integration of the Council's debt management, NNDR and Council Tax collection as well as treasury management (on borrowing and investment) into the current system for financial monitoring and reporting. Improving the quality of commentary by individual service departments on variances on both capital and revenue expenditure by the time they reach the Core Team for consolidation. 	2	<p>Agreed</p> <ul style="list-style-type: none"> Reports on aged debt have been submitted to the Audit & Resource Committee for the past two years. Performance monitoring on the collection of local taxation and general debts has been part of the 1stStat return from 1 April 2005, which will be incorporated into regular reporting to Cabinet. This will be kept under review, with a view to enhancing the information provided where appropriate. Under SAP, budget monitoring reports will be prepared by budget holders and full explanation of variances will be required. This will be reinforced in the special budget management training to be provided by Accountancy, which commences on 5 September 2005. 	Ongoing
2	2.23	<p>ALMO arrangements</p> <p>the Council will recognise that with the appointment of a new Head of Finance for Housing since May 2005 brings fresh opportunities for arrangements to be strengthened ensuring that:</p> <ul style="list-style-type: none"> contracts and SLAs document relationship and working arrangements with the ALMO; 	2	<p>Agreed</p> <ul style="list-style-type: none"> SLAs for services provided to Barnet Homes are under discussion. The Head of Finance (Housing) will be undertaking a complete financial appraisal of the management agreement between the 	October 2005

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> The Council receives regular financial and performance monitoring information regular liaison meetings with the ALMO include standing items on financial performance appropriate reporting on progress and financial performance takes place at Member level. 		<p>council and Barnet Homes, and will make recommendations to the Head of Housing on any changes that are considered appropriate for inclusion in the agreements for 2006/07, or sooner if appropriate.</p> <ul style="list-style-type: none"> Regular financial and performance information is currently received by the Housing client function and is incorporated into regular reports to Cabinet Resources Committee. Following a review of the 2004/05 outturn, additional financial support has been organised to improve the modelling of temporary accommodation income and housing benefit subsidy. Regular liaison meetings are occurring between the Head of Finance (Housing) and Barnet Homes Head of Financial Services. Notes from this meeting go to the monthly BH/LBB Partnership Meetings. HRA revenue and capital monitoring information is incorporated in the regular reporting to Cabinet Resources Committee. 	<p>Ongoing</p> <p>Ongoing</p> <p>September 2005</p>
3	2.31	<p>Implementing the Prudential Code</p> <p>To take full advantage of the Prudential Code, the Council needs to:</p> <ul style="list-style-type: none"> Further develop the capital strategy as part of medium term financial planning, ensuring that the Council has a robust system for devising a capital plan from individual investment proposals based a proper system of option appraisal. Without a proper 	2	<p>Agreed</p> <ul style="list-style-type: none"> The Capital and Asset Group (CAG) has been setup with responsibility for all capital issues including the capital strategy, capital programme, capital resources and options appraisals. A Capital Strategy has been 	Ongoing

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<p>capital strategy, the Council will not be able to set nor to keep to robust prudential indicators.</p> <ul style="list-style-type: none"> Continue to improve planning for risk, recognising that good risk management for affordability is not just about robust financial modelling at the outset but equally robust financial monitoring and project management to ensure complex capital projects are delivered on cost and in time report regularly the actual performance against prudential indicators and integrate monitoring and reporting against Prudential Indicators into the existing financial reporting framework, to include treasury management performance 		<p>produced and capital funding statements are maintained on an ongoing basis.</p> <ul style="list-style-type: none"> Prudential Indicators were reported to CRC in November 2004. This will be developed further for 2005/06. 	November/December 2005
4	2.36	<p>Procedure notes for key financial systems</p> <p>The Council will need to ensure that adequate procedure notes are in place to support users for all key financial systems when MCS is implemented.</p>	1	<p>Agreed.</p> <p>Procedures for using SAP have been developed as part of the implementation of the system. These system procedures will be integrated into the wider financial processes of the Council. The existing Financial Toolkit will be updated.</p>	Ongoing
5	2.42	<p>NNDR – processing valuation updates</p> <p>There is a weekly reconciliation of NNDR income to the ledger but there has been some delay in inputting valuation changes on the system due to implementation of Pericles. The Council will need to ensure that the overall debit raised is reconciled to relevant valuation reports as at 31 March 2005.</p>	2	<p>The reconciliation has been completed.</p>	Actioned
6	2.44	<p>Control account reconciliations</p> <p>There has been a lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase</p>	1	<p>Agreed.</p> <p>As part of the closure process control accounts were reconciled as at 31 March 2005 by the</p>	

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		systems to the financial ledger during the year. The Council will need to ensure that appropriate action is taken to ensure that these systems are fully reconciled to the ledger as at 31 March 2005 before data is rolled forward into new systems.		<p>relevant service accountancy group or service manager. In addition, prior to the migration to SAP, these reconciliations have been done up to 31/7/05.</p> <p>The implementation of SAP will impact on these reconciliations in the future, e.g. debtors, creditors. Where third party systems remain, e.g. housing benefits, procedures for regular reconciliations are being put in place.</p> <p>For the migration of data from LAFIS to SAP, the data will be extracted for each week in specific blocks, e.g. balance sheet, capital etc. Each block will then be mapped to SAP with a control total for each block to ensure that all transactions are successfully migrated. Each load will then be reconciled with full documentation held by the MCS project team.</p>	Ongoing
7	2.45	<p>Impact of internal control weaknesses</p> <p>The Council will need to ensure that significant control weaknesses as identified by Internal Audit are reflected as appropriate in the Council's Statement on Internal Control for 2004-05, and also taken into due account in the design of new systems as part of MCS.</p>	1	Significant weaknesses in internal controls will be reported in the Council's 2004-5 Statement on Internal Control.	August 2005
8	2.47	<p>Internal Audit</p> <p>We have discussed with Internal Audit some scope for internal audit to further strengthen their overall assurance role. Specific suggestions include:</p>	3	Internal audit reviews of key financial systems will include assessment of high level controls identified by the External Auditor. IA will also complete a self-	

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> clearer mapping of the high level controls we consider to be key to the effective functioning of financial systems into internal audit coverage of individual systems. taking a more consistent approach to the issue of sample sizes, especially on systems considered to be high risk. 		<p>assessment of External Auditor's high-level controls checklist for key financial systems before commencement of an external audit.</p> <p>On the financial ledger audit the auditor tested 5 transactions, which confirmed that the control is not applied and we concluded that this was not a satisfactory situation. Having established that the control is not applied, extending the sample size would not have added value. Had we found from a limited sample testing that the control was being applied, then I agree that it would have been prudent to have continued to test on a slightly larger sample than 5 to gain confidence in the conclusion being drawn.</p> <p>In relation to fixed assets, reference was made to capital charges in T1 at section 03.04 which referred to working paper 45. T1 explains that the capital charges are calculated automatically by computer at 3.5% and working paper 45 confirms this for 29 items (highlighted on the working paper).</p>	<p>Immediately</p> <p>None</p>
9	2.53	<p>Anti-fraud framework</p> <p>To ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:</p> <ul style="list-style-type: none"> there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventive work as appropriate. there is a clearer system for officers to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas. the relevant parts of the Constitution are regularly updated and tracked as such. For example, we observed that the Contract 	2	<p>Agreed, but subject to resources being available.</p> <p>Agreed</p> <p>Agreed</p>	Ongoing

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		Procedure Rules on the intranet at the time of our interim audit were dated September 2003, while several key documents such as Standing Orders and Standing Financial Instructions on the intranet do not appear to be dated in terms of when last prepared or updated.			
10	2.55	<p>Reporting progress on National Fraud Initiative</p> <p>As the work on NFI progresses, the Council should consider improving the profile of work in this area through more detailed reporting to Members by encompassing NFI in the planned quarterly reports from CAFT.</p>	3	Agreed. CAFT will include in its planned quarterly reports to Management Board and members NFI progress information.	December 2005
11	2.61	<p>Embedding business continuity planning</p> <p>The Council needs to undertake further work to cascade business continuity to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans.</p>	2	A review of business continuity and emergency planning has been initiated by the Directors Group. This will be led by the Head of Internal Audit, with sponsorship from Robson Rhodes, and a report issued by the end of September.	September 2005
12	2.63	<p>Implementing anti-money laundering initiatives</p> <p>There is scope to strengthen the Council's framework for taking forward anti-money laundering legislation, through:</p> <ul style="list-style-type: none"> • the introduction of clear strategies, policies and procedures on anti money laundering which may be incorporated into the counter-fraud policy; • appropriate training for staff working in areas most at risk of dealing with potential money laundering activities (e.g. those collecting rent, council tax, debtors and housing benefits overpayments), so they may be more alert to the risk and be better able to identify it and report it when it arises, and • a clear corporate framework for passing any relevant intelligence or suspect cases of money laundering to the appropriate authorities such as the police and the National Crime 	2	Agreed. The Head of CAFT is the MLRO and is currently taking exams to become an accredited Financial Investigator which will provide her with increased powers under the Proceeds of Crime Act 2002. In addition discussions have taken place with the Home Office in relation to the role of Local Authorities and Money Laundering from which Barnet will develop a Policy, procedures for reporting and a comprehensive training programme for staff in the highest risk area's.	December 2005

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		Investigation Squad (NCIS).			

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APPENDIX B: Summary of Internal financial Control Weaknesses

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
Financial Ledger	Satisfactory (this conclusion is under review by Internal Audit)	1	<ul style="list-style-type: none"> o Detailed procedure notes need to be in place for all aspects of key financial systems. o Control accounts reconciliations need to be prepared on a timely basis. o Compliance with procedures will also need to be monitored.
Fixed Assets	Limited	2	<ul style="list-style-type: none"> o All assets need to be identified to ensure completeness of the fixed asset register relating to land & buildings in particular for which historical data is incomplete. o There needs to be a continuous process for updating details of capital expenditure relating to schools, infrastructure and vehicle plant & machinery.
Stock	None	9	<ul style="list-style-type: none"> o Detailed guidance needs to be developed in the Council's Financial Regulations and Accounting Manual to clarify the definition, treatment and process for the year-end valuation of stock.
Debtors	Limited	5	<ul style="list-style-type: none"> o Need to ensure proper segregation of duties so staff who raise debtors are not in a position to write-off debts. o More efficient and economic methods for debt collection should be pursued for low value or multi-service

Appendix B

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
			debts.
Council Tax	Satisfactory	0	<ul style="list-style-type: none"> o Priority should be given to developing detailed policy and procedure notes to support the implementation of new system Pericles.
Treasury management	Satisfactory	0	<ul style="list-style-type: none"> o None
Cashiers	None	9	<ul style="list-style-type: none"> o A future strategy as well as detailed procedure notes for the service needs to be prepared. o Fraud prevention measures need to be implemented as soon as possible including key staff undergoing fraud awareness training, implementing recommendations made by crime prevention officers, reviewing insurance levels and robust income monitoring particularly from parking machines. o Comprehensive risk assessment needs to be undertaken for the service.
Payroll	Limited	6	<ul style="list-style-type: none"> o Key controls need to be put in place including regular independent checking of payroll input, use of exception reports and reconciliation of payroll to HR information. o Monitoring procedures need to be improved to ensure fraud prevention and detection steps are regularly performed (e.g. duplicate account checks and overpayment invoicing)
Pensions investments	Satisfactory	0	<ul style="list-style-type: none"> o None
Pensions administration	Limited	3	<ul style="list-style-type: none"> o There need to be comprehensive documented procedures setting out the process to confirm correct payments to

Appendix B

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
			<p>overseas pensioners and identify any deceased pensioners. The procedure should also address action to be taken in the event of no response by the set deadline.</p> <ul style="list-style-type: none"> o Management in the Payroll Section should ensure that all overseas pensioners are correctly identified for confirming status. o Management in the Payroll Section should ensure that the quality of evidence and information obtained from overseas pensioners reduces the risk of fraud.
NDR	Audit postponed to July 2005	-	o N/a
Creditors	Follow-up due in 2005-06	-	o N/a
Housing Benefits	Follow-up due in 2005-06	-	o N/a

APPENDIX C: Financial Systems and their impact on the accounts

We summarise in Table 8 below the impact of the findings of both Internal Audit and ourselves on our final accounts audit approach in relation to each key financial system:

Table 8: Impact of control weaknesses identified on audit approach at final accounts

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Financial Ledger	✓	<ul style="list-style-type: none"> ○ Detailed procedure notes need to be in place for all aspects of the service. ○ Compliance with procedures will also need to be monitored. 	<ul style="list-style-type: none"> ○ There is overall project control process to ensure that key control accounts are reconciled throughout the year. 	<p>Our audit testing will focus on ensuring that:</p> <ul style="list-style-type: none"> - opening balances have been correctly brought forward in the ledger. - significant year-end journals are appropriately authorised. - suspense accounts are cleared appropriately at year-end. - key control accounts have been fully reconciled at year-end.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Fixed Assets	x	<ul style="list-style-type: none"> o All assets need to be identified to ensure completeness of the fixed asset register relating to land & buildings in particular for which historical data is incomplete. o There needs to be a continuous process for updating details of capital expenditure relating to schools, infrastructure and vehicle plant & machinery. 	<ul style="list-style-type: none"> o None 	<p>Our focus will be to ensure that:</p> <ul style="list-style-type: none"> - The fixed asset register has been reconciled to the ledger at year-end. - Depreciation calculations are reasonable and in accordance with SORP and the council's accounting policies.
Stock	✓	<ul style="list-style-type: none"> o Detailed guidance needs to be developed further in the Council's Financial Regulations and Accounting Manual to clarify the definition, treatment and process for the year-end valuation of stock. 	<ul style="list-style-type: none"> o None 	<p>Our work will include:</p> <ul style="list-style-type: none"> - analytical review of movements in stock compared to last year. - review of year-end valuation of stock to ensure that the basis of valuation is in accordance with SORP and the council's accounting policies. - review of year-end reconciliation of stock records to the ledger as appropriate. - assessing the completeness of stock identification at year-end, and the extent to which disclosure of stock is appropriate.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Debtors	x	<ul style="list-style-type: none"> o Need to ensure proper segregation of duties so staff who raise debtors are not in a position to write-off debts. o More efficient and economic methods for debt collection should be pursued for low value or multi-service debts. 	<ul style="list-style-type: none"> o At the time of our interim audit visit, debtor control accounts were last reconciled in December 2004. o Since July 2004, aged debtor reports have been prepared monthly and are presented to Member Challenge days. 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - review the year-end control accounts reconciliation. - assess whether significant debts raised at year-end, and those over 6 months old are collectable.
Council Tax	✓	<ul style="list-style-type: none"> o Priority should be given to developing detailed policy and procedure notes to support the implementation of new system Pericles. 	<ul style="list-style-type: none"> o None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - review the year-end control accounts reconciliation - consider performance on income collection
Treasury management	✓	<ul style="list-style-type: none"> o None 	<ul style="list-style-type: none"> o None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - consider governance and accounting issues arising from any unusual new loans or investments in the Council's financial statements.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Cashiers	✓	<ul style="list-style-type: none"> ○ A future strategy as well as detailed procedure notes for the service needs to be prepared. ○ Fraud prevention measures need to be implemented as soon as possible including key staff undergoing fraud awareness training, implementing recommendations made by crime prevention officers, reviewing insurance levels and robust income monitoring particularly from parking machines. ○ Comprehensive risk assessment needs to be undertaken for the service. 	<ul style="list-style-type: none"> ○ None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - review year-end cash/ bank reconciliations for all accounts held by Barnet.
Payroll	x	<ul style="list-style-type: none"> ○ Key controls need to be put in place regular independent checking of payroll input, use of exception reports and reconciliation of payroll to HR information. ○ Monitoring procedures need to be improved to ensure fraud prevention and detection steps are regularly performed e.g. duplicate account checks and overpayment invoicing. 	<ul style="list-style-type: none"> ○ None 	<p>In the absence of a high level reconciliation between HR and payroll data, we will:</p> <ul style="list-style-type: none"> - review year-end control accounts reconciliation for salaries and wages - carry out line by line analytical review for all salaries and wages codes and seek further corroboration of any unusual variances
Pensions	✓	<ul style="list-style-type: none"> ○ None 	<ul style="list-style-type: none"> ○ None 	<ul style="list-style-type: none"> - We will undertake an audit of the pension scheme accounts.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
NNDR	✓	<ul style="list-style-type: none"> ○ Audit due to be undertaken in July 2005 	<ul style="list-style-type: none"> ○ NNDR income is reconciled to the ledger weekly but due to staff being diverted on implementation of new system, there has been a delay in inputting valuation changes into the system. There is a risk that NNDR income due for the year many not be identified and calculated properly. 	<p>In addition to our standard audit tests we will:</p> <ul style="list-style-type: none"> - follow-up progress made in processing all valuation changes for 2004-05 - review the year end reconciliation of NNDR systems.
Creditors	✓	<ul style="list-style-type: none"> ○ Audit due to be followed-up in 2005-06 	<ul style="list-style-type: none"> ○ As various purchase systems are currently not linked into LAFIS, creditors are manually raised by journals onto the ledger at year-end. 	<p>We will focus our audit work on the completeness of creditors.</p>
Housing Benefits	x	<ul style="list-style-type: none"> ○ Audit due to be followed-up in 2005-06 	<ul style="list-style-type: none"> ○ See left 	<p>We will undertake detailed substantive audit testing of the housing benefits grant claim.</p>
Housing Rents	To be assessed upon review of now completed IA work that assessed controls as satisfactory			<ul style="list-style-type: none"> - To be assessed upon completion of review of internal audit work

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
1	2.8	<p>Financial monitoring and reporting</p> <p>There is room to improve current arrangements for financial monitoring and reporting by:</p> <ul style="list-style-type: none"> ensuring clearer integration of the Council's debt management, NNDR and Council Tax collection as well as treasury management (on borrowing and investment) into the current system for financial monitoring and reporting. Improving the quality of commentary by individual service departments on variances on both capital and revenue expenditure by the time they reach the Core Team for consolidation. 	2	<p>Agreed</p> <ul style="list-style-type: none"> Reports on aged debt have been submitted to the Audit & Resource Committee for the past two years. Performance monitoring on the collection of local taxation and general debts has been part of the 1stStat return from 1 April 2005, which will be incorporated into regular reporting to Cabinet. This will be kept under review, with a view to enhancing the information provided where appropriate. Under SAP, budget monitoring reports will be prepared by budget holders and full explanation of variances will be required. This will be reinforced in the special budget management training to be provided by Accountancy, which commences on 5 September 2005. 	Ongoing
2	2.23	<p>ALMO arrangements</p> <p>the Council will recognise that with the appointment of a new Head of Finance for Housing since May 2005 brings fresh opportunities for arrangements to be strengthened ensuring that:</p> <ul style="list-style-type: none"> contracts and SLA's document relationship and working arrangements with the ALMO; 	2	<p>Agreed</p> <ul style="list-style-type: none"> SLA's for services provided to Barnet Homes are under discussion with a target completion of September. The Head of Finance (Housing) will be undertaking a complete financial appraisal of the management agreement between the council and Barnet Homes, and will make recommendations to the Head of Housing on any changes that are considered appropriate for inclusion in the agreements for 2006/07, or sooner if appropriate. 	September 2005

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> The Council receives regular financial and performance monitoring information regular liaison meetings with the ALMO include standing items on financial performance appropriate reporting on progress and financial performance takes place at Member level. 		<ul style="list-style-type: none"> Regular financial and performance information is currently received by the Housing client function and is incorporated into regular reports to Cabinet Resources Committee. Following a review of the 2004/05 outturn, additional financial support has been organised to improve the modelling of temporary accommodation income and housing benefit subsidy. Regular liaison meetings are occurring between the Head of Finance (Housing) and Barnet Homes Head of Financial Services. Notes from this meeting go to the monthly BH/LBB Partnership Meetings. HRA revenue and capital monitoring information is incorporated in the regular reporting to Cabinet Resources Committee. 	<p>Ongoing</p> <p>Ongoing</p> <p>September 2005</p>
3	2.31	<p>Implementing the Prudential Code</p> <p>To take full advantage of the Prudential Code, the Council needs to:</p> <ul style="list-style-type: none"> Further develop the capital strategy as part of medium term financial planning, ensuring that the Council has a robust system for devising a capital plan from individual investment proposals based a proper system of option appraisal. Without a proper capital strategy, the Council will not be able to set nor to keep to robust prudential indicators. Continue to improve planning for risk, recognising that good risk management for affordability is not just about robust financial modelling at the outset but equally robust financial monitoring and project management to ensure complex capital projects are delivered on cost and in time 	2	<p>Agreed</p> <ul style="list-style-type: none"> The Capital and Asset Group (CAG) has been setup with responsibility for all capital issues including the capital strategy, capital programme, capital resources and options appraisals. A Capital Strategy has been produced and capital funding statements are maintained on an ongoing basis. Prudential Indicators were reported to CRC in November 2004. This will be developed further for 2005/06. 	<p>Ongoing</p> <p>November/ December 2005</p>

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> report regularly the actual performance against prudential indicators and integrate monitoring and reporting against Prudential Indicators into the existing financial reporting framework, to include treasury management performance 			
4	2.36	<p>Procedure notes for key financial systems</p> <p>The Council will need to ensure that adequate procedure notes are in place to support users for all key financial systems when MCS is implemented.</p>	1	<p>Agreed.</p> <p>Procedures for using SAP have been developed as part of the implementation of the system. These system procedures will be integrated into the wider financial processes of the Council. The existing Financial Toolkit will be updated.</p>	Ongoing
5	2.42	<p>NNDR – processing valuation updates</p> <p>There is a weekly reconciliation of NNDR income to the ledger but there has been some delay in inputting valuation changes on the system due to implementation of Pericles. The Council will need to ensure that the overall debit raised is reconciled to relevant valuation reports as at 31 March 2005.</p>	2	<p>The reconciliation has been completed.</p>	Actioned
6	2.44	<p>Control account reconciliations</p> <p>There has been a lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase systems to the financial ledger during the year. The Council will need to ensure that appropriate action is taken to ensure that these systems are fully reconciled to the ledger as at 31 March 2005 before data is rolled forward into new systems.</p>	1	<p>Agreed.</p> <p>As part of the closure process control accounts were reconciled as at 31 March 2005 by the relevant service accountancy group or service manager. In addition, prior to the migration to SAP, these reconciliations have been done up to 31/7/05.</p> <p>The implementation of SAP will impact on these reconciliations in the future, e.g. debtors, creditors. Where third party systems remain, e.g. housing benefits, procedures for regular reconciliations are being put in place.</p> <p>For the migration of data from LAFIS to SAP, the data will be extracted for each week in specific blocks, e.g. balance sheet, capital etc. Each block will then be mapped to SAP with a control total for each block to ensure that all</p>	Ongoing

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
				transactions are successfully migrated. Each load with then be reconciled with full documentation held by the MCS project team.	
7	2.45	<p>Impact of internal control weaknesses</p> <p>The Council will need to ensure that significant control weaknesses as identified by Internal Audit are reflected as appropriate in the Council's Statement on Internal Control for 2004-05, and also taken into due account in the design of new systems as part of MCS.</p>	1	Significant weaknesses in internal controls will be reported in the Council's 2004-5 Statement on Internal Control.	August 2005
8	2.47	<p>Internal Audit</p> <p>We have discussed with Internal Audit some scope for internal audit to further strengthen their overall assurance role. Specific suggestions include:</p> <ul style="list-style-type: none"> • clearer mapping of the high level controls we consider to be key to the effective functioning of financial systems into internal audit coverage of individual systems. • taking a more consistent approach to the issue of sample sizes, especially on systems considered to be high risk. 	3	<p>Internal audit reviews of key financial systems will include assessment of high level controls identified by the External Auditor. IA will also complete a self-assessment of External Auditor's high-level controls checklist for key financial systems before commencement of an external audit.</p> <p>On the financial ledger audit the auditor tested 5 transactions, which confirmed that the control is not applied and we concluded that this was not a satisfactory situation. Having established that the control is not applied, extending the sample size would not have added value. Had we found from a limited sample testing that the control was being applied, then I agree that it would have been prudent to have continued to test on a slightly larger sample than 5 to gain confidence in the conclusion being drawn.</p> <p>In relation to fixed assets, reference was made to capital charges in T1 at section 03.04 which referred to working paper 45. T1 explains that the capital charges are calculated automatically by computer at 3.5% and working paper 45 confirms this for 29 items (highlighted on the working paper).</p>	<p>Immediately</p> <p>None</p>

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
9	2.53	<p>Anti-fraud framework</p> <p>To ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:</p> <ul style="list-style-type: none"> • there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventive work as appropriate. • there is a clearer system for officers to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas. • the relevant parts of the Constitution are regularly updated and tracked as such. For example, we observed that the Contract Procedure Rules on the intranet at the time of our interim audit were dated September 2003, while several key documents such as Standing Orders and Standing Financial Instructions on the intranet do not appear to be dated in terms of when last prepared or updated. 	2	<p>Agreed, but subject to resources being available.</p> <p>Agreed</p> <p>Agreed</p>	Ongoing
10	2.55	<p>Reporting progress on National Fraud Initiative</p> <p>As the work on NFI progresses, the Council should consider improving the profile of work in this area through more detailed reporting to Members by encompassing NFI in the planned quarterly reports from CAFT.</p>	3	Agreed. CAFT will include in its planned quarterly reports to Management Board and members NFI progress information.	December 2005
11	2.61	<p>Embedding business continuity planning</p> <p>The Council needs to undertake further work to cascade business continuity to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans.</p>	2	A review of business continuity and emergency planning has been initiated by the Directors Group. This will be led by the Head of Internal Audit and a report issued by the end of September.	September 05
12	2.63	<p>Implementing anti-money laundering initiatives</p> <p>There is scope to strengthen the Council's framework for taking forward anti-money laundering legislation, through:</p> <ul style="list-style-type: none"> • the introduction of clear strategies, policies and procedures on anti money laundering which may be incorporated into the 	2	Agreed. The Head of CAFT is the MLRO and is currently taking exams to become an accredited Financial Investigator which will provide her with increased powers under the Proceeds of Crime Act 2002. In addition discussions have taken place with the Home Office in relation to the role of Local Authorities and Money Laundering from which Barnet	December 2005

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<p>counter-fraud policy;</p> <ul style="list-style-type: none"> • appropriate training for staff working in areas most at risk of dealing with potential money laundering activities (e.g. those collecting rent, council tax, debtors and housing benefits overpayments), so they may be more alert to the risk and be better able to identify it and report it when it arises, and • a clear corporate framework for passing any relevant intelligence or suspect cases of money laundering to the appropriate authorities such as the police and the National Crime Investigation Squad (NCIS). 		<p>will develop a Policy, procedures for reporting and a comprehensive training programme for staff in the highest risk areas.</p>	