

MEETING

AUDIT COMMITTEE

DATE AND TIME

MONDAY, 10 OCTOBER 2005

at 7.00 PM

VENUE

THE TOWN HALL, THE BURROUGHS,

HENDON, NW4 4BG

TO: MEMBERS OF THE COMMITTEE (Quorum 3)

Chairman: Councillor Wayne Casey
Vice Chairman: Councillor Brian Coleman

Councillors:

Claire Farrier Daniel Hope Mark Langton
Malcolm Lester Leslie Sussman

Substitutes:

Councillors

Terry Burton Danish Chopra Jeremy Davies
Aba Dunner Alison Moore Monroe Palmer

You are requested to attend the above meeting for which an Agenda is attached.

John Marr
Democratic Services Manager

Committee Section contact Flick Heron 020 8359 2205

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Town Hall, Hendon NW4 4BG

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AGENDA ITEM: 6 Page nos. 1-10

Meeting	Audit Committee
Date	10 October 2005
Subject	Modernising Core Systems (MCS) Project – Post-Go Live Update
Report of	Director of Resources
Summary	This report provides an update on the Modernising Core Systems Project.
Officer Contributors	Mark Webber, Modernising Core Systems Project Manager
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix 1: Key systems outcomes Appendix 2: Competency Centre Statistics Appendix 3: Attendance at Training Appendix 4: MCS Phase 2 outline
For decision by	The Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Mark Burgess, MCS Programme Director Manager
(020 8359 7013)

1. RECOMMENDATIONS

- 1.1 That the Committee note the progress of the Modernising Core Systems Project, in particular how the system is meeting and will continue to meet its objectives efficiently, effectively and economically.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee, 31 August 2005 – the external auditors' report on MCS was noted and discussed, with particular regard to the importance of maintaining the impetus of the project as a means of achieving cultural change.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Modernising Core Systems Programme is fundamental to the delivery of the corporate priorities in delivering 'a better council for a better Barnet' through investment in modern systems, as set out in the Corporate Plan.
- 3.2 The programme also supports the delivery of the key objectives set out in the Resources and Borough Treasurer Performance Management Plans.

4. RISK MANAGEMENT ISSUES

- 4.1 Risk management, the process for identifying risks in relation to MCS Project, allocating ownership of agreed risks and monitoring how they are being addressed in line with their likelihood and impact, has been embedded in the MCS Project Management process. It is owned by the Project Management team and the existence of an effective process was a critical success factor which contributed to the go-live achieved by the target date.
- 4.2 External Audit have also recently set out their views on the project pre-go live in their report to Audit Committee on 31 August 2005, identifying 4 specific significant risks which are being managed as part of overall risk management arrangements.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 The original budgeted position as reported to Joint Cabinet Resources Committee and Cabinet ICT Committee (19 August 2004) was as follows:

Cost/(Saving)	2004/5	2005/6	Ongoing annual base budget cost
	£000s	£000s	£000s
Total Capital	5,662	2,498	0
Revenue			
Preferred supplier costs	0	611	611
Capital financing costs	0	500	500
Savings from legacy systems and mainframe	0	(331)	(662)
Procurement costs	500	0	0
Total Revenue	500	780	449

5.2 While expecting to draw upon the budgeted contingency due to unforeseen expenditure on agreed change control procedures and on purchasing PC upgrades for the business, the Modernising Core Systems project will come in under budget with costs minimised within existing budgets and by additional income contributions which are being sought from partners. A detailed budget monitoring for the MCS project is reported to the Programme Board on a monthly basis.

6. LEGAL

6.1 None.

7. CONSTITUTIONAL POWERS

7.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including “Ensuring that ...the action taken by the Council to implement fully a risk management system are balanced, fair, conform to accountancy standards and meet prevailing best practice.”

8. BACKGROUND INFORMATION

Phase 1 – the System, the Stats and the Support

8.1 All aspects of the phase 1 SAP solution implementation went live on Monday 1 August 2005 in line with the key project milestones.

8.2 As part of the implementation, numerous key deliverables were achieved through the various aspects of the system, from the extensive roll out of those aspects of the system to wage payments to staff members through SAP for the first time. Full details of these deliverables are detailed in **appendix 1**.

Phase 1 – Training and Support

8.3 A fundamental aspect of providing support to phase 1 go live has been the establishment of the competency centre, the central helpdesk that proactively supports and develops users in their use of SAP, ensures full exploitation of the SAP going forward and develops SAP in accordance with changing business requirements, product and service changes going forward. For an update on the current competency centre statistics, see **appendix 2**.

8.4 Clearly, however, the first line of support for users has been the intensive training programme that has been put in place and rolled out across the authority through MCS. **Appendix 3** outlines the attendance rates at courses to date. Initial feedback suggests that the training material has been clear, easy to understand and trainers have spent time to explain things using examples from the work place.

Phase 2 – Functionality and Realising the Benefits of the System

- 8.5 Phase 2 of MCS go live will take place on 1 April 2006, with work beginning on this immediately following the closure of phase 1 at the end of August 2005. For an outline position on what is included within phase 2, see **appendix 4**. This implementation will continue to be supported by both the competency centre and a training programme as delivered in phase 1.
- 8.6 Clearly, while SAP is live, benefits to the authority will not be leveraged automatically and must be managed proactively. As well as marking the move into phase 2 implementation of the remaining aspects of the SAP system, the end of August represents the beginning of a new stage in the development of the organisation enabled by the Modernising Core Systems project outcomes.
- 8.7 The MCS Change Team will lead on the identification and realisation of benefits including savings. Working with all services, the team will facilitate an evaluation of their business processes based on a consistent methodology and approach. Best practice will be adopted to improve processes by streamlining and re-engineering and removal of inefficiencies and duplication. The Change Team will work closely with the Competency Centre to ensure that the functionality of the SAP system is fully exploited in order to support and expedite the necessary process improvements.
- 8.8 Benefits identified are grouped into 3 broad categories:
- *Systems Decommissioning* – this work includes both the decommissioning of major applications, for which termination notices have already been issued, and closing smaller local systems such as Access spreadsheets. A programme of activity to do this commences 26 September.
 - *Process Improvement* – a number of SAP based processes automate existing paper based processes.
 - *Staffing* – both of the above result in the need for lower staffing numbers. A concordat with the local Trade Unions is in place to deal with this issue and the identification of areas of potential efficiency will commence in October. These benefits will feed into the 2006/7 and subsequent budget rounds.
- 8.9 Further benefits are expected to be realised from procurement both in terms of improved practice leading to lower contract costs and from enhanced controls allowing for better management of existing contracts. These benefits will take longer to realise but should impact on the 2007/8 budget.
- 8.10 A final set of benefits relate to the broader organisational opportunities that integration of HR and financial information offer the authority. Allied with the range of self-service functions being delivered by the project, a more streamlined set of corporate support functions should be possible. Proposals to restructure Resources to reflect these opportunities will be put to Members, initially through Cabinet for consideration later in the year.

9. LIST OF BACKGROUND PAPERS

9.1 None.

BS: JL
BT: CM

Appendix 1: Key System Deliverables

Users

311 R3 (core function – HR/Finance) users
445 EBP (procurement module) buyers
391 EBP buyers waiting for release once trained.

The criteria for releasing users to use the SAP solution was, business critical users who have been trained in the appropriate functions within SAP in line with the roles defined by the business.

62 000 Customers

The criteria used to import customers into the SAP solution was based on those accounts in the legacy systems where there was an outstanding balance and / or we have transacted in the last 24 months.

4 900 Vendors (Suppliers)

The criteria used to import suppliers into the SAP solution was based on those accounts in the legacy systems where there was an outstanding balance and/or we have transacted more than 3 payments in the last 12 months.

940 Cost Centres

The criteria used to create cost centres in the SAP solution was based on the publication of the Organisational Structure as published by the Chief Executive in the January edition of First Hand and in consultation with the Accountancy Teams and Departmental Managers.

2 500 Stock Items & Material Masters

Stock items and Material Masters were created in the SAP solution through a process of data cleanse from information out of Radius and in consultation with the business where stock was held outside the depot (5 locations).

8 000 Service Masters

Service Masters were created through data cleansing activity of information within Symology and with validation from the business.

1 EBP Internal Catalogue

10 external vendor catalogues feeding through to 1 internal catalogue with about 100 items on it. Each catalogue was created with consultation with the business and pulled together into one internal catalogue for all EBP buyers to access.

Punch Out Catalogues

Punch out catalogues with Office Depot and Supplies Team with two more going live early next week (County Supplies and SCC). The punch out catalogues were selected in consultation with the Strategic Procurement Team and in line with Contract Procedure Rules.

16 488 Functional Locations (Streets, Buildings and Rooms)

These represent the physical asset hierarchy in SAP as per the corporate gazetteer.

293 Work Centres (Representation of the labour force in WOM eg Fitters, Electricians, Plumbers)

323 Task Lists

Task lists set up in WOM for the work centres to follow. These are a standard set of work instructions which will be copied through to a work order when planned maintenance schedules a job.

31 836 Pieces of Equipment (lamp posts, parking machines).

25 Interfaces

Interfaces with other business critical systems, with a further 7 interfaces with non Business critical systems interfacing to 19 business systems

6 500 Month End Payroll

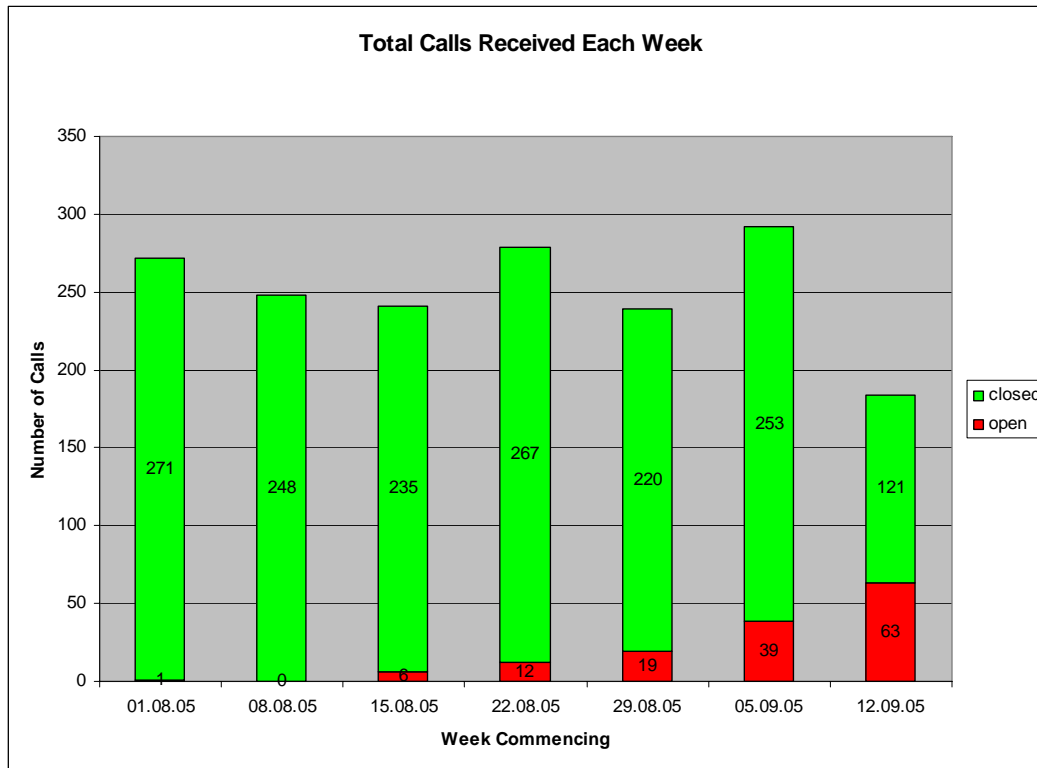
End Of Month staff paid by the SAP Payroll.

Employee Records

Capturing 52 data entities on every employee.

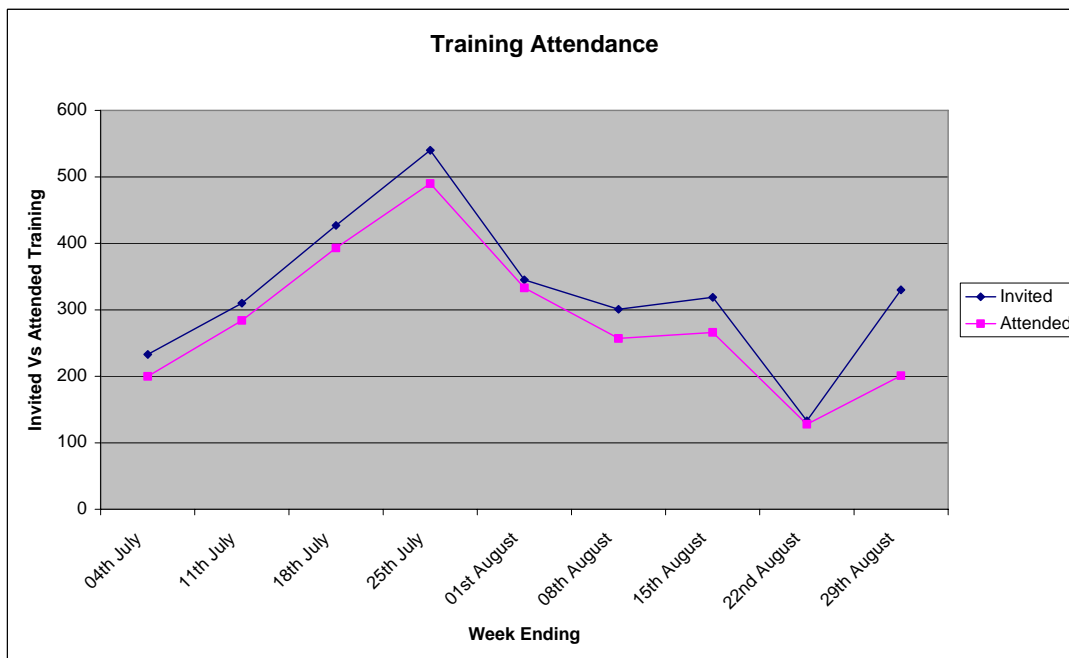
Appendix 2: Competency Centre Statistics

A total of 1755 calls have been received during the first seven weeks of operation of which 92.0% have been resolved.



Appendix 3: Attendance at Training

Training schedule is ongoing and continues through to end of September with average attendance at 87%



Appendix 4: Phase 2 Functionality

Original Scope of Phase 2

Data Warehouse

Business warehouse is an advanced report writing tool. It allows the user to pull data from multiple sources into a single report. This would be time consuming and clumsy using standard report writing tools. The business warehouse tool should not be looked at in isolation, but rather one reporting mechanism in the suite of tools available to LBB. Only those reports suited to this tool will be written in business warehouse.

E Procurement (e Tendering)

The electronic processing of bid invitations, whereby potential suppliers are identified and can submit responses for the supply of specific goods and/or services.

Two types of bid invitation are available. Public, where the process takes place via an internet portal/marketplace or own web page, and thereby open to a larger number of responses. Private, where the process takes place by e-mail, with the number and identity of the bidders strictly controlled, usually to the currently accredited suppliers for the corresponding type of goods/services.

HR Employee Self Service – holiday, personal detail and expenses using e-forms

This is a solution, that via the internet allows LBB employees to enter their own holiday requests, amend their own personal details, such as address and telephone number and enter expense requests. Through the use of workflow these are routed to their manager for approval.

Health and Safety (Occupational Health)

Although this was originally phase 2 this has been implemented in phase1.

HR Performance Management

Employees performance can be tracked and monitored in SAP using PD (appraisals) linked with company objectives. Employee targets can be set for the year and appraised at regular intervals to ensure they are in-line with expected results. Training courses can also be linked with appraisals to ensure the relevant skill transfer is available for the employee to achieve their aim.

HR Training Management

Training & Event Management (TEM) is used to control, track and monitor training of employees – and external people if needed - throughout the duration of the employee or external person lifecycle.

This can also include, if required, the recording and the monitoring of qualifications gained when attending various courses. This has the advantage of matching position requirements against employee qualifications efficiently.

HR Recruitment

HR Recruitment tracks applicants through the various stages of Recruitment and allows correspondence to be produced to aid the end-user with the administration process. This integrates with PA and applicant information is passed from Recruitment to PA, thus avoiding duplication of data.

Phase 2 Scope through Change Control

HR Cost Planner

The personnel cost planning and simulation capabilities of SAP enable cost planners to support both strategic personnel management and overall enterprise strategy. Scenarios can be created based on different assumptions to simulate future developments. The consequences of those developments can then be analysed, and planned-actual comparisons enable deviations to be recognised promptly and acted upon. Furthermore, user-friendly Web applications allow parts of the planning process to be de-centralised to line managers, making managers more aware of costs. This gives the facility to anticipate at a detailed level in-year salary forecasts, or to model future payroll costs. 'Detailed level' in this context refers to planning over and above simple GL account percentage increases – for example determining the cost of establishment positions, deriving additional cost items (such as changes to employers National Insurance/ Pension contribution), and the cost implications of incremental growth, FTE headcount changes and pay awards.

Works Order Management – Environmental Services

During phase 1 a WOM template was implemented. Certain areas of the business were not in the original scope. The plan of phase 2 is to roll out the current template to these areas of the business and implement additional functionality as defined necessary in the business blueprint to meet their business requirements.

Instalment Payment and Discount Facility

Invoice Write Off on Block

Aged Debt Analysis by Sales Office

Category B Interfaces

AGENDA ITEM: 7 Page nos. 11-30

Meeting Audit Committee
Date 10 October 2005
Subject SWIFT Computer system / Social Service Debt
Report of Chief Internal Auditor
Summary To provide the Committee with a review of how well SWIFT is meeting its objectives efficiently, effectively and economically.
To provide the Committee with an opinion on the control environment for managing social service debt.

Officer Contributors Chief Internal Auditor
Status (public or exempt) Public
Wards affected N/A
Enclosures Appendix A : Draft report/ Follow-up : Audit Review of SWIFT dated August 2005 (Adult Services)
Appendix B : Final report/ Follow-up : Audit Review of Income and Assessment Section dated September 2005 (Adult Services)
For decision by Audit Committee
Function of Council
Reason for urgency / exemption from call-in (if appropriate) N/A

Contact for further information: Michael Bradley, Chief Internal Auditor 020 8359 7151

1. RECOMMENDATIONS

1.1 That the committee note the report.

2. RELEVANT PREVIOUS DECISIONS

2.1 The Audit and Resources Overview and Scrutiny Committee on 22 February 2005 included a report on SWIFT in the work programme for 2005-6.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 An effective SWIFT system will contribute to the effective achievement of the corporate priority to support the vulnerable in the community

4. RISK MANAGEMENT ISSUES

4.1 The report is concerned with the risks around the SWIFT system meeting its objectives.

4.2 Failure of the SWIFT system could result in the Adult Services and Children and Families service not meeting their service objectives.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

5.1 Financial and ICT implications are detailed in the report.

6. LEGAL ISSUES

6.1 None

7. CONSTITUTIONAL POWERS

7.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "Ensuring that... the action taken by the Council to implement fully a risk management system are fair, balanced, conform to accountancy standards and meet prevailing best practice."

8 BACKGROUND INFORMATION

8.1 This report is in response to a request from the Audit and Resources Overview and Scrutiny Committee to give an update on the SWIFT project and an assessment of the overall impact of SWIFT on the risk profile of the Council. Also the Committee requested the review to include details of the control environment for managing Social Service debt.

8.2 A separate audit report will be issued to Officers. Internal Audit will agree management action to address the risks identified. Although the findings have been discussed with the relevant operational managers, this report has not been formally signed off by the Head of Adult Services or the Head of

Children and Families and may be subject to amendment when the normal audit reporting and finalisation protocols have been observed.

SWIFT

8.3 The main findings and risks of the review are as follows:

8.4 Linking of information on service users

8.4.1 SWIFT keeps a basic record of service users' needs, services and outcomes.

8.4.2 Detailed information concerning, for example, assessments and care plans can only be accessed on officers' personal computers i.e. detailed client information in the form of attachable records is not networked. At the time of the review we were informed by management that the above problem was a computer network issue which the IS service were addressing as part of the IT technology refresh programme. This would also be addressed during the project to implement a document management system in social care.

Risk:

Priority 2

If all relevant data cannot be accessed from SWIFT by all officers this may result in an untimely response to clients' needs.

Management response (IS service):

Timeframes for the implementation of the Infrastructure Transformation and Document Management projects are set out below.

8.4.3 Data integrity checks are not always carried out by officers to ensure that data is accurately and completely input on SWIFT.

8.4.4 We have been informed by management (Adult Services) that systems were being implemented to ensure completeness and accuracy of data; for example, by producing error reports and compiling procedures for officers to correct errors identified. Also, management (Children and Families) stated systems are being implemented to ensure that officers use the local reporting tool to cleanse data in SWIFT.

Risk:

Priority 1

Ineffective management decisions may be made as a result of inaccurate and incomplete client and performance data.

Management response (IS service):

(i) A number of reports have now been set in place to report on accuracy and errors with data.

(ii) Nominated leads are now in place who are responsible for data cleansing as are processes to ensure that data errors are addressed.

8.5 Security and Access

8.5.1 Since the last audit review on SWIFT dated March 2005, control procedures have improved concerning security and access to SWIFT. All officers who access SWIFT are now required to enter a user ID and password. The system also forces officers to change their password every six weeks.

8.5.2 However, the following security and access control issues were found :

a) Officers are required to enter passwords to access the network and Citrix before accessing SWIFT. It was found that officers were sharing passwords to access network and Citrix;

b) Computer systems do not force the users to change their password when accessing the network and Citrix;

c) A form is completed and authorised by the managers regarding officers who require access or change to their access rights to SWIFT. The form is sent to the SWIFT support team to action. However, there is no system in place to authenticate the authorisation of the form if the hardcopy is sent to the SWIFT support team;

d) Whilst e-mail provides a secure method for requesting set-up and change of access rights, this method is compromised by officers sharing network passwords, and

e) The SWIFT support team send reports to management to confirm accuracy of access rights. However, not all managers contact the SWIFT support team to confirm that their staff access rights are valid.

Risk :

Priority 2

Inadequate security and access controls may lead to unauthorised access to confidential data files.

Management response (IS service):

(i) The sharing of passwords is against Council policy and this is being followed through by management. It is standard practice now in IS service to disable an account that is found to be shared and report the matter to service management.

(ii) The Infrastructure Transformation Project, which is an implementation over the remainder of the current financial year, will introduce controls that force the regular change of log on passwords for all users.

(iii) Passwords to access Swift are handed out to users in person and only after training in the use of Swift has been undertaken.

(iv) The Swift Manager now ensures managers are chased to confirm that their staff access rights are valid. Furthermore within Children & Families

service the Swift Manager also obtains list of leavers so their access is disabled.

8.6 E-Government agenda

8.6.1 The review revealed that the Council will not meet all of the central government timescales for implementing Electronic Social Care Records (ESCR) and Integrated Children's Service (ICS).

8.6.2 The central government target on ESCR requires the Council to keep client records electronically. The timescales for meeting the target are:

a) All new documents created or received for new cases are made available electronically by October 2005, and

b) All new and pre-existing documents for current cases are made available electronically by October 2006.

8.6.3 ICS is a system for recording client information i.e. using web technology to record client information on E-forms which interface with SWIFT. The timescales for meeting the targets are:

a) To have an IT system in place to support ICS for all new referrals by 1st January 2006.

b) The system should be fully operational by 1st January 2007.

8.6.4 The Information Systems service have appointed an ESCR Programme Manager to procure a corporate computer solution for the electronic document records management system (EDRM system) which will assist the Council in achieving the ESCR central government target.

8.6.5 The project plans, as at August 2005, stated that the EDRM System solution is planned to be purchased in February 2006. At the time of the review there were no project plans in place to meet the ICS targets

Risk:

Priority 2

Absence of electronic client records as required by the e-government agenda could affect the Council providing an efficient, timely and effective service.

Management response (IS service):

(i) A plan for the implementation of the ICS solution is now in place with a target implementation of January 2006.

(ii) At this stage it is understood that a significant number of councils are unlikely to meet the Government target implementation dates for ESCR and, to a lesser extent, ICS. There are no financial or other (Corporate

Performance Assessment score, etc) penalties for not meeting the target dates providing that robust plans exist to implement the solutions. The Council already has those plans in place.

8.7 Statutory and Local Reporting requirements

8.7.1 The review confirmed that SWIFT was able to provide local reports for management purposes. However, as reported above, due to data integrity issues, management information for statutory and local reporting requirements may be inaccurate and incomplete due to a historical lack of adequate data controls.

8.7.2 Internal Audit has placed reliance on work carried out by External Audit covering SWIFT's ability to meet the statutory reporting requirements. A management letter from External Audit, dated July 2005, stated that all eight of the Best Value Performance Indicators (BVPs) in Adult Services will probably be reserved for 2004/05 (ie. the external auditor cannot be satisfied that the information is complete, valid, accurate or timely). Also, at the time of the review it should be noted that External Audit were in the process of finishing their review of BVPs in the Children and Families service. External Audit are due to report in late September 2005 on BVPs.

Risk:

Priority 1

Ineffective management decisions may result from inaccurate and incomplete performance data.

Management response (IS service):

(i) There were historical issues over the integrity of the data that was transferred from CRISSP on to SWIFT, which had a detrimental effect on the provision of external statistics for Adult Services. This is now being addressed through the employment of a consultant for a three month period to review the data that makes up the BVPI's.

(ii) The informal feed back from the most recent external audit of BVPI data for Children & Families has confirmed that data extracted from SWIFT for their BVPIs was good.

8.8 Business Processes

8.8.1 The review confirmed that business processes have been changed as a result of the implementation of SWIFT. However, no review has been carried out to assess if efficiencies have been realised and if the new processes are effective.

Risk:

Priority 2

If business processes have not been reviewed to assess efficiencies and effectiveness of systems, management cannot assess the benefits realised.

Management response (IS service):

(i) Both Adult Services and Children and Families service are undertaking wider full business process reviews.

(ii) In the case of Children and Families service they are still embedding the full use of SWIFT and the reviewing of the business processes is well underway. There is less duplication of paper work as staff now enter the data on SWIFT and use reports within the application to print off care plans, etc. There is a plan to review the efficiencies with the Children and Families service after completion of the next phase.

(iii) Adult Services have had a member of staff from the Corporate Performance Office working for three months on an outline business process review and there are plans to fully implement a review next year. As part of the ESCR project full process reviews will take place.

8.9 IT Infrastructure

8.9.1 A report, dated July 2004, has been compiled for the SWIFT Management Group on improvements to be made to the IT infrastructure. However, no officers and implementation dates have been assigned to the issues identified on the report. At the time of the review, management stated that they were liaising with the IS service on this matter.

Risk:

Priority 2

Ineffective IT infrastructure could affect efficient, timely and effective service delivery.

Management response (IS service):

This is being addressed in the Infrastructure Transformation Project which is targeted for completion by March 2006.

8.10 Integration of care management and finance system

8.10.1 At the time of the review SWIFT was being interfaced with SAP/Council's core financial system. We were informed by Management that the monitoring of expenditure and income elements on clients will be done in SWIFT, and SAP will be used to monitor the overall budget position from information and data coming from SWIFT. Also Management stated that the main expenditure and income elements that originate in SWIFT which are interfaced with SAP are the following:

- (i) Expenditure : external care purchased for adult clients as part of their care plan;
- (ii) Expenditure: care for looked after children (foster carers, external placements);

- (iii) Income : adult client charges concerning homecare, residential and nursing care.

8.10.2 Internal Audit's review of project management documentation confirmed that interfaces were planned concerning SWIFT to SAP for accounts payable and accounts receivable. The effectiveness of the interfaces will be determined as part of the post implementation review of SAP.

Management response (IS service):

The SWIFT team has developed 4 interfaces since the introduction of SAP and three of the 4 are currently "Live" and successfully running. This is an achievement in respect to the accounts receivable interface in that the information is derived from SWIFT client contribution. This was previously a manual process.

8.11 Social Service Debt

8.11.1 As at July 2005 social service debt (Adult Services) was £7,795,070 (source of information aged debt analysis: Income Section). The debt mainly refers to the following charges :

- Meals at home (£120, 545),
- Home helps (£643, 393),
- Residential accommodation (£4,151,851),
- Respite care (£141,109),
- Nursing care recharged to PCT (£161,761),
- Residential care :due from Department of Works & Pensions (£34,295),
- Piper lifeline : emergency call out system (£23, 084),
- Barnet Primary Care Trust and other Local Authorities : client and staff charges (£2,519,032).

8.11.2 The Assessment and Income section (Adult Services) manage most of the above debts (£5,252,954) except for those relating to Barnet Primary Care Trust and other local Authorities (£2,519,032) and Piper Lifeline (£23,084).

8.11.3 The Borough Treasurer stated that the following issues should be noted on the above social service debt position:-

- £1m of residential care accommodation is covered by charges on property.
- Home help charges are affected by poor and late information on which to calculate and invoice charges to clients. At the time of the review SWIFT is being interfaced with SAP and the electronic data capture system which should improve the above issue.
- Social services debt is difficult to collect and enforce, largely because the Council has no right to stop providing services if the client does not pay.
- A major debt review is currently in progress in order to write-off irrecoverable amounts. This was reported to the Audit Committee on 31

August 2005.

- The central debt provision was increased by £1.75m in the 2004/05 accounts, with the expectation that a significant proportion of this will be taken up by social services debts. It should be noted that a specific bad debt provision for Adult Services of £3.7 m has been detailed in the 2004/05 accounts.

8.11.4 Internal Audit carried out a review of the Assessment and Income section in July 2004 and gave limited assurance (medium risk exposure rating) that management's objectives for the Service are being achieved.

8.11.5A follow-up review (September 2005) revealed that out of seven recommendations made, one has been implemented, five have not been implemented and one was partially implemented. A high risk exposure rating was given for the Assessment and Income Section (see Appendix B : Final report/Follow-up : Audit Review of the Assessment and Income Section dated September 2005).

8.11.6 The recommendations not/partially implemented refer to the following issues:

- (i) Duplication of systems regarding the assessment process.
- (ii) Lack of management and exception reports generated.
- (iii) Control processes for posting receipts
- (iv) Identification of management information for performance purposes.
- (v) Lack of review of the debtors process to identify slow moving and irrecoverable debtor balances.
- (vi) No review carried out of debtors balances to identify bad-debts to be written-off.

8.11.7 It should be noted that 4 out of the 6 recommendations which have been not/partially implemented are dependent on the financial assessment module being implemented in SWIFT. We have been informed by management that the financial assessment module in SWIFT has not been implemented due to the Assessment and Income section's operational priorities concerning implementing SAP. Plans to implement Financial Assessment have been put back to December 2005

8.11.8 At the time of the review we were informed by management that control procedures and processes are being developed to ensure that services raise invoices on Swift/SAP accurately and completely. Internal Audit are carrying out a separate review of the above control issues as part of our work on the SAP/Modernising Core Systems project.

Risk :

Priority 1

In the absence of effective debt management procedures the Council may not be maximising income due and additional resources may be needed to collect outstanding debts.

Management response (IS service):

Reports and validation procedures are now in place to check the data integrity before it goes to the SAP system for invoicing.

8.12 Guide to Risk Priority :

Priority 1 - Significant risk that either objectives will not be met efficiently and effectively or that fraud or irregularity will not be prevented or detected.

Priority 2 - Only limited assurance that objectives will be met efficiently and effectively and that fraud or irregularity will be prevented or detected.

Priority 3 – This represents accepted best practice and should be implemented as soon as resources allow.

9 LIST OF BACKGROUND PAPERS

9.1 None

BS: JEL
BT: CM

Client: Adult Social Services

ACTION PLAN

Previous audit reviews : Report no. 2004-137 dated March 2004 and followed up in March 2005 report no.50074

REF NO.	FINDING	AGREED ACTION	RESPONSIBLE OFFICER	ACTION TAKEN
1.	<p><u>Data Mapping</u></p> <p>There is no overall knowledge where source data is held for the completion of statutory returns. Care management data is held within Swift and other computer/manual systems.</p>	<p>Agreed - A SWIFT project on 'Statutory Returns and Obligations' will pull together a corporate calendar of statutory returns, a data mapping exercise completed in March 2004 and detailed procedures of how each statutory return is collated, analysed, completed and submitted. This will incorporate information from other databases including financial systems.</p>	<p>Business Improvement & Performance Manager/ Divisional Manager Performance & Quality</p>	<p>Partially implemented</p> <p>Implementation date: November 2005</p> <p>(Implementation date agreed at follow-up review dated March 2005 report no.50074)</p>

REF NO.	FINDING	AGREED ACTION	RESPONSIBLE OFFICER	ACTION TAKEN
2.	<p><u>Interfacing (or integrating) with other systems – incompleteness of data</u></p> <p>All relevant data is not being captured by Swift for performance management purposes and statutory requirements. The review identified service areas from whom care management data is currently not collected. There are some systems that have not been interfaced with Swift.</p> <p>As part of the interfacing (or integrating) with other systems, only one business case was submitted to the Swift Project Board (from the Meals on Wheels section).</p>	<p>Agreed- Interface projects now exist between SWIFT and three other systems: ePEX is the health case management database and a project is running to interface it with SWIFT for mental health and learning disability clients to reduce double-entry on both systems. Call Confirm in a home-care monitoring system that will provide data on actual home-care provision delivered by our 14 contracted agencies for reconciliation with invoices. SAP is the Modernising Core Systems software that will link financial information with SWIFT information.</p>	<p>Business Improvement & Performance Manager/ Divisional Manager Performance & Quality</p>	<p>Not implemented</p> <p>Implementation date: October 2005</p> <p>(Implementation date agreed at follow-up review dated March 2005 report no.50074)</p>

REF NO.	FINDING	AGREED ACTION	RESPONSIBLE OFFICER	ACTION TAKEN
3.	<p><u>Migration of Data</u></p> <p>As part of the migration of data from CRISSP to Swift, there was a period of three weeks during which the care groups were required to record data manually, i.e. before Swift went live. However, a number of care groups did not record data on the manual forms as provided.</p>	<p><i>Agreed-</i> An exercise is taking place to reconcile data from social worker's caseloads, peripheral databases and manual referral logging systems with SWIFT; this is to ensure that all referrals and assessments completed between the switching off of CRISSP and the go-live of SWIFT in Oct/Nov 2003 have been transferred onto SWIFT. Outstanding areas include Occupational Therapists with equipment referrals, Meals clients and deceased clients. Data capture clerks are now working on this.</p>	<p>Business Improvement & Performance Manager/ Divisional Manager Performance & Quality</p>	<p>Implemented</p>

REF NO.	FINDING	AGREED ACTION	RESPONSIBLE OFFICER	ACTION TAKEN
4.	<p><u>Inter-Agency Working</u></p> <p>The complexity of increased inter-agency working has added to the challenges of cross-system information sharing and integrated working between the Council, the local Primary Care Trusts and other voluntary sectors. There is no effective integrated strategic planning between Social Services and Health in relation to performance management. Community Care, PCT and the voluntary sector should have strategic performance frameworks in which they can collect, exchange and share performance management information.</p>	<p>Agreed-The service focus will on implementation of SWIFT and interfacing between other agency's databases.</p>	<p>Business Improvement & Performance Manager/ Divisional Manager Performance & Quality</p>	<p>Not implemented</p> <p>Implementation date: October 2005</p> <p>(Implementation date agreed at follow-up review dated March 2005 report no.50074)</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
<p>Objectives and policies</p> <p>Recommendation 1 Priority 2</p> <p>Management should establish, document and communicate to staff the objectives and policies for the service.</p>	<p>Agreed and implemented</p> <p>Recommendation accepted in respect of the need for formal documentation. Issues of "fairness" to our clients are something that are often raised & discussed at team meetings. Priorities for the service are communicated & discussed at team meetings which are documented by way of meeting minutes.</p>	<p>June '04</p>	<p>Assessment and Income Manager</p>	<p>Implemented</p> <p>Service objectives are published on Council Intranet site.</p>
<p>Assessments</p> <p>Recommendation 2 Priority 2</p> <p>To improve efficiency within the assessment process, management should review the process and eliminate any duplication within the process.</p>	<p>Agreed</p> <p>This will be removed with the implementation of the SWIFT FA module where all assessment officers will be responsible for input of their own assessments and will calculate charges on-line.</p>	<p>Sept / October '04</p>	<p>Assessment and Income Manager</p> <p>(date to go live is dependent on swift team.)</p>	<p>Not Implemented</p> <p>Management Comment: SWIFT FA is not implemented.</p> <p>Further Action: Ensure that duplication of process is eliminated after SWIFT FA is implemented.</p> <p>Implementation Date:</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
	<p>The current duplication exists because of the inadequacy of the access db to cope with input from multiple staff. It is therefore necessary to rely on one central input point with the manual assessment information being recorded to enable one operator input.</p>			December 2005
<p>Assessment and invoicing Recommendation 3 Priority 1</p> <p>Management has planned to implement a financial module within the 'SWIFT' system. Management should ensure that the package is capable of reducing the inefficiencies within the current process and the package is capable of performing both the assessment and invoicing process and generate appropriate management information that will be required to effectively manage the service.</p>	<p>Agreed</p> <p>The implementation of the SWIFT FA module is planned for Sept/Oct 2004 with version 17 of SWIFT.</p> <p>SWIFT will be used to do the assessments and will then interface with Core Financials System for the invoicing process.</p>	April '05	Assessment and Income Manager and the SWIFT team.	<p>Not Implemented</p> <p>Management Comment: As per recommendation 1.</p> <p>Further Action: Ensure that new module is capable of carrying out functions specified within recommendation.</p> <p>Implementation Date: December2005</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
<p>Financial management</p> <p>Recommendation 4 Priority 1</p> <p>Management is currently reviewing the financial module within the SWIFT package for implementation within the service. Management should ensure that the financial module is capable of processing receipts from clients which should eliminate inefficiencies within the current process.</p> <p>Management must ensure appropriate controls are in place to ensure the data within the SWIFT module are completely and accurately imported into LAFIS financial accounting system.</p>	<p>Agreed</p> <p>This is part of the current consideration being given to the two invoicing options as described above.</p> <p>The interface between SWIFT & the Core Financial system would be developed by the SWIFT team/ IS rather than A&I, but the A&I team expect to be fully involved with the evaluation & testing of whichever option is chosen.</p>	<p>April '05</p>	<p>Assessment and Income Manager</p>	<p>Not Implemented</p> <p>Management comment: SWIFT FA not implemented. The AIM is involved in creating an interface between SWIFT FA and SAP.</p> <p>Further Action: As per recommendation 4.</p> <p>Implementation Date: December 2005</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
<p>Debtors management</p> <p>Recommendation 5 Priority 1</p> <p>Management should implement a debtors' review process to identify slow moving and irrecoverable debtors balances. Positive action should then be taken to speed up the payment process.</p>	<p>Agreed</p> <p>This is underway. One member of staff has been relieved of normal duties to undertake a specific & targeted debt collection exercise. The longer term aim of this is to identify the most effective & efficient strategies for debt recovery & the most effective way of incorporating this within normal work routines.</p> <p>This process will be assisted by the release of resources later this year from routine but time-expensive tasks such as the duplication identified by the Auditor in the assessment process following the implementation of SWIFT FA module and subsequent to that the implementation of a new invoicing system which will release resources now used for invoice punching.</p>	<p>August '04</p>	<p>Assessment and Income Manager</p>	<p>Not Implemented</p> <p>Management Comment: Small debts have been written off. However nothing is done at present because the debtors system is not accessible.</p> <p>Further Action: Ensure that appropriate process is put in place for effective monitoring of debtors. Take appropriate action to speed up income collection and address irrecoverable balances.</p> <p>Implementation Date: October 2005</p>
<p>Debtors Review</p>	<p>Agreed</p>			<p>Not Implemented</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
<p>Recommendation 6 Priority 1</p> <p>Management should implement a periodic review of debtors balances to identify any balances where recovery is remote. A list of irrecoverable balances should be drafted and presented to committee for approval, to write-off the irrecoverable amounts.</p>	<p>Management would implement a quarterly review of the debtors balances.</p> <p>There is a formal review of debts outstanding usually at the end of service/ on death where debts may be identified as appropriate for a write off recommendation. Since we are often able to recover debt through a claim against a deceased client's estate it will not often be appropriate to recommend write off before this point. However the process of collating these for approval has not been given proper attention in recent years due largely to shortages in staffing and numerous major system & legislative changes requiring management time to be diverted to maintaining acceptable levels of client service. This now needs to be addressed.</p>	<p>November '04</p>	<p>Assessment and Income Manager</p>	<p>Management comment: An Officer is currently in process of identifying old debts to be written off.</p> <p>Further Action: Complete identification of irrecoverable debts and gain appropriate approval for write-off.</p> <p>Ensure that write-offs have been processed accurately.</p> <p>Implementation Date: October 2005.</p>
<p>Performance management</p>				<p>Partially Implemented</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
<p>Recommendation 7 Priority 1</p> <p>Management should identify the specific information that would be required to effectively manage the service. Management should ensure that the SWIFT system is capable of generating the specific information required.</p> <p>Appropriate controls should be implemented to ensure that the management information system in place, generates information which is complete, reliable and specific to management's needs.</p>	<p>Agreed</p> <p>During August/September 2004, requirements would be identified during the testing stage.</p> <p>During the first three months after SWIFT Financial assessments has gone live, test what has been specified is being generated.</p> <p>Formalise reporting procedures.</p>	<p>July '04</p>	<p>Assessment and Income Manager</p>	<p>Management Comment: We have not yet reached the testing stage for SWIFT FA.</p> <p>Further Action: Ensure that System is capable of generating the required information.</p> <p>Ensure that information generated from system in accurate and complete.</p> <p>Implementation Date: December 2005</p>

Previous Risk Exposure: Medium

Current Risk Exposure: High

In relation to recommendations 5 and 6 please note that as at 30th June 2005 the figure for debt exceeding two years is over £2 million. As a result the risk level has been increased to high.

AGENDA ITEM: 8 Page nos. 31-117

Meeting	Audit Committee
Date	10 October 2005.
Subject	External Auditor's Report under Statement of Auditing Standards (SAS) 610 for the year 2004/05
Report of	Borough Treasurer
Summary	To consider the detailed reports from the external auditor on matters arising from the audit of the 2004/05 accounts. This includes the pension accounts.

Officer Contributors	Head of Finance – Core Accountancy
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	1. SAS610 reports for: (i) the main accounts (ii) the Pension Fund accounts 2. Statement of Accounts 2004/05
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 matters raised by the external auditor relating to detailed aspects of the 2004/05 accounts, including the pension accounts, audit be noted.**
- 1.2 That the management response to matters raised by the external auditor be noted.**
- 1.3 That the Committee notes that at this stage in the audit there are no adjustments that will not be processed by management.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Statement of Accounts for 2004/05 were approved, subject to audit, by the General Functions Committee on 28th July 2005.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Review of reports made under the Statement of Accounting Standard (SAS)610 are an integral part of corporate governance.

4 RISK MANAGEMENT ISSUES

- 4.1 Whilst this report deals with the 2004/05 accounts it is important to advise Members of the requirement to bring forward the closing of accounts timetable. The 2005/06 accounts will need to be closed and Statement of Accounts approved by 30 June 2006. This is a month earlier than 2004/05.

5 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None.

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" and "Ensuring that the Council's financial reports, annual financial statements...are balanced, fair, conform to accountancy standards and meet prevailing best practice".

8 BACKGROUND INFORMATION

- 8.1 In accordance with Statement of Accounting Standard (SAS) 610, the External Auditor is required to issue detailed reports on matters arising from the audit of the Council accounts and pension fund accounts.
- 8.2 The two SAS610 reports have to be considered by “those charged with governance” before the External Auditor can sign the accounts, which has to be done by 31 October 2005.
- 8.3 The report attached contains matters raised by the auditor, his recommendations on the issues, and the management response. Any further update on these items will be given verbally at the meeting. To assist members in reviewing the external auditor’s comments the Statement of Accounts 2004/05 are attached for information.
- 8.4 The following key matters are identified by the external auditor:-
- (i) that the external auditor (Robson Rhodes) expects to issue an unqualified opinion on the accounts and Pension Fund accounts for 2004/05;
 - (ii) there are no accounting adjustments that will not be processed in 2004/05;
 - (iii) there is a need to address weaknesses in the internal financial control systems as part of the Modernising Core Systems implementation, and further develop working arrangements between the Council and the Arms Length Management Organisation (ALMO), Barnet Homes. These matters were already highlighted in the external auditor’s interim management report considered by this committee on 31 August 2005, and are just repeated here for completeness;
 - (iv) that there are improvement opportunities for compliance with the Statements of Recommended Practice (SORP) and working papers;
 - (iv) the external auditor has been asked one formal question about the 2004/05 accounts which may result in a delay in the closure and certification, but at this stage it is not envisaged it delaying the auditors’ opinion on the accounts being given.

9 LIST OF BACKGROUND PAPERS

- 9.1 None

BS: Robin Bloom
BT: Pam Kettle

London Borough of Barnet

Audit of Accounts 2004-05

Report under Statement of Auditing Standards (SAS) 610

September 2005

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1 Introduction

Background

- 1.1 London Borough of Barnet ("the Council") is responsible for the preparation of financial statements that present fairly its financial position as at 31 March 2005 and its income and expenditure in the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present fairly its financial position and income and expenditure.
- 1.2 This is the third year of our reporting under *Statement of Auditing Standards 610 – Reporting to those charged with governance* ("SAS 610") which requires us as the Council's external auditors to report to those charged with governance certain matters before giving an opinion on the financial statements.
- 1.3 This report summarises the principal matters arising from our final accounts audit. The issues raised have been discussed with the Head of Finance and her team.

Reporting under SAS610

- 1.4 We agreed with the Council that the communications required under SAS610 would be discharged through a report to the Audit Committee on 10 October 2005.

Status of audit

- 1.5 We were presented with a draft of the accounts on 26 July 2005. The accounts were approved by the General Functions Committee on 28 July 2005.
- 1.6 At the date of writing this report, there were a number of outstanding matters on which we will be working with the Council to meet the statutory certification deadline of 31 October 2005. These matters are outlined in paragraphs 1.9 and 1.10 of this report. We will revise and update this report as appropriate in the event that additional issues arise from our completion of these outstanding matters.
- 1.7 The appointed day for electors to ask the auditor questions on the accounts this year was 16 September 2005. We received a query from a local government elector about the 2004-05 accounts pertaining to a matter currently being investigated by the Council's previous external auditors, and which first arose in relation to the 2001-02 accounts. At this stage there is a possibility that these issues may delay certification of the closure of the audit although at this stage would we not envisage them delaying the issuing of the audit opinion.
- 1.8 We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in our audit plan discussed with the Council.

Matters outstanding

- 1.9 At the date of writing this report, the following matters were still outstanding.
- (a) Some explanations and supporting information. These mainly relate to:
 - (i) Some outstanding queries in relation to the Consolidated Revenue Account (CRA), including supporting workings for some of the adjustments made to the CRA, explanations for significant movements in some of the CRA Service Expenditure Analysis areas, and the reconciliation between the month 12 Outturn report and the CRA Service Expenditure Analysis
 - (ii) Some outstanding queries in relation to the Housing Revenue Account (HRA), relating to supporting information for rent arrears and the HRA subsidy
 - (iii) Some outstanding queries in relation to Tangible Fixed Assets, including valuations certificates for a sample of other land and buildings re-valued during the year and a reconciliation between the number of dwellings included in the Social Housing Valuation Report and the number of dwellings included in the Council's Housing Base Data Return
 - (iv) Outstanding supporting information for two Creditors and Accruals balances
 - (v) Outstanding supporting information to verify the reasonableness of bad debt provision on Housing Bed and Breakfast tenants, in particular post year end receipts
 - (vi) Explanations for a movement in the Cash Flow Statement
 - (vii) Signed declarations of independence from two Members.
 - (b) Some outstanding audit tests, which mainly relate to:
 - (i) Review of explanations for discrepancies between opening balances in the nominal ledger and the prior year signed accounts
 - (ii) Tangible Fixed Assets, including reviewing the financing of capital expenditure and the completeness of the capital commitments disclosed in the accounts
 - (iii) Testing the accuracy of a sample of redundancy payments
 - (iv) Additional testing on the cut-off of Creditors
 - (v) A few outstanding independent confirmations relating to the Council's bank and investment holdings
 - (vi) Completing our review of the entries passed to prepare the Group Accounts including a finalised version of the ALMO accounts
 - (vii) Finalising our review of the adequacy of Provisions
 - (viii) Completing our review of the Statement of Total Movement in Reserves
 - (ix) A review of the Council's revised Statement on Internal Control
 - (c) Some likely classification adjustments that affect the manner in which results are disclosed in the accounts. These include:
 - (i) Any necessary adjustments following a more detailed review of the classification of income and expenditure included within Central Services to the Public, Corporate and Democratic Core and Non-distributed Costs
 - (ii) An analysis of the MCS and Pericles implementation expenditure capitalised to Tangible Fixed Assets to enable costs that do not relate to equipment to be reclassified as Intangible Assets
 - (d) Some Accounts disclosure and presentation adjustments, the most significant being where we are still discussing with the Council the most appropriate manner in which the balances currently disclosed as "Other Intangible Assets" should be disclosed.

1 Introduction

1.10 In addition to the above, we have still to complete our audit finalisation procedures which will include:

- A review of the content of the Council's revised Statement on Internal Control
- A review of the final version of the statement of accounts
- Receipt of an appropriate Letter of Representation
- Completion of material grant claims/ returns audits
- Updating our Post Balance Sheet Events reviews to the date of signing the accounts.

Auditor independence

1.11 We confirm that we are not aware of any threats to our independence or objectivity. We have not undertaken any extra fee work which is outside our responsibilities under the Code of Audit Practice during the 2004-05 year.

Use of this report

1.12 This report has been prepared solely for the use of the Council to discharge our responsibilities under SAS610 and should not be used for any other purpose or copied to third parties without our consent.

Acknowledgements

1.13 We would like to record our appreciation for the co-operation provided to us by staff in the Council's Borough Treasurer section as well as other departments during the course of our audit.

2 Executive Summary

Introduction

- 2.1 We summarise in this section our observations on the Council's overall financial position, and those matters which we are required to report under SAS610.

Overall financial results

- 2.2 The Council has reported a revenue surplus of £1.285m in its 2004-05 accounts. The Council financial results at year-end has been helped by a contribution to balances of £3.6m in year as well as the Council being able to capitalise redundancy costs of £4.1m following a capitalisation approval from ODPM.
- 2.3 The general fund balances of around £5m at 31 March 2005 represent a real and consistent improvement following the Section 11 notice issued in our annual audit letter for 2002-03. 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. There remains however a number of significant of financial challenges in 2005-06 and beyond which we drawn attention to in our Interim Report to Management in August 2005.
- 2.4 Based on the latest financial monitoring report which is due to be presented to Cabinet Resources Committee on 26 September 2005, the Council is forecasting its revenue balances to reach £7.2m by the end of March 2006. We will update our review of the Council's financial standing as appropriate in our Annual Audit Letter for 2004-05.

Key issues under SAS610

- 2.5 Under SAS610, we are required to communicate to those charged with governance matters which have come to our attention as a result of our audit work, covering:
- (a) Any expected modification to the audit opinion on the financial statements;
 - (b) Unadjusted misstatements;
 - (c) Material weaknesses in the accounting systems and internal control systems;
 - (d) Views about the qualitative aspects of the Council's accounting practices and financial reporting;
and
 - (e) Matters specifically required by other auditing standards to be communicated such as fraud and error, and any other material matters relating to the audit.
- 2.6 We summarise our key audit findings in relation to the above areas in Exhibit 1 below:

Exhibit One: Key audit findings

Ref	Area	Key messages
A	Audit opinion on the financial statements	Subject to finalising the outstanding matters and our usual audit finalisation steps referred to in paragraphs 1.9 and 1.10 above, we expect to issue an unqualified audit opinion on the Council's accounts.
B	Audit adjustments and any unadjusted misstatements	<p>We have agreed with management a number of adjustments to the accounts primarily to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes. These are summarised in Appendix B. The more significant adjustment related to the recognition of Council dwelling disposals of £1.808m which had incorrectly been included in the carrying value of Tangible fixed assets.</p> <p>There are currently no adjustments that Management have not agreed to process.</p>
C	Material weaknesses in the accounting systems and internal control systems	<p>Following our interim audit of the Council's internal control systems and as reported in our Interim Report to Management in August 2005, 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.</p> <p>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 more significant weaknesses included in our Interim Report to Management were:</p> <ul style="list-style-type: none"> • The need to ensure that adequate procedure notes are in place to support users for all key financial systems when MCS is implemented; and • A lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase systems to the financial ledger during the year. <p>In addition to the weaknesses detailed above, we also reported a number of weaknesses that Internal Audit had identified. These included:</p> <ul style="list-style-type: none"> • A requirement for all assets to be identified to ensure completeness of the fixed asset register relating to land and buildings in particular for which historical data is incomplete; • A need for a continuous process for updating details of capital expenditure relating to schools, infrastructure and vehicle plant and machinery; • The need to ensure proper segregation of duties so staff who

		<p>raise debtors are not in a position to write-off debts;</p> <ul style="list-style-type: none"> • Fraud prevention measures for Cashiers needing to be implemented as soon as possible; • 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; and • A need to improve payroll monitoring procedures to ensure that fraud prevention and detection steps are regularly performed. <p>We would also draw attention to the need to further develop the working arrangements between the Council and its new ALMO (Arms Length Management Organisation) created on 1 April 2004, particularly in relation to the preparation of the Housing Revenue Account and related supporting working papers.</p>
D	Qualitative aspects of the Council's accounting practices and financial reporting	<p>Subject to the observations below, we consider that the Council has adopted appropriate accounting policies in the areas covered by our testing.</p> <p>Based on our accounts audit, we consider that there are improvement opportunities in the following areas:</p> <ul style="list-style-type: none"> • SORP compliance: While the Council has been pro-active in identifying the impact of and processes required for meeting the recently introduced requirements for preparing group accounts which is a new requirement this year, we note that there is further scope for the Council to be more pro-active in complying with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) which includes compliance with the Best Value Accounting Code of Practice (BVACOP) classification of Service income and expenditure • Working papers: The need to provide comprehensive working papers supporting the accounts at the start of the audit to the standard specified by the auditor is one of the level 2 requirements for the Financial Reporting element of Audit Commission's Use of Resources Key line of Enquiry. We provided the Council with our arrangements letter in March 2005 which set out our requirements in respect of final accounts working papers. A number of items requested in the arrangements letter were not available at the start of the audit as required, which required follow-up during our audit. Some of these items still remained outstanding at the date of writing this report, as outlined in paragraph 1.9. <p>The importance of both timely and quality financial statements as</p>

		well as adequate supporting working papers will increase next year as the statutory deadline for accounts moves forward, with the Council due to approve its accounts by 30 June 2006 and for the accounts to be certified by 30 September 2006.
E	Any other matters	<p>There are three further matters which we would wish to draw to the attention of the Audit Committee:</p> <ul style="list-style-type: none"> • The Council have worked hard to meet the demands of the accelerated timetable which is now two months earlier than it was in 2002-03 and officers have done their best to respond to audit queries in the context of the SAP implementation and the ALMO transition; • The Council has strengthened its arrangements for provisioning for self- insurance and the current provision more accurately reflects probable liabilities than it did in previous years; • We have been asked one formal question about the 2004-05 accounts under rights given to local government electors under the Audit Commission Act 2005. The sums involved are not material to the accounts but may involve matters of legality. In addition the ongoing investigation by the previous external auditors in to an objection to the 2001-02 accounts may result in a delay in the closure and certification of the 2004-05 accounts but at this stage not in our opinion on the accounts.

2.7 We have discussed these and other matters arising with the relevant staff in the Council and have reflected their responses to the matters raised in the Action Plan attached at Appendix A.

Next steps

2.8 We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 31 October 2005.

RSM Robson Rhodes LLP
September 2005

Appendix A – Action Plan

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Review of the Draft Annual Accounts</p> <p>Our initial review of the accounts presented to us prior to the commencement of our audit identified a number of discrepancies between figures disclosed in the primary statements and notes (mainly in relation to the Statement of Total Movement in Reserves) and some discrepancies with the comparatives.</p>	<p>1. Management have agreed to make all the relevant amendments we identified from our initial review of the accounts.</p>	<p>2. We have also discussed with Management the need for a more thorough review of the draft accounts for SORP compliance before they are presented for approval and audit.</p>	<p>Agreed. This action will be timetabled into the 2005/06 audit by Core Accountancy to address this.</p>
<p>Compliance with SORP</p> <p>While the Council has taken a proactive approach on the issue of SORP requirements for group accounts this year, we consider there is scope for the Council to improve its compliance with the SORP in other respects. Key improvement areas are as follows:</p> <ul style="list-style-type: none"> The classification of Service Income and Expenditure in accordance with BVACOP. Specific examples included the net admin adjustment of £18m included in "Central Services to the Public" which per BVACOP should only include "local 	<p>3. We recommend that a more detailed review of the classification of income and expenditure included in Central Services to the Public, Corporate and Democratic Core and Non-distributed Costs is undertaken to ensure that it is consistent with BVACOP and that any necessary adjustments to the 2004-05 accounts are</p>	<p>5. We have agreed with the Council that the disclosure on income and expenditure for all mandatory divisions of service will be included in the 2005-06 accounts.</p>	<p>Agreed. Whilst the analysis has been prepared it has not been shown within the accounts. Core Accountancy will action this in discussion with the external auditor for 2005/06 accounts.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>tax collection", "registration of births, deaths and marriages", "elections", "emergency planning", "local land charges" and "general grants, bequests and donations". A review of nominal code descriptions revealed that these are more general support related costs, which according to BVACOP should be allocated to each division of service. "Corporate and Democratic Core" includes "Committee and Building" costs of £2.4m. Whilst committee expenditure conforms to the BVACOP classification, the total costs of £2.4m appear to include general accommodation costs which do not conform to the BVACOP classification. Non Distributed Costs" includes "unapportioned central overhead" of £1.4m. Discussions with Core Accountancy revealed that this relates to early retirement costs of non teachers which does not comply with the BVACOP definition of Non Distributed Costs;</p> <ul style="list-style-type: none"> • Disclosure of all the mandatory divisions of service as required by BVACOP have not been made in the Statement of Accounts; and • The additional disclosure requirements following the introduction of Intangible Assets as a new category within the Consolidated Balance Sheet. 	<p>made.</p> <p>4. We are currently discussing the most appropriate disclosure for Intangible Assets with Management.</p>		<p>Agreed. Detail of disclosure to be agreed with external auditor.</p>
<p>Working Papers</p> <p>The need to provide comprehensive working papers supporting the accounts at the start of the audit to the standard specified by</p>	<p>6. Resolution of the outstanding items highlighted in paragraph 1.9 above.</p>	<p>7. A senior member of the Finance team should review our arrangements letter prior to the</p>	<p>Agreed. This action will be timetabled into the 2005/06 audit by</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>the auditor is one of the level 2 requirements for the Financial Reporting “Key line of Enquiry” in the Use of Resources assessment which feeds into the Council's Comprehensive Performance Assessment.</p> <p>We provided the Council with our arrangements letter in March 2005 which set our requirements in respect of final accounts working papers. Some of the items requested in the arrangements letter were not available at the start of the audit and we were required to follow this up with a number Officers during the course of our audit. As outlined in paragraph 1.9 above, a number of these items still remained outstanding at the date of writing this report.</p> <p>Particular areas of concern were the quality of explanations given for actual and revised budget variances for Heads of Services to support the Consolidated Revenue Account and the delay in the provision of working papers to support the Housing Revenue Account.</p>		<p>start of the final accounts audit to ensure that all requested supporting evidence is available.</p>	<p>Core Accountancy to address this.</p> <p>Core Accountancy will also discuss with the external auditor the extent to which they can use SAP directly as a tool to support the accounts and thereby rationalise the production of working papers currently produced outside the financial information system.</p>
<p>Working Arrangements with the ALMO</p> <p>The Council created a new ALMO, Barnet Homes, on 1 April 2004. This has presented the Council with a number of challenges in terms of putting in place an adequate client monitoring side as well as formalising new working arrangements outlining respective roles and responsibilities with the ALMO.</p>	<p>8. Resolution of the outstanding items highlighted in paragraph 1.9 above.</p>	<p>9. Clearer working arrangements need to be developed with the ALMO, especially in respect of responsibilities and processes for the preparation of the HRA and supporting working papers.</p>	<p>Agreed. The external auditor has recognised the challenges of working under the new arrangement with the ALMO. Members should also be aware that the staffing resources within the Housing Accountancy team were stretched during closedown due to a number</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>We consider that this transition has impacted adversely on the Council's:</p> <ul style="list-style-type: none"> • preparation of quality financial statements in the form of the Housing Revenue Account, which has necessitated a number of amendments this year • ability to secure and provide adequate working papers for an area which has been relatively unproblematic in previous years. 			<p>of reasons one of which was the Borough Treasurer taking a strategic decision to second the permanent Head of Finance (Housing) to the MCS project. The interim Head of Finance (Housing) will be working with Barnet Homes and Core Accountancy to set in place clearer closedown arrangements for 2005/06.</p> <p>Members should also be aware that 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.</p>
<p>Revaluation Programme for Other Land & Buildings</p> <p>The revaluation listing for Other land and buildings provided to us only showed revaluation dates for assets that had been</p>	<p>10. Clarification of the information available to support the rolling programme of revaluation.</p>	<p>11. The Council needs to ensure that:</p> <ul style="list-style-type: none"> • it has an adequate revaluation programme in place to ensure that 	<p>Noted and agreed. Valuers will actively be seeking improvement in this area for the future.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>revalued during 2003-04 and 2004-05 (which is since the introduction of a rolling revaluation programme), and did not contain the dates for assets that had not yet been valued, or dates when they were last revalued.</p> <p>As a result, we have not been able to form a view as to whether the Council has met the SORP's requirement for its land and buildings to be revalued every 5 years.</p> <p>We have however been able to establish that 94% of Other land and buildings (by value) had been revalued and therefore for the purposes of preparing the 2004-05 accounts, we are satisfied that an appropriate portion of the assets had been revalued and updated.</p> <p>We note that for a number of the assets that had been revalued during 2003-04 or 2004-05, the cells containing the next revaluation date contained an error message, questioning the reliability of the information contained within the listing. At the date of writing this report we still did not have confirmation from the Council as to whether there was any additional source of data which contained the future revaluation programme.</p>		<p>all Other land and buildings are revalued on a five year cycle</p> <ul style="list-style-type: none"> there is adequate management information system in place to enable, track, monitor and report on progress of this. 	<p>Valuers have now provided the auditors with a schedule showing all future revaluation dates.</p>
<p>Social Housing Stock Valuation</p> <p>The effective date of the Council's social housing stock valuation was 10 February 2005 and not the year end date of 31 March 2005. During the course of our accounts audit we identified that disposals with a valuation of £1.808m between 10</p>	<p>12. Management have agreed for the adjustment required to record the disposals of the dwellings to be processed.</p> <p>13. A reconciliation between the</p>	<p>14. In future years the valuation of the Social Housing Stock should be performed with an effective date of 31 March 2005. Should this not be possible, confirmation of any</p>	<p>Noted. The Head of Finance (Housing) will agree arrangements with Barnet Homes to ensure that this occurs in 2005/06.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>February and 31 March 05 were included in the valuation report and had therefore been incorrectly included in the carrying value of Tangible fixed assets in the annual accounts.</p>	<p>number of dwellings reported in the Social Housing Stock Valuation Report and the number of dwellings include on the Housing Base Data Return should be performed and any additional adjustments required processed.</p>	<p>additions or disposals should be obtained from the ALMO to ensure that Council dwellings are included in the annual accounts at an appropriate carrying amount.</p>	
<p>Classification of Assets between Tangible Fixed Assets and Intangible Assets</p> <p>During our accounts audit we noted that capitalised expenditure on the MCS and Pericles systems implementations had been categorised as part of Tangible fixed assets. We have agreed with the Finance team that it would be more appropriate for the portion of this expenditure that does not relate to equipment purchases to be categorised as Intangible assets.</p>	<p>15. An analysis of the MCS and Pericles implementation expenditure capitalised to Tangible fixed assets is required to enable costs that do not relate to equipment purchases to be re-classified as Intangible assets.</p>	<p>16. None.</p>	<p>Agreed. Core Accountancy to manage this.</p>
<p>Treasury Management Strategy</p> <p>We noted that the Treasury Management Strategy requires updating to reflect the current policy of using the Building Societies Association guide in determining with which associations to invest funds.</p>	<p>17. None.</p>	<p>18. The Treasury Management Strategy should be updated.</p>	<p>Agreed. Treasury Management Team to update Strategy.</p>
<p>Provision</p> <p>Based on our review of supporting working papers for</p>	<p>19. Amend and improve disclosure as recommended</p>	<p>20. None</p>	<p>Agreed and actioned</p>

Appendix A – Action Plan

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Provisions, we have agreed with the Council that:</p> <ul style="list-style-type: none"> • Planning provision should be amended from £0.078m to £0.026m, and Other provision should be amended from £1.350m to £1.402m to agree with the underlying evidence. • Disclosures on 'Other Provisions' should be expanded to explain that it includes a provision for other elements apart from a provision for fees in relation to ongoing enquiries on Underhill football ground. 			
<p>Operating leases</p> <p>Based on our review of prepayments, we note that the Council had prepaid £1.7m on vehicle leases. These appear to relate to leases renewed yearly and while they are unlikely to be finance leases, these do not appear to have been disclosed as operating leases in a note to the accounts.</p>	<p>21. Include these leases under operating leases as appropriate</p>		<p>Noted and agreed to add this in disclosure in note 12 to the Consolidated Revenue Account on operating leases.</p>

Appendix B – Accounts adjustments agreed

Finding	Summary of adjustment agreed
Adjustments that affect results reported in the Consolidated Balance Sheet	
Disposal of Council dwellings: Council dwellings sold between the Social Housing Valuation date of 10 February 2005 and the year end date of 31 March 2005, have incorrectly been included in the carrying value of Tangible fixed assets.	Reduce Tangible fixed assets (Council dwellings) by £1.808m and reduce the Fixed Asset Restatement Account by £1.808m.
Classification adjustments that affect the manner in which results are disclosed in the financial statements	
Consolidated Balance Sheet – Classification of assets between operational and non-operational	
The Fennela House offices have incorrectly been classified as non-operational assets.	Reduce Non-operational fixed assets and increase Other land and buildings by £2.170m
Consolidated Balance Sheet – Classification of non-operational assets	
Non-operational assets have not been split between Investment properties, Assets under construction and Surplus assets held for disposal.	Disclose Investment properties, Assets under construction and Surplus assets held for disposal balances of £19.487m; £2.731m and £2.462m respectively.
Consolidated Balance Sheet – Classification of Other land and buildings	
Community Assets have not been disclosed as a separate category from Other land and buildings	Reduce Other land and buildings by £0.274m and disclose Community assets of £0.274m.
Consolidated Balance Sheet – Debtors	
Within note 9 to the balance sheet, £1.553m debtors relating to NHS bodies have been incorrectly classified under 'Government debtors' and should be classified under 'Other Public Bodies debtors' instead. The error has no impact on the overall total for debtors.	Reduce 'Government debtors' and increase 'Other Public Bodies debtors' by £1.553m.
Consolidated Balance Sheet – Creditors	
Within note 9 to the balance sheet, the analysis between 'Government creditors' and 'Sundry creditors' relating to salaries and wages creditors does not agree to supporting working papers. The error has no impact on the overall total for creditors.	Reduce 'Government creditors' and increase 'Sundry creditors' by £1.257m to reconcile to supporting working papers.

Finding	Summary of adjustment agreed
Consolidated Balance Sheet – Provision	
Within note 10 to the balance sheet, the analysis between 'Planning provisions' and 'Other provisions' does not agree to supporting working papers. The error has no impact on the overall total for provisions.	Amend 'Planning provisions' from £0.078m to £0.026m and 'Other provisions' from £1.350m to £1.402m.
Consolidated Balance Sheet – Loans	
Reclassify £0.130m from ST loans to creditors as it relates to borrowing undertaken by Barnet on behalf of other bodies.	Increase creditors and reduce St loans by £0.130m
HRA Disclosure notes	
<p>Misstatements were identified in the following HRA disclosure notes:</p> <ul style="list-style-type: none"> • Note 3 - Balance Sheet Value of HRA Assets; • Note 4 – Major Repairs Reserve; and • Note 6 – HRA Capital Expenditure. 	<ul style="list-style-type: none"> • Non-operational assets of £0.572m to be added to disclosure in Note 3 • Depreciation of non-dwellings disclosed in Note 4 was amended from (£0.428m) to (£0.469m) and the Transfer to HRA - non-dwellings amended from £0.428m to £0.469m • Note 6, Capital Expenditure: Houses was amended from £18.758m to £19.483m; Capital Financing: Useable capital receipts was amended from £2.911m to £2.918m and Capital Financing: Revenue Contributions was amended from £0 to £0.718m.
Other disclosure adjustments	
A number of disclosure adjustments agreed to improve clarity and presentation of the accounts which do not affect the reported financial position or the classification of results disclosed in the accounts. These mainly related to the CRA, the HRA, Tangible fixed assets, and Intangible assets.	

Appendix C – Summary of accounts adjustments not processed by management

Subject to satisfactory clearance of the outstanding items referred to in paragraph 1.9 above, there are no adjustments that have not been processed by the Council.

London Borough of Barnet Pension Fund

Audit of Accounts 2004-05

Report under Statement of Auditing Standards (SAS) 610

September 2005

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1 Introduction

Background

- 1.1 The Council is responsible for the preparation of the financial statements for the Pension Fund that present fairly its financial position as at 31 March 2005 and its income and expenditure in the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements for the Pension Fund present fairly its financial position and income and expenditure.
- 1.2 This is the third year of our reporting under *Statement of Auditing Standards 610 – Reporting to those charged with governance* ("SAS 610") which requires us as the Council's external auditors to report to those charged with governance certain matters before giving an opinion on the financial statements.
- 1.3 This report summarises the principal matters arising from our final accounts audit. The issues raised have been discussed with the Head of Finance and her staff and action agreed for accounts preparation in future years.

Reporting under SAS610

- 1.4 We agreed with the Council that the communications required under SAS610 would be discharged through a report to the Audit Committee on 10 October 2005. We will continue to review the appropriate governance process for the receipt of the Pension Fund SAS 610 report and take on board advice from CIPFA, the Audit Commission and other regulatory bodies in respect of the accounting and reporting arrangements for pension funds in 2005-06.

Status of audit

- 1.5 We were presented with a draft of the Pension Fund accounts on 26 July 2005. The accounts were approved by the General Functions Committee on 28 July 2005.
- 1.6 We have performed our final accounts audit in accordance with applicable auditing standards. Our approach takes on board the requirements of the SORP as appropriate.

Matters outstanding

- 1.7 We have still to complete audit finalisation procedures which will include:
 - a review of the final version of the statement of accounts
 - receipt of an appropriate Letter of Representation
 - updating our Post Balance Sheet Events reviews to the date of signing the accounts.

Auditor independence

- 1.8 We confirm that we are not aware of any threats to our independence or objectivity. We have not undertaken any extra fee work in respect of our Pension Fund audit.

Use of this report

- 1.9 This report has been prepared solely for the use of London Borough of Barnet to discharge our responsibilities under SAS610 and should not be used for any other purpose or copied to third parties without our consent.

Acknowledgements

- 1.10 We should like to record our appreciation for the co-operation provided to us by staff in the Borough Treasurers section including those in Pensions, Treasury Management and Internal Audit during the course of our audit.

2 Executive Summary

Introduction

2.1 We summarise in this section our observations on the Council's overall financial standing, and those matters which we are required to report under SAS610.

Overall financial results

2.2 The Pension Fund has reported a surplus of £8.986m (2004: £3.674m) in its 2004-05 accounts. The increase in surplus is mainly due to a lump sum contribution of £2.5m into the Fund as well as an increase in transfers into the Fund as a result of new joiners.

2.3 We will update our comment in this area as appropriate as part of our 2004-05 Annual Audit Letter.

Key issues under SAS610

2.4 Under SAS610, we are required to communicate to those charged with governance matters which have come to our attention as a result of our audit work, covering:

- (a) Any expected modification to the audit opinion on the financial statements
- (b) Unadjusted misstatements
- (c) Material weaknesses in the accounting systems and internal control systems
- (d) Views about the qualitative aspects of the Council's accounting practices and financial reporting
- (e) Matters specifically required by other auditing standards to be communicated such as fraud and error, and any other material matters relating to the audit.

2.5 We summarise our key audit findings in relation to the above areas in Exhibit 1 below:

Exhibit One: Key audit findings

Ref	Area	Key messages
A	Audit opinion on the financial statements	<p>Subject to our usual audit finalisation steps outlined below, we expect to issue an unqualified audit opinion on the Council's accounts:</p> <ul style="list-style-type: none"> ● a review of the final version of the statement of accounts ● obtaining a letter of representation from the Head of Finance ● obtaining assurance from the auditor of the London Pension Fund Authority about the material accuracy of the figures disclosed in the accounts under FSR17 in respect of pension costs, assets and liabilities ● updating our post balance sheet events review to the date of signing the accounts.

B	Audit adjustments and any unadjusted misstatements	We have agreed with management a number of adjustments to the accounts primarily to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes. These are summarised in Appendix B. There are no unadjusted misstatements, as confirmed in Appendix C.
C	Material weaknesses in the accounting systems and internal control systems	We consider that there are no issues in this category to bring to your attention.
D	Qualitative aspects of the Council's accounting practices and financial reporting	We consider that the Council has adopted appropriate accounting policies in the areas covered by our testing.
E	Any other matters	<p>With the exception of the following matters, we consider that there are no issues in this category to bring to your attention.</p> <p>The Council's officers have had a challenging year presented by implementation of a new accounting system from August 2005 as well as moves to appoint new fund managers.</p> <p>This has had an impact on the financial statements to the extent that most of the working papers relevant to this audit have not been made available at the start of the audit.</p> <p>Although the audit of the Pension Fund this year has not identified any significant issues this year, we are aware that the Council faces a number of challenges which may well impact on the preparation of the Pension Fund accounts and adequate supporting working papers next year:</p> <ul style="list-style-type: none"> • Reviewing fund managers with effect from September 2005, necessitating clear accounting records in the handover period to support year-end entries. • Implementation of new accounting system in August 2005 which also affected the pensions accounting module. There appears to be some early teething problems which have prevented the proper working of this module and the entry of pensions transactions onto the new system. • Earlier statutory accounts deadline for 2005-06, which calls for strengthened arrangements for the Council working with relevant stakeholders including employers and actuaries.

2.6 We have discussed these and other matters arising with the staff in Borough Treasurers and have reflected their responses to the matters raised in the Action Plan attached at Appendix A as appropriate.

Next steps

2.7 We will continue to work with the staff in Borough Treasurers, Pensions and Treasury Management to ensure that outstanding finalisation issues are completed in time for the accounts to be formally signed in accordance with the statutory deadline of 31 October 2005.

RSM Robson Rhodes LLP
September 2005

Appendix A – Action Plan

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Working papers</p> <p>The Council's officers have had a challenging year presented by implementation of a new accounting system from August 2005 as well as moves to appoint new fund managers.</p> <p>This has had an impact on the financial statements to the extent that most of the working papers relevant to this audit have not been made available at the start of the audit to the standard specified by the auditor is one of the level 2 requirements for the Financial Reporting "Key line of Enquiry" in the Use of Resources assessment which feeds into the Council's Comprehensive Performance Assessment.</p>	<p>None</p>	<p>A senior member of the Finance team should review our arrangements letter prior to the start of the final accounts audit to ensure that all requested supporting evidence is available.</p>	<p>Agreed. Treasury Management to timetable into closedown arrangements for 2005-06.</p>
<p>Disclosure on 'Management of the Fund'</p> <p>The Council are in the process of reviewing Fund Managers . We consider that there should be an appropriate disclosure about this in note 6 to the Pension Fund.</p>	<p>Improve disclosure as recommended</p>	<p>Ensure that accounting and other records relating old and new fund managers are adequate for year-end purposes.</p>	<p>Agreed. Treasury Management to action for 2004-05 accounts and 2005-06 accounts.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Implementation of new accounting system</p> <p>The Council implemented a new accounting system in August 2005 which also affected the pensions accounting module. We understand that there appears to be some early teething problems which have prevented the proper working of this module and the entry of pensions transactions onto the new system to date.</p>	<p>None</p>	<p>Management should review progress of this issue and consider the impact on the Council's system of internal control in conjunction with Internal Audit as appropriate.</p>	<p>Agreed. Treasury Management to action as an ongoing activity in 2005-06.</p>

Appendix B Accounts adjustments agreed

Finding	Summary of adjustment agreed
Adjustments affecting results reported in the Net Assets Statement (NAS) and Fund Account (FA)	
There are none in this category.	
Misclassification adjustments	
There are none in this category.	
Disclosure adjustments	Various disclosure adjustments agreed to improve clarity and presentation of the accounts, which do not affect the reported financial position.

Appendix C – Summary of accounts adjustments not processed by management

Finding	Impact
There are none in this category.	

EXPLANATORY FOREWORD

By Clive Medlam, Borough Treasurer

This foreword is an introduction to the council's accounts and their main points of interest. Regulations say I have to lay out the statement of accounts rather formally, but in these opening pages I may introduce the authority's finances in plainer terms.

1. Statements

These give a background as to who is responsible for the production of these accounts, what controls are in place and the general financial policies of the authority. They are:

- The Statement of Responsibilities;
- The Statement of Accounting Policies.
- The Statement on the System of Internal Control;

2. The accounts

The accounts for the year are on pages 12 to 50.

They are:

- The consolidated revenue account showing how much was spent providing services. It brings together income and expenditure for all the authority's day to day activities.
- The consolidated balance sheet. This is a snapshot picture as at 31st March 2005 of the borough's assets and liabilities;
- The statement of total movements in reserves showing the net fluctuations in the amounts the authority holds against future needs;
- The cashflow statement. This shows movement of money in and out;
- The housing revenue account (HRA) covering the authority's spending on housing. The Government requires this to be shown separately;
- The collection fund shows money from business rates and council tax that the council has to collect for itself, the Government and the Greater London Authority;
- Consolidated group accounts. These show the consolidated position for the council and its subsidiary company.
- Pension fund accounts. These set out the investment of the money belonging to council's employees and pensioners.

More explanations are attached to each of the above accounts.

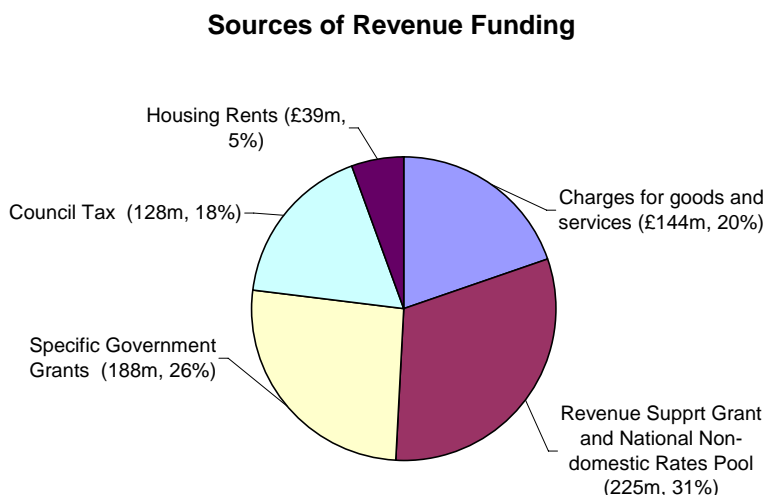
3. Changes

The council follows recommended accounting policies. Full explanations of any changes required for 2004/05 are in the statement of accounting policies and the various notes to the accounts. The major change in 2004/05 is the incorporation into the accounts of group accounting statements which show the consolidated position of the council and its subsidiary company, Barnet Homes. Barnet Homes are a separate limited company who manage the council's housing stock. For statutory purposes they produce their own statement of accounts but are regarded as a wholly

owned subsidiary of the council and, therefore, also have their accounts consolidated those of the authority to reflect the position for the 'council's group'. More detail is on pages 41 to 44.

4. Revenue

The detail of the council's spending is set out in the Consolidated Revenue Account which shows the majority of spending was on education (£261m), social services (£146m) and housing functions including benefits (£262m). Excluding internal recharges the council spent some £726m on revenue expenditure (i.e. the day to day running costs of services). The chart below shows how this was paid for:



A key aspect is that nearly 60% of expenditure is funded by government either through general or specific grants. Local funding of the Housing Revenue Account by housing rents and Council Tax funding of General Fund Services accounts for just under 25% of income in total.

Looking at the financial position of the council in 2004/05, the table below shows the comparison between the original budget and the actual expenditure of the General Fund in 2004/05:-

2004/05	Original Council Spending Plan	Actual Net Spend	Difference (Actual-Original)
	£'000	£'000	£'000
Individual School's Budget	151,813	154,371	2,558
Other Council Services & Levies	206,673	201,169	(5,504)
Contribution to Balances	3,000	3,000	0
Contribution from Reserves	(6,591)	(4,930)	1,661
Amount to be met by Government Grant and Council Tax	354,895	353,610	(1,285)
Revenue Support Grant	(135,070)	(135,070)	0
Non-domestic Rates	(89,499)	(89,499)	0
Collection Fund Transfer	947	947	0
Council Tax	(131,273)	(131,273)	0
Contribution to Balances	0	(1,285)	(1,285)

The council in total spent £1.285m less than it originally intended. Of this, schools over spent by £2.558m. This has been met by funds carried forward by the schools in prior years. Other council services under spent by a net figure of £5.504m.

The Consolidated Revenue Account is set out on pages 12 to 18.

5. Balances

When the 2004/05 budget was approved by the council in March 2004, the estimated 1 April 2005 General Fund balance was £4.2m (excluding schools). The council also had estimated specific earmarked reserves of £0.7m as at 1 April 2004. The final position shows a General Fund balance of £5.005m and specific reserves of £1.036m. Whilst this is a significant improvement of the position at the end of 2003/04, the level of balances remains a key consideration when setting the annual budget and the 2005/06 budget was set at a level to continue to restore working balances to a reasonable level over the coming years.

6. Capital

Expenditure incurred on the construction, acquisition or improvement of an asset that has a beneficial life of more than one year is capital expenditure. Revenue expenditure includes day-to-day expenditure such as salaries and wages, heat, light, etc.

The total amount spent on Barnet's capital assets in 2004/05 was £61.275m and compares to a final revised budget of £65.5m. The total expenditure includes amounts funded by schools from revenue contributions and TfL revenue grant allocations. The difference between budget and outturn is mainly due to slippage on various non-housing projects. Of the total expenditure incurred, £20.7m was spent on repairs and improvements to council dwellings and assistance to Housing Associations. Approximately £13.4m was spent on education infrastructure to improve and repair existing school facilities and £1.5m on library and community facilities. Capital of £12.9m was invested in road maintenance, lighting and environmental projects. In addition, £9.5m was spent on modernising the council's technology and staffing structures including a new computer system and further relocation of staff to the offices at North London Business Park.

7. Capital Financing

The Prudential Code, a new system governing local authority capital expenditure was introduced on 1st April 2004. Local authorities are now free to borrow to finance capital schemes without prior agreement from Central Government. Before undertaking such borrowing, the council is required to ensure that all external borrowing is within prudent and sustainable levels, that capital expenditure plans are affordable and that treasury management decisions are taken in accordance with professional good practice.

The council has borrowing facilities with the Public Works Loan Board and the council's bankers. In 2004/05 the council funded its capital expenditure by use of borrowing (33%), capital receipts (24%), grants (22%) and Housing Major Repairs Allowance (MRA) and other revenue sources (21%). The largest source of capital finance in 2004/05 was borrowing, 53.5% of which is supported by Central Government. The authority has raised income by selling assets. The sale of assets together with various other sources of income such as planning gains and partnerships with the private sector will always play an important role in supporting the council's future capital expenditure plans.

8. The Euro

The position regarding the possible replacement of sterling by the euro continues to be monitored and the council is ready to take prompt action should the need arise. As yet, no assessment, and thus no provision, has been made in the accounts for any cost implications associated with the possible change.

9. Further information

Requests for further information about these accounts may be made to:

The Borough Treasurer,
Building 4,
North London Business Park,
Oakleigh Road South,
London N11 1NP

**Clive Medlam, BSc.,CPFA,
Borough Treasurer**

STATEMENT OF ACCOUNTING POLICIES

1. General

This Statement of Accounts has been prepared according to the Accounts and Audit Regulations 2003 under section 27 of the Audit Commission Act 1998. The general principles adopted in compiling the accounts are those recommended by the Code of Practice on Local Authority Accounting in Great Britain and the Statement of Recommended Practice (SORP) that are issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These meet all requirements of proper accounting practice for local authorities.

2. Best Value Accounting Code of Practice (BVACOP)

The service expenditure analysis within the Consolidated Revenue Account follows the CIPFA Best Value Accounting Code of Practice.

3. Group Accounts

The Council is required to prepare group accounts statements for those companies in which it has a controlling interest. For 2004/05, these statements have been prepared using the transitional arrangements offered under the SORP.

4. Accruals of Income and Expenditure

The accounts of the council are prepared on an accruals basis in accordance with the Code of Accounting Practice. This means that sums due to and from the council during the year are included in the accounts whether or not the cash has actually been paid or received in the year. This approach includes customer and client receipts, employee costs, interest and supplies and services.

5. Contingent Assets and Liabilities

Contingent assets and liabilities are not recognised in the accounting statements but are disclosed as a note to the balance sheet if applicable.

6. Fixed Assets

a) Recognition

All expenditure where the authority will benefit for more than one year, buying or improving fixed assets is capitalised in the accounts and accrued. By definition this excludes routine repairs and maintenance which are charged directly to service revenue accounts.

b) Measurement

Valuation of land and buildings accords with the statements of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors (RICS), as recommended by CIPFA (see note 7 to the Consolidated Balance Sheet). Land and buildings are included in the balance sheet at the lower of net current replacement cost and net realisable value. Infrastructure, plant and equipment assets are shown at historical cost, net of depreciation. Community assets such as parks and open spaces are included at nominal value.

The current asset values are based on certificates issued by the Council's Valuation Officer.

All assets are valued on a rolling programme over five years, with the exception of housing stock which is re-valued annually.

c) Depreciation

Fixed assets are depreciated, using the straight-line method with no residual value, over their useful life. The useful life of each of the authority's buildings is determined by the Chief Valuer while vehicles, plant and equipment vary between 5 and 10 years as appropriate. Exceptions to these are land and investment properties, in accordance with current regulations these are not depreciated.

d) Impairment

Our Chief Valuer reviews our assets annually for impairment. Impairment is provided for assets where there is a material reduction in value at the year end. It is accounted for in the year in which it arises. There was no material impairment in 2004/05.

7. Charges to revenue in respect of capital

Service revenue accounts, including the Housing Revenue Account (HRA) are charged with a capital charge for all capital assets used in the provision of services. These comprise an annual depreciation amount and capital financing charge determined by applying a notional interest rate specified by the CIPFA/LASAAC Joint Committee each year for all local authorities. For 2004/05 these rates were 3.5% for assets carried at current value and 4.8% for assets carried at historic cost. Services are also charged with impairment loss in respect of economic consumption should this arise.

Capital charges to the HRA are calculated in a manner determined by the Secretary of State.

Capital charges have a neutral impact on the amounts to be raised from local taxation (Council Tax), as they are reversed in the Asset Management Revenue Account (AMRA) and replaced by external interest payable and the statutory minimum revenue provision for debt repayment (see note 3 to the Consolidated Revenue Account).

8. Intangible Assets

Intangible assets (formerly deferred charges) are created when the council incurs capital expenditure without a tangible fixed asset being created, such as the payment of capital grants and spending on computer software. Intangible assets are written off to revenue either in the year they arise, where there is no long term benefit or over a specified period as in the case of North London Business Park which will be written off to revenue over the life of the lease (see note 3 to the Consolidated Balance Sheet).

9. Capital Receipts

A capital receipt is income received on the disposal of a fixed asset. It is held in the capital receipts unapplied account until either used to fund capital spend or repay debt. Legislation requires a percentage of housing capital receipts to be transferred to a central pool for redistribution by the government (see note 7 to the Housing Revenue Account).

10. Government Grants and Contributions

Where a Government capital grant or other contribution pays for a fixed asset either wholly or in part, it is credited to the government grant deferred account once applied. Amounts are paid to the asset management revenue account over the useful life of the asset, matching depreciation. The authority accrues government capital grants and other contributions. Where there is reasonable assurance the grants will be received, the accounting statements include them.

11. Leasing

The Council has no finance leases. Operating lease rentals are charged to revenue over the life of the agreement (see note 12 to the Consolidated Revenue Account).

12. Redemption of debt

Statute requires revenue accounts to be charged with a minimum provision of 4% for general fund. The charges are credited to the Capital Financing Account.

13. Reserves and provisions

The authority holds two types of usable balance, reserves and provisions. Money prudently held as a general sum against future needs is classed as a reserve and transfers to it do not count as service expenditure. Money held in reserve is transferred back to revenue to meet needs as they arise. The net effect of revenue sums set aside appears as an adjustment in the Consolidated Revenue Account. The movements are shown in note 6 to the Statement of Total Movement in Reserves. Where a loss or liability already incurred is recognised but size and timing of payment are uncertain, a provision is raised which is recognised as service revenue expenditure. The provision for bad debts and other provisions are shown in notes 9 and 10 to the Consolidated Balance Sheet.

There are certain other accounts required by the SORP which are shown in the balance sheet. The Fixed Asset Restatement Account represents the balance of the surpluses and deficits arising from the periodic revaluation of fixed assets. The Capital Financing Account represents amounts

set aside from revenue or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions. They are not the same as the reserves defined above, but are technical accounting adjustments. The status and name of these accounts has caused general confusion. Details of these accounts are shown in the Statement of Total Movement in Reserves.

a) Insurance Provision

Apart from bad debts, the most significant provision is for insurance, as set out in note 10 to the Consolidated Balance Sheet, which stands at £5.4m at the end of 2004/05. Internal insurance premiums charged to services are credited to insurance and in most years this sum, together with commission earned, more than covers the claims paid out. The accumulated funds therefore would meet any individual year's shortfall. The history of claims payments indicates that each year the internal fund covers between £1m and £1.9m in claims payments. Based on the payment history, the council feels that the provision is adequate to cover any year's immediate claims requirement.

However, it is recognised that the provision needs to be enhanced to demonstrate full coverage of potential liability. The Council has recently completed a comprehensive review of the Insurance Service and the provisions required and this has been reflected in a recent actuarial valuation of the outstanding liability being £7.2m. The forward plan (long-term budget) includes a commitment to contribute additional sums to the Insurance provision to reach the required level by 2006/07.

The proposals to increase the level of provision are:

	Actual/Budgeted Additional Contribution £m	Insurance Provision £m
31st March 2004		1.8
31st March 2005	3.6	5.4
31st March 2006	1.0	6.4
31st March 2007	1.5	7.9

14. Estimations

The only significant estimations in the accounts is in respect of certain community care services where revenue accruals have been made based on invoices assumed to relate to the year of account but not received until after the end of the financial year and car park debtors which is based on the number of tickets issued that remain unpaid.

15. Investments

Investments are shown on the balance sheet at cost.

16. Pension Costs

Under Financial Reporting Standard 17 (FRS 17) the Council is required to account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This was adopted for the first time in 2003/04. For 2004/05, in line with Audit Commission recommendations, the council has moved from the Government Actuaries Department (GAD) rate to the AA Corporate Bond rate to calculate its future liabilities.

a) Pension Reserve

The Pension Reserve is the financial accounting mechanism to ensure that FRS17 has no impact on council tax.

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing each scheme.

Where the payments made for the year do not match the change in the authority's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised in taxation. This difference is removed by an appropriation to or from the

pension's reserve, which equals the net change in the pension's liability recognised in the Consolidated Revenue Account.

b) Classification of Schemes

The council participates in two different pension schemes, one for teachers, an unfunded scheme administered by the Department for Education and Skills (DfES) and the Local Government Pension Scheme for our other staff. The schemes provide members with a defined benefit pension related to pay and service. The teachers' scheme is, as said, unfunded, but the other is a funded scheme.

For the purposes of FRS17 pension schemes are classified into two categories, Defined Benefit or Defined Contribution. The Barnet scheme is classified as Defined Benefit. The teachers' schemes of the DfES, although a Defined Benefit scheme, is treated as Defined Contribution scheme because it does not allow the allocation of its liabilities and assets consistently and reliably to participant authorities

c) Defined Benefit Schemes

The attributable assets of the scheme is measured at fair value and include current assets and investments. The attributable liabilities are measured on an actuarial basis using the projected unit method. Scheme liabilities are discounted at the AA Corporate Bond Rate. The surplus or deficit in the scheme is the excess or shortfall of the value of the assets in the scheme over or below the present value of the scheme liabilities. The change in the defined benefit asset or liability is shown in the Consolidated Revenue Account and analysed into the following components, current service costs, interest cost, expected return on assets and actuarial gains and losses, and past service costs and gains and losses on settlements and curtailments.

d) Defined Contribution Schemes

The Teachers scheme, whilst being a defined benefit scheme is treated as a defined contribution scheme as explained above. This means that the pension costs reported for any year is equal to the contributions payable for the scheme for the same period. The costs are recognised within Net Cost of Services.

e) Accounting for Retiring Benefits (FRS17) within the Housing Revenue Account (HRA)

For 2003/04, the HRA has been treated in the same way as all other service departments for FRS17 purposes. The consequent change in HRA service costs has also been matched by an appropriation to the pension liability which means that its net outturn is not affected by these adjustments. For 2004/05, due to the change in service delivery following the creation of Barnet Homes, there is no FRS 17 charge to the HRA (see notes 11 and 12 to the HRA).

f) Cash

As at 31st March 2005 the London Borough of Barnet pension fund had £32m cash in hand which was managed with the council's cash as part of the council's temporary investment strategy.

g) Pensions

Further information on pension costs and the Pension Fund appear in the individual statements within the accounts.

17. Stocks and work in progress

Stocks and stores are in the accounts at the lower of latest price paid or net realisable value, according to a period stock list.

Work in progress on uncompleted jobs is valued at cost, including overhead allocations.

18. Support service allocations

Support service costs are charged to users based on time allocation and assessed usage.

19. Exceptional Items, Extraordinary Items and Prior Period Adjustments

Where applicable and relevant exceptional items and extraordinary items are disclosed in the Consolidated Revenue Account with full supporting notes.

The majority of prior period adjustments arise from corrections and adjustments and are accounted for in the year they are identified. Material adjustments applicable to prior years arising from changes in accounting policy or correction of fundamental errors are accounted for by restating comparative figures for the preceding year in the statement of account and notes and adjusting the opening balance of reserves for the cumulative effect. More details and fuller explanations are given in the individual relevant financial statements.

20. Post Balance Sheet Events

Where a post balance sheet event occurs which:

- Provides additional evidence relating to conditions existing at the balance sheet date, or
- Indicates that application of the going concern concept to a material part of the authority is not appropriate;

Changes will be made in the amounts to be included in the Statement of Accounts.

The occurrence of a material post balance sheet event which impacts on the council but did not exist at the balance sheet date are disclosed.

Details of any material post balance sheet events are disclosed in the notes to the balance sheet.

**Clive Medlam BSc., CPFA,
Borough Treasurer**

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The authority is required:

- To arrange for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the management of those affairs. In this authority, that officer is the Borough Treasurer;
- To secure economic, efficient and effective use of its resources and to safeguard its assets;
- To ensure the accounts are prepared in compliance with all current legislation and regulation and to approve the statement of accounts.

The Borough Treasurer's responsibilities

The Borough Treasurer is responsible for the preparation of the authority's statement of accounts in compliance with all current legislation and regulation. The statement of accounts has, under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (legally recognised as a code of proper accounting practice), to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year to 31st March 2005.

In preparing this statement of accounts, the Borough Treasurer has:

- Selected appropriate accounting policies and applied them consistently;
- Made reasonable and prudent judgements and estimates;
- Complied with the Code of Practice.

The Borough Treasurer has also:

- Kept proper, up to date , accounting records;
- Taken reasonable steps to prevent and detect fraud and other irregularities.

The Statement of the Borough Treasurer

The required financial statements appear on pages 12 to 50 and have been prepared in accordance with the accounting policies set out on pages 5 to 9.

**Clive Medlam BSc., CPFA,
Borough Treasurer**

Statement of the Chairman of the General Functions Committee.

I confirm these accounts were approved by the General Functions Committee on behalf of the London Borough of Barnet at the meeting held on 28 July 2005.

**Cllr Joan Scannell
Chairman of General Functions Committee**

Independent Auditors' Report to London Borough of Barnet

We have audited the statement of accounts on pages 12 to 44 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 5 to 9 and the Pension Fund accounts, on page 45, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 46 to 47.

This report is made solely to London Borough of Barnet in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditors

As described on page 10 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year,
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

We review whether the statement on internal control on page 55 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the statement of accounts present fairly the financial position of London Borough of Barnet as at 31 March 2005 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

In our opinion the financial statements present fairly the financial transactions of London Borough of Barnet Pension Fund during the year ended 31 March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: Date:

RSM Robson Rhodes LLP, Bryanston Court, Selden Hill, Hemel Hempstead HERTS. HP2 4TN

CONSOLIDATED REVENUE ACCOUNT

This shows expenditure on and income from the council's day-to-day activities. It gives the cost of the main services provided by the council.

	Note	2004/05			2003/04
		Expenditure £'000	Income £'000	Net Expenditure £'000	Net Expenditure (* restated) £'000
On its services the Council spent:-					
Central services to the public		26,209	(7,934)	18,275	9,128
Cultural, environmental & planning services		65,788	(17,093)	48,695	44,660
Education services		261,808	(78,016)	183,792	175,006
Highways, roads & transport services		33,956	(15,298)	18,658	17,602
Housing services		229,079	(190,046)	39,033	50,361
Social services		145,757	(43,964)	101,793	95,336
Corporate & democratic core		4,981	(1,211)	3,770	6,293
Non distributed costs		5,281	0	5,281	5,925
NET COST OF SERVICES		772,859	(353,562)	419,297	404,311
Levies	2			1,896	3,682
Trading undertakings				897	(148)
Asset management revenue account	3			(54,417)	(53,931)
Premium on Debt Redemption				0	7,841
Interest receivable				(1,488)	(2,057)
Pension interest cost & expected return on Pension Assets	10			8,200	8,986
NET OPERATING EXPENDITURE				374,385	368,684
HRA contribution to/(from) balances				(1,222)	295
Contribution from earmarked reserves				(109)	(2,687)
Redistribution of LRB balances				(6)	(148)
Contribution (from) / to capital financing reserves for					
- net contribution to revenue / repayment premium				0	(3,782)
- Deferred Grant				6,289	2,086
- adjustment for MRP	4			(8,948)	(11,369)
HRA Major Repairs Reserve				(4,109)	(3,772)
Minimum revenue provision HRA				0	315
Contribution from the pension reserve	10			(12,670)	(10,633)
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXES				353,610	338,989
Revenue support grant				(135,070)	(123,489)
Contribution from non-domestic rate pool				(89,499)	(92,301)
Demand on collection fund				(131,273)	(122,498)
Transfer of collection fund deficit				947	0
(SURPLUS)/DEFICIT FOR THE YEAR				(1,285)	701

The AMRA for 2003/04 has been re-stated to include deferred charges which were previously shown as a separate item.

GENERAL FUND BALANCES

	2004/05	2003/04
	£'000	£'000
Balance at beginning of year	11,750	12,451
Planned contribution to balances	3,000	0
Surplus / (Deficit) for the year	1,285	(701)
	<u>16,035</u>	<u>11,750</u>
of which:-		
General Fund	<u>5,005</u>	<u>971</u>
School Balances	<u>11,030</u>	<u>10,819</u>
	<u>16,035</u>	<u>11,790</u>

CONSOLIDATED REVENUE ACCOUNT NOTES

1. Building Control

Local authorities are required to prepare a Building Control Statement under the Building (Local Authority Charges) Regulations 1998. The results of trading were:-

	2004/05 £'000	2003/04 £'000
Employee Expenses	742	725
Transport	31	32
Supplies & Services	412	271
Central & Support Services	95	250
Total Expenditure	1,280	1,278
Building Regulation Charges	(1,316)	(1,222)
Total Income	(1,316)	(1,222)
Deficit / (Surplus) on activities for year	(36)	56

These figures form part of the Consolidated Revenue Accounts.

2. Analysis of Levies

The authority helps defray the costs of other organisations. It does this either as a statutory duty or voluntarily, where it benefits the council. Some contributions are made to London wide organisations.

	2004/05 £'000	2003/04 £'000
Miscellaneous levies:-		
Magistrates' service	712	625
Coroners' service	222	204
Environment Agency (land drainage)	232	2,059
Lee Valley Regional Park Authority	375	361
London Pensions Fund Authority	355	433
	1,896	3,682
Levies and contributions included in service net expenditure:-		
London boroughs' grant scheme	1,151	1,210
Concessionary fares scheme	8,669	7,995
North London Waste Authority	8,984	8,463
	18,804	17,668
	20,700	21,350

3. Asset management revenue account

This account brings together depreciation (see note 5 below) and interest charged to the authority with asset rentals/capital charges to service accounts. The account and its transactions are needed for services to show their true operating costs, including their use of assets. As the overall surplus is netted off to the general fund there is no effect upon council tax.

	2004/05 £'000	2003/04 £'000
Income		
General Fund	(26,371)	(26,884)
Amortisation of intangible fixed assets	(7,935)	0
Housing revenue account	(28,666)	(28,381)
Housing revenue account depreciation	(12,447)	(12,614)
	<u>(75,419)</u>	<u>(67,879)</u>
Deferred government grants	(1,820)	(2,085)
	<u>(77,239)</u>	<u>(69,964)</u>
Expenditure		
External interest	448	2,604
Housing revenue account depreciation provision	12,447	12,614
Provision for depreciation	9,927	11,996
Surplus transferred to the consolidated revenue account	<u>(54,417)</u>	<u>(42,750)</u>

There was no impairment identified by the Chief Valuer in 2004/05.

4. Minimum revenue provision

The Government requires the authority to set money aside each year for the repayment of loans originally taken out to finance capital expenditure. This is called the minimum revenue provision (MRP). Under capital accounting arrangements, the council's services are charged depreciation to reflect the benefit received in the year from the use of capital assets. The depreciation charge is treated as the council's revenue provision and any variation from the statutory minimum is transferred between the capital financing account and the consolidated revenue account. Barnet council's practice is to not exceed the minimum required.

The figures were:-

	2004/05 £'000	2003/04 £'000
General Fund Minimum revenue provision	1,448	627
Less – depreciation charges	<u>(10,396)</u>	<u>(11,996)</u>
Balance transferred from capital financing reserve	<u>(8,948)</u>	<u>(11,369)</u>

5. Asset Rentals

Service revenue accounts are charged asset rentals for fixed assets used in service delivery. Capital financing costs are shown separately and are not reflected in the cost of services.

6. Local Government Act 1972 – Section 137

Almost all the provisions of this section of the Local Government Act 1972 have been superseded through the granting of general enabling powers to local authorities in the Local Government Act 2000. (Chapter 22 part1). Barnet has reviewed its activities in the light of this and concluded that no expenditure was incurred under any residual Section 137 powers for the past year.

7. Agency Work

The borough contains sections of several major highways, including the M1 motorway and the North Circular Road, which are the responsibility of the Department of Transport, Local Government and the Regions. The council undertook no work on the Highways Agency's behalf during the year (£25,000 in 2003/04).

8. Expenditure on publicity

Section 5 of the Local Government Act 1986 requires a separate account of expenditure on publicity. These figures include expenditure on Action Points.

	2004/05	2003/04*
	£'000	£'000
Information service – staff	318	325
Information service – other costs	338	487
Staff recruitment and advertising	690	603
	<u>1,346</u>	<u>1,415</u>

*2003/04 figures have been re-stated to exclude costs re 'First Contact' reception service.

9. Local Government Goods and Services Act 1970

This Act empowers the council to provide goods and services to others. Income from providing printing and training services to others in 2004/05 produced £214,000 (£85,000 in 2003/04).

10. Pension costs

The authority currently has its own local government pension scheme. Barnet no longer has any employees contributing to the London Pensions Fund Authority and therefore references to that scheme appearing in previous year's accounts no longer apply.

The costs of contributing to pensions earned by employees in the year of account are recognised in the net cost of services. The net cost of pension interest and expected return on assets also count against net operating expenditure. These are notional costs calculated by the council's actuary in line with accounting regulations to show the authority's true liability for the year. To ensure net figure left in the account is the actual amount paid to the pension fund, an adjustment to the pension reserve is made to reverse out the difference:

	Barnet's Pension Scheme	
	2004/5	2003/4
	£000	£000
Net Cost of Services		
Current Service Cost	13,960	11,310
Curtailment & Settlements	3,480	4,660
Past Service cost	420	190
Net Operating Expenditue		
Interest Cost	27,110	24,860
Expected Return on Assets in the Scheme	(18,910)	(15,990)
Amounts to be met from Government Grants and Local Taxation		
Movement on Pensions Reserve	(9,110)	(10,560)
Amount charged for pensions in the year	<u>16,950</u>	<u>14,470</u>

Note 16 to the Consolidated Balance Sheet contains the assumptions made in estimating the figures included in this note. Note 5 to the Statement of Total Movements in Reserves details the costs that have arisen through the year.

11. Senior staff remuneration

The number of staff who received taxable remuneration in excess of £50,000 for the year was:

	2004/05	2003/04
£50,000 to £59,999	89	63
£60,000 to £69,999	23	12
£70,000 to £79,999	8	10
£80,000 to £89,999	10	7
£90,000 to £99,999	4	0
£100,000 to £109,999	1	2
£110,000 to £119,999	4	4
£120,000 to £129,999	1	0
£130,000 to £139,999	0	0
£140,000 to £149,999	0	1
£150,000 to £159,999	1	0
Total	<u>141</u>	<u>99</u>

12. Leasing

The council does not own all of the computers and other equipment it uses and the authority acquires these items using operating leases.

Rental payments under all the agreements outstanding amounted to £0.1m (£0.1m in 2003/04). The total value of those agreements still existing at 31st March 2005 was £0.4m. The authority is committed to making payments of £0.1m in 2005/06 in respect of operating leases. The total outstanding lease commitment is £0.15m and will fall into the following years:-

Years	Lease Payments £'000
2005/06	102
2006/07	52
2007/08	1

13. Members Allowances

The total amount of members' allowances payable in 2004/05 was £909,235 (£894,961 in 2003/04).

14. Related Party Transactions

This disclosure has been produced using specific declarations obtained from Members and Chief Officers and other information held in council registers. The disclosure is based upon the council's interpretation and understanding of financial reporting standard number 8 (FRS8) and its applicability to the public sector using current advice and guidance.

Some charitable bodies with which members are involved have made small investments with the council. These are not significant to the council but may be so for individuals. As at 31 March 2005, the total sum of these loans is £126,291 including £79,491 in respect of the Mayor's Benevolent Fund and £5,000 in respect of a school fund.

A number of members have also been appointed by the council to serve as trustees or representatives to various local organisations that receive grant funding from the council. These commitments are recorded in the register of Members' interests.

References within the Consolidated Revenue Account and Cash Flow statements detail transactions between the Government (grants), Pension Fund (contributions) and the council,

15. Pooled Budgets

Section 31 of the Health Act 1999 and the Local Authorities Partnership Arrangement Regulations 2000 provide for partnership arrangements between National Health Service (NHS) bodies, local authorities and other agencies to improve health services by pooling resources and integrating services to client groups. The council and Barnet Primary Care Trust (BPCT) Health and Social Care Partnership operate various partnership boards, however budgets are not pooled but are managed by jointly appointed officers, each partner remaining responsible for their respective costs. The only exception is the pooled budget for community equipment.

The actual expenditure on the pooled budget for community equipment was –

	2004/05			2003/04		
	Total £'000	LBB £'000	Barnet PCT ⁽¹⁾ £'000	Total £'000	LBB £'000	Barnet PCT ⁽¹⁾ £'000
Purchasing of equipment	880	618	262	1,165	909	256
Contract Management	458	302	156	314	197	117
Stock adjustment ⁽²⁾	99	99	0	(318)	(318)	0
	<u>1,437</u>	<u>1,019</u>	<u>418</u>	<u>1,161</u>	<u>788</u>	<u>373</u>
Contributions	(1,277)	(859)	(418)	(944)	(571)	(373)
	<u>160</u>	<u>160</u>	<u>0</u>	<u>217</u>	<u>217</u>	<u>0</u>

⁽¹⁾ in the Council's revenue accounts

⁽²⁾ stock adjustment reflects re-valued stock. The Council's balance sheet only shows its share of the stock.

16. Audit Fees

The costs to the authority for external audit and inspection fees are:-

	2004/05 £'000	2003/04 £'000
Fees payable to RSM Robson Rhodes LLP, who are auditors of the council appointed by the Audit Commission, with regard to external audit services carried out	370	356
Fees payable to the Audit Commission, in respect of statutory inspection	91	106
Fees payable to RSM Robson Rhodes LLP, who are auditors of the council appointed by the Audit Commission, for the certification of grant claims and returns	211	190

17. Public Finance Initiative (PFI)

Following the submission of the Outline Business Case, the Council has obtained government approval to procure jointly with Enfield a PFI street lighting contract worth (for Barnet) £139m, over 25 years, targeted to start in March 2006. This will involve 6,000 items of street furniture and increasing the number of public lighting columns to around 30,000.

CONSOLIDATED BALANCE SHEET

This statement summarises the council's assets and liabilities as at 31st March 2005.

	Notes	31st March 2005		31st March 2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Operational assets					
Council dwellings		793,000		787,001	
Other land and buildings		377,694		413,320	
Vehicles, plant, furniture and equipment		12,877		5,066	
Infrastructure assets		46,094	1,229,665	37,629	1,243,016
Non-operational assets			24,680		3,674
	1		1,254,345		1,246,690
Intangible Assets	3		11,656		10,752
Long term debtors	4		11,086		11,590
Long term investments			11		11
Total long term assets			1,277,098		1,269,043
Current assets					
Stocks and works in progress	8	1,222		1,438	
Temporary investments		39,395		36,100	
Debtors	9	52,934		48,420	
Payments in advance		1,951		2,168	
Imprest accounts and school balances		10,273		10,133	
		105,775		98,259	
Current liabilities					
Creditors	9	(81,655)		(78,752)	
Borrowing repayable within 12 months		(130)		(27,209)	
Bank overdraft		(13,086)		(10,409)	
Provisions	10	(6,882)		(2,864)	
		(101,753)		(119,234)	
Net current assets			4,022		(20,975)
Long-term liabilities					
Long term borrowing	11		(28,500)		0
Deferred capital receipts	17		(1,800)		(2,306)
Liability related to defined benefit pension scheme	16		(268,610)		(192,958)
Total assets less liabilities			982,210		1,052,804
Financed by					
Fixed asset restatement account	**		780,760		801,949
Capital financing account	**		370,543		370,547
Government grants - deferred	17		48,616		36,398
Usable capital receipts			28,782		17,501
Pension reserve	16		(268,610)		(192,958)
Major Repairs Reserve			235		1,317
Specific reserves	**		1,036		1,145
Balances – general fund	12		16,035		11,750
Balances – collection fund	14		(984)		(1,864)
Balances – housing revenue account			5,797		7,019
Total equity			982,210		1,052,804

** Further details of reserves are shown in the statement of total movement in reserves

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Movement of fixed assets 2004/05

	Council Dwellings	Other Land & Buildings	Vehicle & Plant etc	Infra-structure	Non-operational	Totals
	£'000	£'000	£'000	£'000	£'000	£'000
Gross value at 31st March 2004	787,001	478,631	12,790	51,625	3,674	1,333,721
Accumulated Depreciation b/f	0	(65,311)	(7,724)	(13,996)	0	(87,031)
Net brought forward	787,001	413,320	5,066	37,629	3,674	1,246,690
Revaluations & adjustments to Restatement Account	(588)	(74,250)	6	0	0	(74,832)
Reclassifications	0	(18,275)	0	0	18,275	0
2004/05 expenditure	19,072	10,517	9,179	10,198	2,731	51,697
Disposals	(12,485)	(4,787)	(4,790)	0	0	(22,062)
Depreciation write back & prior year adjustments #	11,978	58,458	4,790	0	0	75,226
Depreciation for year	(11,978)	(7,289)	(1,374)	(1,733)	0	(22,374)
Net book value at 31st March 2005	793,000	377,694	12,877	46,094	24,680	1,254,345
Accumulated Depreciation c/f	0	(14,142)	(4,308)	(15,729)	0	(34,179)

The depreciation adjustments relates to entries that are needed to the depreciation account to make the net book value at 31st March 2005 agree to the valuation certificate and also to prior year depreciation on assets either written out of the accounts or disposed of in 2004/05.

2. Financing of capital expenditure

Below is the financing of the year's capital expenditure on fixed assets and deferred charges:

	£'000	£'000
Capital receipts	14,926	
MRA	9,483	
Contributions including Section 106 receipts	14,206	
Revenue contributions	2,561	
Borrowing	<u>20,099</u>	61,275
Less:- 2003/04 Expenditure financed in 2004/05		(1,024)
Plus:- 2004/05 Expenditure financed in 2005/06		<u>285</u>
		<u><u>60,536</u></u>

The money was spent on:

Barnet's fixed assets	51,697
Intangible assets (note 3)	<u>8,839</u>
	<u><u>60,536</u></u>

3. Intangible assets

Intangible assets (formerly deferred charges) cover expenditure that does not produce fixed assets but is capitalised according to Government regulations.

	Balance at 1 April 2004 £'000	Expenditure in year £'000	Written off to revenue in year £'000	Balance at 31 March 2005 £'000
Improvement grants	0	0	0	0
North London Business Park	3,504	9	(1,922)	1,591
Other	3,764	8,830	(5,635)	6,959
HRA - premium	3,484	0	(378)	3,106
	<u>10,752</u>	<u>8,839</u>	<u>(7,935)</u>	<u>11,656</u>

4. Long term debtors

This comprises loans to other organisations and to individuals. Principal debtors include Middlesex University (£6.26m), Magistrates and Probation services (£1.50m) and housing mortgages (£1.70m).

5. Assets Held

Below is a guide to the number of assets owned by the authority: -

Assets	31 st March 2005	31 st March 2004
Schools – nursery and primary	*	61
Schools – secondary and special	*	17
Schools – referral units	1	1
Youth service facilities	8	8
Other educational establishments	2	1
Libraries	16	17
Museums	2	2
Children's homes and hostels	2	2
Homes for elderly persons	0	1
Homes for people with learning disabilities	3	2
Adolescent Resource Centre	1	0
Children and family centres	5	6
Day centres for elderly persons	0	2
Day centres for the physically disabled	1	1
Day centres for the mentally ill	2	2
Council dwellings	11,201	11,379
Garages	2,651	2,758
Borough roads and footpaths (length in km)	696	696
Car parks	24	24
Memorials, etc	23	23
Parks and open spaces	174	174
Sports grounds	28	23
Golf courses	3	3
All weather playing areas	2	1
Athletics tracks	1	1
Swimming pools	3	4
Allotments (area in hectares)	94.90	94.90
Public offices	9	10
Other Buildings	4	3

* Excludes 41 voluntary aided schools, as the council does not own these.

6. Capital commitments

At 31st March 2005, the council was contractually committed to expenditure amounting to some £17.196m. The schemes are summarised across services as follows:-

	£'000
Educational services	5,207
Housing	11,277
Highways	31
Sports, leisure & culture	671
Social Affairs	10
Other Public Buildings	0
	<u>17,196</u>

7. Fixed asset valuation

The Council's chief valuer, D. L. Stephens MRICS values the authority's freehold property portfolio following the statements of asset valuation practice and the guidance notes of the Royal Institution of Chartered Surveyors. The values are updated as part of a rolling five-year programme.

Operational properties are at either open market value, for existing use, or the depreciated replacement cost where no market for the asset exists. Houses in the balance sheet are at a discounted value to take account of the properties being social housing. Non-operational assets and investment properties are priced on an open market basis. Valuations do not include equipment and infrastructure (e.g. roads) that are included at historic cost.

8. Stocks and works in progress

		2004/05 £'000	2003/04 £'000
Works in progress	- rechargeable works	64	92
	- public health acts	51	16
Stores	- housing stores	260	295
	- transport stores	46	111
	- road signs and equipment	80	92
	- social services aids for the disabled	515	614
	- on-site engineering and catering stocks	115	117
	- other	91	101
		<u>1,222</u>	<u>1,438</u>

Under a pooled budget agreement with Barnet PCT, ownership of the stock relating to community equipment stores passed to the council on 1 July 2003, but will be split and apportioned between the PCT and the council pro rata to their respective contributions in the event that this agreement be terminated.

9. Debtors and Creditors

The analysis of debtors and creditors at the year end is as follows:-

	2004/05 £'000	2003/04 £'000
Debtors		
Other local authorities	1,786	1,274
Government departments	21,166	17,917
Ratepayers and taxpayers	21,293	16,273
Tenants (including temporary accommodation)	7,152	6,050
Other public bodies	3,303	5,903
Utilities	301	174
Sundry debtors	22,810	21,473
	<u>77,811</u>	<u>69,064</u>
Less: Provision for bad debts	(24,877)	(20,644)
	<u>52,934</u>	<u>48,420</u>
Creditors		
Other local authorities	6,427	4,117
Government departments	9,825	11,138
Precepting authorities	0	0
Ratepayers and taxpayers	5,963	7,213
Other public bodies	1,432	1,944
Utilities	65	113
Sundry creditors	51,934	49,625
Receipts in advance	6,009	4,602
	<u>81,655</u>	<u>78,752</u>

10. Provisions

Provisions are amounts set aside to meet future liabilities where the amount or timing is uncertain.

	Balance 01/04/2004 £'000	Contributions £'000	Expenditure/ Reductions £'000	Balance 31/03/2005 £'000
Planning Costs	(101)	(31)	54	(78)
Grants to Voluntary Sector	(85)	(39)	64	(60)
Insurance	(1,811)	(3,583)	0	(5,394)
NDR tax credit	(785)	0	785	0
Other provisions	(82)	(1,333)	65	(1,350)
	<u>(2,864)</u>	<u>(4,986)</u>	<u>968</u>	<u>(6,882)</u>

- i. The planning provision is for compensation claims for current cases.
- ii. The grants provision is for delayed draw down of approved grants to the voluntary sector.
- iii. The insurance provision is for liabilities that have occurred but the timing of the payment is dependent upon the claim settlement process. This is to meet in the year insurance claim payments which fall within the excess and aggregate limits of external insurance cover. The provision should receive input to meet 100% of its ultimate liabilities and Barnet will phase this in over future years. Further information on this provision and its future requirements are set out in the Statement of Accounting Policies.
- iv. Included in other provisions are the potential legal and investigative costs relating to the inquiry into the sale of the Underhill football ground.

11. Long term borrowing

	2004/05 £'000	2003/04 £'000
Lenders		
Public Works Loan Board	19,000	0
Other	9,500	0
	<u>28,500</u>	<u>0</u>
Maturing within more than 1 and up to 2 years	0	0
Maturing within more than 2 and up to 5 years	8,500	0
Maturing within more than 5 and up to 10 years	4,000	0
Maturing over 10 years	16,000	0
	<u>28,500</u>	<u>0</u>

12. Revenue balances

	2004/05 £'000	2003/04 £'000
General fund		
- general surplus (i)	5,005	931
- earmarked school balances (ii)	11,030	10,819
	<u>16,035</u>	<u>11,750</u>

- i. The general surplus is the authority's buffer against unpredictable events that are too large to be met from reductions in current budgeted expenditure. It is also a working balance covering delay between paying bills and receiving income. Interest earned on the balance goes to the general fund.
- ii. In the general fund are locally managed schools' balances. Schools may carry balances, surplus or deficit, forward to subsequent years.

13. Trust funds

The authority is trustee of two charitable trusts. Only one is significant, the Avenue House bequest. This is managed and administered by the Avenue House Estate Management Charity (AHM). AHM are a charity in their own right totally independent of Barnet as such no balances or transactions of the trust appear in Barnet's accounts.

The council does hold small sums for two children in the authority's guardianship and for the New College of Speech and Drama charity.

14. Collection fund balances

The council has to record transactions for council tax, business rates and residual community charge in the collection fund account. The balance will be paid to or recovered from the council and its preceptor in future years.

	2004/05 £'000	2003/04 £'000
Barnet	201	(1,491)
Greater London Authority	783	(373)
	<u>984</u>	<u>(1,864)</u>

15. Analysis of net assets employed

	2004/05 £'000	2003/04 £'000
General Fund	171,343	379,598
Housing Revenue Account	810,867	673,206
	<u>982,210</u>	<u>1,052,804</u>

16. Pension Fund

Note 11 to the Consolidated Revenue Account contains details of the authority's participation in pension schemes. The Pension Fund accounts also provide further information.

The underlying assets and liabilities for retirement benefits attributable to the authority were: -

	2004/05 £000	2003/04 £000
Estimated liabilities in scheme	(573,970)	(484,986)
Estimated assets in scheme	305,360	292,028
Net asset/(liability)	<u>(268,610)</u>	<u>(192,958)</u>

The liabilities show the underlying commitments that the authority has, in the long-run, to pay retirement benefits. The total liability of £268.610m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a negative overall balance. Statutory arrangements for funding the deficit mean that the financial position of the authority remains unaffected by this. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme. From 2004/05 the discount rate for defined benefit pension scheme liabilities has been changed from a rate given by the Government Actuaries Department to the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities. This is often referred to as AA Corporate Bond Rate. This is the major reason for the sharp increase scheme liabilities in the year.

Liabilities have been assessed on an actuarial basis in accordance with Financial Reporting Standard 17 and appropriate guidance issued by the Institute and the Faculty of Actuaries. The figures have been prepared by Hymans Robertson LLP, an independent firm of actuaries using the latest formal valuation of Barnet's Pension Fund that was as at 31st March 2005. The main assumptions used in the calculations have been: -

	2004/05 %	2003/04 %
Rate of inflation	2.90	2.90
Salary increases (NB based on 1.5% real)	4.40	4.65
Pension increases	2.90	2.90
Rate for discounting scheme liabilities (NB based on 2.4% real)	5.40	6.50

Assets in the funds are valued at fair value, principally market value for investments and consist of the following categories, by percentage of the total assets held by the fund: -

	Long-term return %	2004/05 %	2003/04 %
Equities	7.70	67.50	68.10
Property	4.80	17.10	14.60
Bonds	5.70	9.90	9.80
Cash	4.80	5.50	7.50

17. Deferred Credits

Deferred capital receipts reflect mortgage loans given to council tenants to purchase council dwellings. The amounts are written down by the annual repayments which are then transferred to usable capital receipts.

Government grants deferred includes capital grants and any other external capital contributions (including Section 106 planning gain monies, gifts, bequests etc) that are credited to the balance sheet and amortised to revenue over the life of the relevant asset to offset charges for depreciation.

18. Post Balance Sheet Events

There are no post balance sheet events.

19. Contingent Liabilities

The combined total of claims against the council that have been received by the council's insurance team could, in extremis, expose the authority to liability greater than is shown in the balance sheet. The likelihood of the liability fully materialising in any one year is remote. Further details of the council's future plans to cover this potential liability, in line with accounting regulations, are shown in note 12 to the statement of accounting policies.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

This statement brings together all the recognised gains and losses of the authority during 2004/05 and shows those which have not otherwise been identified in the Consolidated Revenue Account. The statement separates revenue and capital.

	Notes	2004/05 £'000	2003/04 £'000
Surplus / (deficit) for year			
- General Fund		4,285	(701)
- Housing Revenue Account		(1,222)	295
- Collection Fund		880	(1,901)
Add back movements on earmarked revenue reserves	6	(109)	(2,687)
Deduct appropriations from pension reserve		(9,110)	(10,633)
Actuarial gains and losses relating to pensions		(67,290)	10,660
Total increase / (decrease) in revenue resources	1	(72,566)	(4,967)
Increase / (decrease) in useable capital receipts		9,683	2,683
Increase / (decrease) in unapplied capital grants & contributions		1,598	2,104
Total increase / (decrease) in realised capital resources	2	11,281	4,787
Gains / (losses) on revaluation of fixed assets		873	(107,183)
Impairment losses on fixed assets due to general changes in prices		0	0
Total increase / (decrease) in unrealised value of fixed assets	3a	873	(107,183)
Value of assets sold, disposed of or decommissioned	3b	(22,062)	(19,486)
Capital receipts set aside	4a	0	31,835
Revenue resources set aside	4b	(17,286)	(28,867)
Movement relating to Government Grants Deferred	4c	15,462	14,772
Movement on Major Repairs Reserve		(1,082)	(791)
Total increase / (decrease) in amounts set aside to finance capital investment		(2,906)	16,949
Total recognised gains and losses		(85,380)	(109,900)

The notes below give further detail on the movements summarised above.

NOTES TO STATEMENT OF TOTAL MOVEMENT IN RESERVES

1. Movements in revenue resources

This shows the movements on all the council's revenue accounts. See also note 5 below.

	General Fund £'000	HRA £'000	Revenue Reserves £'000	Collection Fund £'000	Pension Reserve £'000
Surplus / (Deficit) for 2004/05	4,285	(1,222)	0	880	0
Appropriations to / (from) revenue	0	0	(109)	0	(9,110)
Actuarial gain and losses relating to pensions	0	0	0	0	(67,290)
1) Movement on Revenue Resources	4,285	(1,222)	(109)	880	(76,400)
Balance brought forward at 1 April 2004	11,750	7,019	3,832	(1,864)	10,660
Balance carried forward at 31 March 2005	16,035	5,797	3,723	(984)	(65,740)

2. Movements in realised capital resources

This identifies capital receipts and grants received in the year.

Useable capital receipts represent the proportion of income from the sale of fixed assets that can, under government legislation, be used to fund capital expenditure.

Unapplied capital grants and contributions arise from receipts of government grants and contributions by individuals to fund capital projects.

	Useable capital receipts £'000	Unapplied capital grants & Contributions £'000	Total £'000
Amounts receivable in 2004/05	24,609	5,620	30,229
Amounts applied to finance new capital investment in 2004/05	(14,926)	(4,022)	(18,948)
2) Total increase / (decrease) in realised capital resources in 2004/05	9,683	1,598	11,281
Balance brought forward at 1 April 2004	11,473	6,028	17,501
Balance carried forward at 31 March 2005	21,156	7,626	28,782

3. Fixed Asset Restatement Account - movement in unrealised value of fixed assets (3a) and value of assets disposed or decommissioned (3b)

The account represents the difference between the cost of fixed assets and their latest valuation. The account is constantly updated for disposals, new valuations and that expenditure which, although capitalised under current legislation, does not affect fixed asset values but increases their useful lives.

	Fixed Asset Restatement Account £'000
<u>Movement in unrealised value of fixed assets :-</u>	
Gains / (losses) on revaluation of fixed assets in 2004/05	(74,832)
Write back of depreciation	75,226
Adjustments	479
Impairment losses on fixed assets due to general changes in prices in 2004/05	0
3a) Total Increase /(decrease) in unrealised capital resources 2004/05	873
3b) Amounts written off fixed asset balance sheet for disposals or decommissioning in 2004/05	(22,062)
Total movement on account in 2004/05	(21,189)
Balance brought forward at 1 April 2004	801,949
Balance carried forward at 31 March 2005	<u>780,760</u>

4. Movements in amounts set aside to finance capital investment (Notes 4a, 4b and 4c)

The Capital Financing Account shows resources both capital and revenue that have been used to finance capital expenditure. Also included are appropriations to the revenue account where the minimum revenue provision (MRP) for debt repayment is exceeded by the asset charges to the service revenue accounts.

The Government Grants Deferred Account represents grants and contributions received to fund capital expenditure. These are released to revenue to offset depreciation in respect of the fixed assets to which they relate. The account also includes planning agreement monies (S106).

	Capital Financing Account £'000	Government Grants Deferred £'000	Total £'000
Capital Receipts set aside in 2004/05 :-			
- reserved receipts	0	0	0
- useable receipts applied	0	0	0
4a) Total capital receipts set aside in 2004/05	0	0	0
Revenue resources set aside in 2004/05 :-			
- Capital expenditure financed from revenue	2,561	14,038	16,599
- Financing of General Fund premium	0	0	0
Net contribution from revenue	2,561	14,038	16,599
- Intangible Assets	(7,935)	0	(7,935)
- MRP adjustment including	(8,948)	0	(8,948)
HRA MRP	0	0	0
Major Repairs Reserve Applied	9,483	0	9,483
HRA MRA / depreciation	(12,447)	0	(12,447)
HRA MRA - capital expenditure charged to reserve	0	0	0
4b) Total revenue resources set aside in 2004/05	(17,286)	14,038	(3,248)
Grants applied to capital investment in 2004/05	15,462	0	15,462
Adjustments	0	0	0
Amounts credited to Asset Management Account in 2004/05	1,820	(1,820)	0
4c) Movements on government grants deferred account	17,282	(1,820)	15,462
Total increase / (decrease) in amounts set aside to finance capital investment	(4)	12,218	12,214
Balance brought forward at 1 April 2004	370,547	36,398	406,945
Balance carried Forward at 31 March 2005	370,543	48,616	419,159

5. Pension Fund Reserves

The actuarial gains identified as movements on the pensions reserve in 2004/05 may be analysed into the following categories, measured as an absolute amounts and as a percentage of liabilities as at 31 March 2005.

	Barnet's Pension Scheme	
	£000	%
Differences between the expected and actual return on assets	6,070	2.0
Differences between actuarial assumptions about liabilities and actual experience	9,520	1.7
Changes in the demographic and financial assumptions used to estimate liabilities	<u>(82,880)</u>	
	<u><u>(67,290)</u></u>	11.7

6. Specific Reserves

The movements in revenue reserves in the year were:

	Balance 1/4/04	To Reserves	From Reserves	Balance 31/3/05
	£'000	£'000	£'000	£'000
Reserves for capital projects	(243)	(222)	312	(153)
Donations	(268)	(58)	121	(205)
Lottery fund	(142)	0	12	(130)
Parking account	(19)	(4,843)	4,850	(12)
Project reserves	(28)	0	28	0
Section 106	(178)	(95)	88	(185)
Other	(267)	(236)	152	(351)
	<u>(1,145)</u>	<u>(5,454)</u>	<u>5,563</u>	<u>(1,036)</u>

Apart from the housing revenue account, which is solely for housing, the Local Government Act 1988 only allows the authority one revenue account, its general fund. For good financial management however, it is desirable to earmark specific reserves within the fund:

- i. The general fund (GF) reserve for capital projects is available for any expenditure of a capital nature. Under regulations only revenue contributions and repayments of advances may be made to this reserve.
- ii. Donations comprise money given to the council for specific schemes for the benefit of the community.
- iii. Remaining undistributed balances of the lottery that the council used to run. The Cabinet Resources Committee of the council controls distribution.
- iv. By law the authority must maintain a ring fenced parking account. This holds income from street parking charges. The money must initially be spent to improve parking facilities but money in excess of those requirements may be used for certain highways projects.
- v. The general reserve for future projects has now been fully utilised.
- vi. Section 106 is the revenue element of money received from planning gains. The capital element is held within capital receipts.
- vii. Other reserves include amounts held to meet uncommitted potential future costs.

CASHFLOW STATEMENT

This consolidated statement summarises the movement between the authority and third parties, both for capital and revenue purposes.

	2004/05		2003/04	
	£'000	£'000	£'000	£'000
REVENUE ACTIVITIES				
Cash Outflows				
Cash paid to and for employees	264,373		259,760	
Other operating costs	345,929		249,915	
Housing benefits	110,037		80,533	
Non-domestic rate pool	63,604		72,664	
Collection fund precept payments	<u>32,578</u>	816,521	<u>30,315</u>	693,187
Cash Inflows				
Council tax etc. receipts	(160,872)		(130,873)	
NNDR receipt from national pool	(89,499)		(92,301)	
Non-domestic rate receipts	(70,981)		(68,490)	
Revenue support grant	(135,069)		(123,489)	
Rents	(39,330)		(14,333)	
DSS Rebate grants	(114,478)		(92,838)	
Other Government grants	(73,998)		(92,076)	
Cash received for goods and services (see note 1)	<u>(143,863)</u>	<u>(828,090)</u>	<u>(85,963)</u>	<u>(700,363)</u>
		(11,569)		(7,176)
SERVICING OF FINANCE				
Cash Outflows				
Interest paid	238		2,948	
Premium (see note 7)	0		11,325	
Cash Inflows				
Interest received	<u>(416)</u>	<u>(178)</u>	<u>(2,435)</u>	11,838
CAPITAL ACTIVITIES				
Cash Outflows				
Purchase of fixed assets	52,436		33,764	
Deferred charges and long term debtors	8,839		17,440	
	<u>61,275</u>		<u>51,204</u>	
Cash Inflows				
Sale of fixed assets	(24,610)		(34,001)	
Capital grants received	(8,841)		(8,859)	
Other cash income	<u>(15,415)</u>		<u>(15,349)</u>	
	<u>(48,866)</u>	12,409	<u>(58,209)</u>	<u>(7,005)</u>
Net cash inflow before financing		662		(2,343)
MANAGEMENT OF LIQUID RESOURCES				
Net (increase)/decrease in short term deposits		3,295		(3,600)
FINANCING				
Cash Outflows				
Repayment of long term borrowing	0		30,000	
Repayment of short term loans	<u>0</u>	0	<u>0</u>	30,000
Cash Inflows				
New short term loans	27,079		(18,069)	
New long term loans	(28,500)			
Long term investment	0	(1,421)	0	(18,069)
(INCREASE) / DECREASE IN CASH AND CASH EQUIVALENTS (SEE NOTE 3)		<u>2,536</u>		<u>5,988</u>

NOTES TO THE CASHFLOW STATEMENT

1. Revenue Reconciliation

	2004/05		2003/04	
	£'000	£'000	£'000	£'000
(Surplus) / deficit for the year:				
- General fund	(4,285)		701	
- Housing revenue account	1,222		(295)	
	(3,063)		406	
- Collection fund	(880)	(3,943)	1,901	2,307
Minimum revenue provision and capital expenditure funded by revenue activities	(3,854)		(5,625)	
Contributions to / (from) reserves and provisions	(3,883)		1,535	
Capital creditors	(741)	(8,478)	350	(3,740)
Interest paid	(238)		(2,948)	
Interest received	416	178	2,435	(513)
(Increase) / decrease in creditors	(2,903)		(16,922)	
Increase / (decrease) in payments in advance	(217)		(171)	
Increase in stock and works in progress	(216)		449	
Increase / (decrease) in debtors	4,010	674	11,414	(5,230)
	<u>(11,569)</u>		<u>(7,176)</u>	

2. Movements in liquid resources

	Balance		Balance	
	Sheet	2004/05	Sheet	2003/04
	31/3/05	Movement	31/3/04	Movement
	£'000	£'000	£'000	£'000
Temporary investments	39,395	3,295	36,100	(3,600)

There has been no change in the council's policy on temporary investments that are managed in-house.

3. Movements in cash and cash equivalents

	Balance		Balance	
	Sheet	2004/05	Sheet	2003/04
	31/03/05	Movement	31/03/04	Movement
	£'000	£'000	£'000	£'000
Imprest accounts	10,273	140	10,133	(596)
Cash overdrawn	(13,086)	(2,676)	(10,410)	(5,392)
Total	<u>(2,813)</u>	<u>(2,536)</u>	<u>(277)</u>	<u>(5,988)</u>

4. Reconciliation of net cashflow to movement in net debt

	2004/05	2003/04
Movement in net debt	£'000	£'000
Movement of cash in year	(2,536)	(5,988)
Cash outflow from long term borrowing	28,500	30,000
Short term borrowing cashflow	27,079	(18,069)
Movement in net debt in year	53,043	5,943
Opening net debt	(27,486)	(33,428)
	<u>25,557</u>	<u>(27,485)</u>
	Balance Sheet	Balance Sheet
	2004/05	2003/04
Analysis of net debt	£'000	£'000
Temporary borrowing	(130)	(27,209)
Long term borrowing	28,500	0
Imprests	10,273	10,133
Cash	(13,086)	(10,409)
	<u>25,557</u>	<u>(27,485)</u>

5. Other Government Grants

	2004/05	2003/04
	£'000	£'000
Mandatory student awards	89	837
Education	43,376	50,309
Community care and other social services	23,473	14,443
Asylum Seekers	2,997	6,161
Council tax benefits administration	2,442	2,474
Housing subsidy (excluding MRA)	0	16,771
Other	1,621	1,081
	<u>73,998</u>	<u>92,076</u>

6. Capital expenditure and income

Capital expenditure appears higher in the cashflow notes than in the notes to the balance sheet as gross expenditure relating to long term debtors is shown gross of grant income due whereas in the balance sheet notes expenditure is shown net of grant.

HOUSING REVENUE ACCOUNT

This account records the transactions relating to the council's housing stock. The Local Government and Housing Act 1989 requires its separation. This gives a clear picture of the cost of providing homes for council tenants. Housing Revenue Account income and expenditure does not affect the amount of council tax levied.

	Note	2004/05		2003/04	
		£'000	£'000	£'000	£'000
Income					
Rents (gross) – dwellings		(37,970)		(37,016)	
- garages		(653)		(649)	
- other		(660)	(39,283)	(665)	(38,330)
Charges for services and facilities			(5,653)		(5,263)
Reduction in Provision for Bad Debt			(144)		0
HRA subsidy receivable	5		0		(16,587)
Total Income			<u>(45,080)</u>		<u>(60,180)</u>
Expenditure					
Repairs and maintenance			8,279		7,869
Supervision and management			20,535		17,329
Rents, rates, taxes etc.			154		102
Rent rebates			564		23,289
Cost of Capital Charge	8		28,666		28,381
Cash Incentives			725		909
Depreciation	10		12,447		12,614
Debt Management Expenses			48		41
Provision for bad debts			0		173
HRA Subsidy payable	5		7,489		0
Total Expenditure			<u>78,907</u>		<u>90,707</u>
Net Cost of Services			33,827		30,527
Asset Management Revenue account					
Balance	9		(28,902)		(27,881)
Interest on mortgages		(108)		(213)	
Interest on balances		(204)	(312)	(385)	(598)
Net Operating (Income)/Expenditure			4,613		2,048
HRA Contribution to MRP			0		315
Capital expenditure financed from Revenue	6		718		1,091
Transfer to/(from) Major Repairs Reserve			(4,109)		(3,772)
Movement on the pension reserve			0		204
Contribution to/(from) reserves			0		(181)
(Surplus)/deficit for the year			<u>1,222</u>		<u>(295)</u>
Revenue Balances					
Balances at the beginning of the year			(7,019)		(6,724)
Prior Year Adjustment			0		0
(Surplus)/deficit for the year			1,222		(295)
Balance at the year end			<u>(5,797)</u>		<u>(7,019)</u>
Major Repairs Reserve					
Balance at beginning of year			(1,317)		(2,108)
(Surplus)/deficit for the year	4		1,082		791
Balance at the year end			<u>(235)</u>		<u>(1,317)</u>

HOUSING REVENUE ACCOUNT NOTES

1. Dwelling Stock

The authority's dwelling stock comprised, at 31st March

	2005	2004
Houses/Bungalows	3,785	3,864
Flats/Maisonettes	7,329	7,434
Hostels/Bed sits	87	81
	11,201	11,379

2. Arrears

Arrears owed to the HRA at the year end:

	2004/05		2003/04	
	£'000	£'000	£'000	£'000
Leaseholder service charges	1,911		2,310	
less bad debt provision	(668)	1,243	(832)	1,478
Housing rents	2,821		2,415	
less bad debt provision	(1,226)	1,595	(1,040)	1,375
Commercial rents	53		151	
less bad debt provision	(6)	47	(24)	127
Net arrears position at 31 st March		2,885		2,980

3. Balance Sheet Value of HRA Assets

	Dwellings	Land and Buildings	Totals
	£'000	£'000	£'000
Balance Sheet Value at 1st April 2004	787,001	21,237	808,238
Balance Sheet Value at 31st March 2005	793,000	20,653	813,653

The vacant possession value of dwellings within the HRA at 31st March 2005 is £1,688m. The difference between this value and the balance sheet value represents the economic cost of providing council housing.

4. Major Repairs Reserve

The major repairs allowance was introduced in 2001/02. It represents the estimated long-term average amount of capital spending required to maintain the housing stock in its current condition.

Direction 7(5) of the HRA (Accounting Practices) Directions 2000 requires authorities to disclose in the HRA accounts a note setting out an analysis of movements in the Major Repairs Reserve.

	2004/05	2003/04
	£'000	£'000
Opening Balance as at 1 st April	(1,317)	(2,108)
Capital expenditure charged to reserve (dwellings)	9,483	9,765
Depreciation		
- dwellings (MRA)	(11,978)	(12,171)
- non-dwellings	(428)	(443)
Transfer to Housing Revenue Account		
- dwellings (MRA)	3,681	3,329
- non-dwellings	428	443
Interest on Balances	(104)	(132)
Closing Balance as at 31 st March	(235)	(1,317)

5. HRA Subsidy

The HRA subsidy relating to the authority was as follows:

	2004/05	2003/04
	£'000	£'000
Management and maintenance	17,792	17,704
Major repairs allowance	8,297	8,842
ALMO Allowance	169	0
Admissable Allowance	150	0
ASB Allowance	1	0
Charges for capital	2,513	3,564
Other items of reckonable expenditure	57	57
Tenant participation compact	0	0
Resource accounting	0	0
Interest on receipts	(210)	(256)
Rent rebate	0	22,096
Rent	(36,531)	(35,393)
Total for year	(7,762)	16,614
Prior year adjustments	273	(27)
Total Receivable/(Payable)	(7,489)	16,587

6. HRA Capital Expenditure

The analysis of HRA capital expenditure and financing was as follows:-

	2004/05	2003/04
	£'000	£'000
<u>Expenditure</u>		
Land	0	0
Houses	18,758	10,856
Other property	314	5
Total	19,072	10,861

	2004/05	2003/04
	£'000	£'000
<u>Financing</u>		
Credit approvals	6,678	0
Useable capital receipts	2,911	5
Revenue contributions	0	1,091
Major repairs reserve	9,483	9,765
Total	19,072	10,861

7. Capital Receipts from Disposals

Capital receipts from disposals within the authority's HRA were as follows:-

	2004/05	2003/04
	£'000	£'000
Land	296	42
Houses	18,249	23,784
Paid over to pool	(3,218)	0
Total	15,327	23,826

8. Cost of Capital Charges

The cost of capital charge represents a notional interest charged to the HRA for the use of its operational assets. This is calculated as 3.5% of the value of HRA operational assets for the use of those assets.

9. Capital Asset Charges Accounting Adjustment

The capital asset charges accounting adjustment represents the difference between the cost of capital charge and the HRA interest costs as calculated in accordance with the Item 8 Debit (General) Determination.

10. Depreciation Charge

The total charge for depreciation within the HRA is:-

	2004/05	2003/04
	£'000	£'000
Land	0	0
Houses	11,978	12,171
Other property	469	443
Total depreciation charged	12,447	12,614

The housing stock was revalued during 2004/05 which resulted in a depreciation charge of £11,978,000.

11. ALMO – Barnet Homes

With effect from 1 April 2004, the management of all the housing stock of the council was transferred to Barnet Homes, an Arms Length Management Organisation (ALMO) wholly owned by the authority.

12. Pensions

For FRS17 purposes in 2003/04, the HRA has been treated in the same manner as all other service departments of the authority. Changes to the HRA service costs have been matched by an appropriation to the pension reserve in line with FRS 17 requirements. This means there is no effect on the net outturn of the account.

Due to the changes outlined in paragraph 11, no such entries have been required in 2004/05.

THE COLLECTION FUND

The collection fund is a statutory fund, separate from all other council funds. It accounts for council tax and non-domestic rates to Barnet and the Greater London Authority, the two bodies for whom the income has been raised.

INCOME AND DISBURSEMENT ACCOUNT 2004/05

	Note	2004/05		2003/04	
		£'000	£'000	£'000	£'000
Income					
Council Tax	1		143,203		133,349
Council Tax Benefits			21,241		18,260
Collectable business rates	2		<u>73,556</u>		<u>66,801</u>
			<u>238,000</u>		<u>218,410</u>
Disbursement					
Precepts:					
- London Borough of Barnet		131,273		122,498	
- Greater London Authority		<u>32,578</u>	163,851	<u>30,201</u>	152,699
Estimated surplus on collection fund:	3				
- London Borough of Barnet		(947)		0	
- Greater London Authority		<u>(233)</u>	(1,180)	<u>0</u>	0
National Non-Domestic Rates					
- Payment to national pool		73,121		66,370	
- Cost of collection allowance		435	<u>73,556</u>	431	<u>66,801</u>
Total disbursed			<u>236,227</u>		<u>219,500</u>
Provision for non-payment on council tax	4		893		811
Fund surplus / (deficit) for year			<u>880</u>		<u>(1,901)</u>
			<u>238,000</u>		<u>218,410</u>
Fund balance brought forward			(1,864)		37
Fund surplus / (deficit) for year			<u>880</u>		<u>(1,901)</u>
Fund balance carried forward			<u>(984)</u>		<u>(1,864)</u>

NOTES TO THE COLLECTION FUND

1. Council Tax

Council tax is charged according to the Government's valuation of residential properties as at 1st April 1991, classified into eight bands for this purpose. Individual charges are calculated by estimating the total amount of income required by the collection fund's two preceptors and dividing this by the council tax base. The tax base is the total number of chargeable properties in all valuation bands converted to an equivalent number of band D dwellings, with an allowance made for discounts and exemptions. The amount of council tax required from a property in any tax band is the band D charge (£1,213.76 for 2004/05) multiplied by the ratio specified for that band. The figures at the time of tax base calculation for the bands A to H were:

A	0.67	864
B	0.78	5,314
C	0.89	18,602
D	1.00	24,304
E	1.22	31,300
F	1.44	24,322
G	1.67	23,342
H	2.00	6,648
MOD contribution		299
Tax Base		<u>134,995</u>

2. National non-domestic rates

Barnet collects national non-domestic rates (NNDR) from local businesses and organisations and pays them into the Government's central NNDR pool. The Government's national uniform rate, 45.6p in 2004/05 (44.4p in 2003/04) multiplied by the property's rateable value determine the amount charged. The aggregate business valuation for the borough at 31st March 2005 was £190.5m (£190.5m 31/3/2004).

The amount paid to the central NNDR pool is redistributed to local authorities, including Barnet, in line with their population. Barnet's share equalled a standard amount per head of population for Outer London (£279.35) multiplied by 320,384 (Barnet's population) which gave £89.499m. This was paid directly into the general fund.

3. Collection fund surplus and deficit

The preceptors share council tax surpluses and deficits. In 2003/4 no surplus or deficit was estimated whilst for 2004/5 an anticipated deficit of £1.181m was charged to preceptors.

4. Council Tax Written Off

Where persons have absconded owing Council tax and, over several years, the money has proved irrecoverable, the arrears are prudently written out of the accounts to give a true picture of income it is reasonable to expect to receive. The arrears are still pursued.

GROUP ACCOUNTS – REVENUE ACCOUNT

This shows the consolidated income and expenditure for the council and its subsidiary company on its day-to-day activities.

	2004/05 Consolidated Net Expenditure/(Net Income) £'000	2003/04 Net Expenditure £'000
On its services the Council spent:-		
Central services to the public	18,275	9,128
Cultural, environmental & planning services	48,695	44,660
Education services	183,792	175,006
Highways, roads & transport services	18,658	17,602
Housing services	39,197	50,361
Social services	101,793	95,336
Corporate & democratic core	3,770	6,293
Non distributed costs	5,281	5,925
NET COST OF SERVICES	419,461	404,311
Levies	1,896	3,682
Trading undertakings	897	(148)
Asset management revenue account	(54,417)	(42,750)
Premium on Debt Redemption	0	7,841
Interest receivable	(1,682)	(2,057)
Pension interest cost & expected return on Pension Assets	8,200	8,986
NET OPERATING EXPENDITURE	374,355	379,865
HRA contribution to/(from) balances	(1,222)	295
Contribution from earmarked reserves	(109)	(2,687)
Redistribution of LRB balances	(6)	(148)
Contribution (from) / to capital financing reserves for		
- net contribution to revenue / repayment premium	0	(3,782)
- Deferred Grant	6,289	2,086
- adjustment for MRP	(8,948)	(11,369)
- deferred charges	0	(11,181)
HRA Major Repairs Reserve	(4,109)	(3,772)
Minimum revenue provision HRA	0	315
Contribution from the pension reserve	(12,670)	(10,633)
AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXES	353,580	338,989
Revenue support grant	(135,070)	(123,489)
Contribution from non-domestic rate pool	(89,499)	(92,301)
Demand on collection fund	(131,273)	(122,498)
Transfer of collection fund deficit	947	0
SURPLUS FOR THE YEAR	(1,315)	701

GROUP ACCOUNTS – BALANCES

	2004/05	2003/04
	£'000	£'000
Balance at beginning of year	11,750	12,451
Planned contribution to balances	3,000	0
Surplus / (Deficit) for the year	1,315	(701)
	<u>16,065</u>	<u>11,750</u>
of which:-		
General Fund	5,035	971
School Balances	11,030	10,819
	<u>16,065</u>	<u>11,790</u>

GROUP ACCOUNTS – BALANCE SHEET

This statement summarises the groups assets and liabilities as at 31st March 2005.

	31st March 2005		31st March 2004	
	£'000	£'000	£'000	£'000
Fixed assets				
Operational assets				
Council dwellings	793,000		787,001	
Other land and buildings	377,694		413,320	
Vehicles, plant, furniture and equipment	13,109		5,066	
Infrastructure assets	<u>46,094</u>	1,229,897	<u>37,629</u>	1,243,016
Investment property		<u>24,680</u>		<u>3,674</u>
		1,254,577		1,246,690
Intangible Assets		11,656		10,752
Long term debtors		10,586		11,590
Long term investments		<u>11</u>		<u>11</u>
Total long term assets		<u>1,276,830</u>		<u>1,269,043</u>
Current assets				
Stocks and works in progress	1,222		1,438	
Temporary investments	39,395		36,100	
Debtors	50,286		48,420	
Payments in advance	1,951		2,168	
Imprest accounts and school balances	<u>10,273</u>		<u>10,133</u>	
		<u>103,127</u>		<u>98,259</u>
Current liabilities				
Creditors	(80,776)		(78,752)	
Borrowing repayable within 12 months	(130)		(27,209)	
Bank overdraft	(11,019)		(10,409)	
Provisions	<u>(6,882)</u>		<u>(2,864)</u>	
		<u>(98,807)</u>		<u>(119,234)</u>
Net current assets		4,320		(20,975)
Long-term liabilities				
Long term borrowing		(28,500)		0
Deferred capital receipts		(1,800)		(2,306)
Liability related to defined benefit pension scheme		(268,610)		(192,958)
Total assets less liabilities		<u>982,240</u>		<u>1,052,804</u>
Financed by				
Fixed asset restatement reserve		780,760		801,949
Capital financing reserve		370,543		370,547
Government grants - deferred		48,616		36,398
Usable capital receipts		28,782		17,501
Pension reserve		(268,610)		(192,958)
Major Repairs Reserve		235		1,317
Specific reserves		1,036		1,145
Balances – general fund		16,065		11,750
Balances – collection fund		(984)		(1,864)
Balances – housing revenue account		<u>5,797</u>		<u>7,019</u>
Total equity		<u>982,240</u>		<u>1,052,804</u>

NOTES TO THE GROUP ACCOUNTS

1. Introduction

The Authority has only one subsidiary company which it has full control and influence over. The primary aim in establishing this company is to remove it from public sector borrowing controls and to allow greater commercial freedom.

The Accounting Code of Practice requires that where an authority has material interests in one or more subsidiary and associated company, it should prepare a group revenue account and balance sheet. The aim of consolidation is to give an overall picture of the Authority's financial activities and resources employed in carrying out those activities. Following the establishment of Barnet Homes Ltd in April 2004, the Authority now has an interest in it as a subsidiary of the Council which is considered material, and thus group accounts have been prepared.

2. Basis of consolidation

The group revenue account and balance sheet have been prepared by consolidating the accounts of the subsidiary on a line-by-line basis. It should be noted that the accounts of the group company has been prepared under similar accounting policies to the Authority. However, some accounting policies of Barnet Homes Ltd may differ in some respects from the Authority's due to legislative requirements. Any material differences are noted in the notes to the Consolidated Accounts.

3. Arms Length Management Organisation for Housing – Barnet Homes Ltd (Companies House Registration: 4948659)

i) Nature of the business:

Barnet Homes Ltd was created by Barnet Council to manage and improve its council homes and estates. It is a non-profit making company.

Barnet Homes Ltd took over responsibility for managing approximately 11,000 council homes in Barnet from the 1st April 2004. It also took responsibility for almost 400 staff from the Council's Housing Services Department.

Barnet Homes Ltd is managed by a board of 15 members made up of five council nominees, four tenants, one lease holder and five independent with professional skills and experience to help run the services. Board members are volunteers and only receive out of pocket expenses.

ii) Relationship with the Authority:

Under the SORP it is a wholly owned subsidiary of Barnet Council and is therefore required to consolidate the financial statements into the group financial statements on a 100% basis. As the Council holds all the share capital it is required to contribute £2 if the company is wound up.

iii) Financial Performance:

In 2004/5 the Company made an operating surplus of £30,111.

On the 31st March 2005 it had net fixed assets after depreciation of £232,242.

iv) Transactions and services with the company:

The Authority paid the Company £14.523m for the provision of Housing and Environmental support.

The Authority provides the following services for the Company:–

The premises at Barnet House is subject to lease from the Authority and is charged as part of the management charge to Barnet Homes Ltd.

The Authority also provides various support services to Barnet Homes Ltd for which charges are made under service level agreements.

v) Accounts:

The financial accounts of Barnet Homes Ltd can be obtained from the Head of Financial Services of Barnet Homes Ltd, 9th Floor, Barnet House, 1255 High Street, Whetstone, London N20 0EJ.

PENSION FUND

Administered under the Local Government Superannuation and Pension Fund Acts

FUND ACCOUNT

	Notes	2004/05		2003/04	
		£'000	£'000	£'000	£'000
Contributions and Similar Payments					
Contributions receivable					
– from employees	5	8,029		7,760	
– from employers	5	22,122		18,744	
Transfers in		<u>7,999</u>	38,150	<u>4,642</u>	31,146
Benefits and Similar Payments					
Pensions payable	5	(18,452)		(17,125)	
Lump sum benefits payable	5	(5,013)		(4,134)	
Death benefits		(425)		(202)	
Refund of contributions		(245)		(276)	
Transfers out		(3,947)		(4,968)	
Administration & other scheme expenses	9	<u>(1,082)</u>	(29,164)	<u>(768)</u>	(27,473)
Net Additions from dealings with Members of the Fund			8,986		3,673
Returns on Investments					
Investment Income		11,795		12,571	
Change in market value of:-					
- realised investments	7	852		(3,909)	
- unrealised investments		27,250		59,726	
Investment management expenses		(1,097)		(697)	
Tax payable / receivable		<u>73</u>		<u>26</u>	
Net returns on investments			38,873		67,717
Net fund (decrease) / increase during the year			47,859		71,390
Opening net assets of the scheme			<u>359,600</u>		<u>288,210</u>
Closing net assets of the scheme			407,459		359,600

NET ASSETS STATEMENT AS AT 31st MARCH 2004

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
Government securities – fixed interest	6, 7	37,970		22,763	
- index linked	6, 7	<u>18,717</u>	56,687	<u>17,656</u>	40,419
Non Government - fixed interest	6, 7	4,565		5,859	
- index linked	6, 7	<u>571</u>	5,136	<u>721</u>	6,580
Property unit trusts	6, 7	39,307		34,609	
UK equities	6, 7	161,758		147,936	
Overseas equities / funds	6, 7	104,916		93,219	
Overseas bonds	6, 7	<u>5,680</u>	311,661	<u>4,872</u>	280,636
			373,484		327,635
Current net assets					
- sundry debtors	4	6,257		6,858	
- sundry creditors	4	<u>(4,153)</u>	2,104	<u>(1,816)</u>	5,042
Cash in hand	6		31,871		26,923
Total net assets			407,459		359,600

NOTES TO THE PENSION FUND ACCOUNTS

1. Fund operation and membership

The Pension Fund is a defined benefit scheme for employees administered by the London Borough of Barnet (the Council) under the provisions of the Local Government Superannuation and Pension Fund Acts. It provides retirement and death grants besides retirement and widow's pensions. Contributions from the council, three scheduled bodies, (Middlesex University and two colleges), three admitted bodies (the Friends of Moat Mount Campsite, the North London Colleges European Network and the Fremantle Trust), employees and returns on investments balance the fund. Employees' basic contributions are 6% of pay except for manual workers employed prior to 1st April 1998 for whom it is 5%.

At 31st March 2005 there were 6,874 employees contributing to the fund with 4,149 in receipt of benefit and 5,283 entitled to deferred benefits. A Government scheme supplies teacher's pensions; they are not provided for under these arrangements.

The funding policy is to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions.

2. Accounting policies

These accounts are drawn up on the basis of the accruals concept and comply with the recommendations of CIPFA and the Statement of Recommended Practice (SORP), as applicable to local authorities.

Contributions

The Council adheres to the provisions of the Local Government Pension Scheme. Contributions receivable are included in the accounts on an accruals basis. Under the provisions of this Scheme, the rate of contributions requested from employees is set at 6% (5% for manual workers who entered the scheme before 1st April 1998), and the employer's contribution rate is adjusted to bring the Fund to 100% funded level. Further details of employer contributions policy is set out in Note 5 to these accounts.

Benefits

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme, which states that retiring employees are entitled to a pension equal to 1/80 of their final salary for each full year of their employment, calculated on a daily basis and restricted to a maximum of 40/80ths of the employee's final salary. They are accounted for in the period in which they fall due. Full details of the other benefits payable can be seen on the Borough's Intranet page at www.barnetpensions.org.

Investment Expenses

Investment management expenses are accounted for on an accruals basis.

Administration Expenses

These are a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pension's section within the Human Resources department.

Interest

Interest is calculated on the cash held on behalf of the Pension Fund at a rate equivalent to 7 day LIBOR and added to the account of cash due to the Pension Fund on a monthly basis. Interest income from investments is accounted for on an accruals basis, if not received by year end.

Dividends

Dividends are accounted for on an accruals basis, but are included in the accounts only when dividends are declared on or before 31 March and the amount to be paid is reasonably known.

Purchase and Sale of Investments

The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading. Investments in the managed funds are valued at the average mid

price quoted by the fund managers, while investments in Property Unit Trusts are valued at mid market price. See note 6 for fuller details. The two fund managers, Schroders and Henderson, are required to produce a return on investments within benchmarks set by the London Borough of Barnet, and must limit the amounts invested in each class of asset to ranges set by the Borough. These restrictions and the fund managers' analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments. Approximately 10.3% of the Fund is held in property unit trusts and cash arising from these unit trusts, is administered by the staff of the London Borough of Barnet acting on advice received from the Borough's independent investment advisor.

Transfers into and out of the Fund

Transfers into the Fund are accounted for when received and undertaken at the request of staff joining the Borough or one of its admitted or scheduled bodies with pension rights accrued elsewhere. Transfers out are accounted for on the payment basis and performed upon request from staff leaving the employment of the Borough or one of its admitted or scheduled bodies who wish to transfer their accrued pension contributions to their new employer. Transfers are undertaken in accordance with the provisions of the Local Government Pension Scheme.

Foreign Currency Translation

Foreign currency receipts and payments are translated into sterling at the rate ruling on the date of the transaction. Investments held in foreign currencies as at year-end have been translated at the rates prevailing on 31 March 2005.

3. Statement of Investment Principles

The Council approved the Statement of Investment Principles for the fund in May 2000. The Statement can be viewed on the pension's website www.barnetpensions.org. Copies are also available from the Borough Treasurers Department.

4. Net current assets

Net current assets at 31st March 2005 totalled £2.104m and comprised:

	Debtors	Creditors	Net
	£'000	£'000	£'000
Settlements on purchases/sales	1,906	(3,517)	(1,611)
Contributions	2,189		2,189
Investment income	1,872	(8)	1,864
Fund manager's fees	12	(155)	(143)
Tax	277		277
Lump sum death and retirement benefits	1	(473)	(472)
Pension Fund Strain			0
Total	6,257	(4,153)	2,104

The Fund's financial statements do not take account of liabilities to pay pensions and other liabilities arising after the year end.

5. Actuarial position

The Local Government Superannuation Regulations 1986 set out legal requirements for actuarial valuations. Their main purpose is to assess the amount the Council must pay towards the fund's liabilities. Hymans Robertson, the independent actuary to the fund, reviews the accounts every 3 years. The latest informal valuation as at 31st March 2005 as per the requirements of FRS17, used the roll – forward approach together with the following assumptions (the figures in brackets relate to the formal valuation as at 31st March 2004, and are given for comparison):

Assumed price inflation	2.90% (2.9%)
Rate of return on investments	
Equities	5.07% (5.24%) per annum
Bonds	0.80% (0.74%) per annum
Property	0.64% (0.55%) per annum
Cash	0.38% (0.30%) per annum
Overall	6.80% (6.92%) per annum
Future pay increases	4.40% (4.70%) per annum
Future pension increases	2.90% (2.90%) per annum
Discount rate	5.40% (6.50%) per annum

The market valuation of assets for past service appraisal was £405.4m (£350.3m). This valuation indicates that assets held at 31st March 2005 were sufficient to cover 71% of the accrued liabilities assessed on an ongoing basis. The financial statements do not take account of liabilities to pay pensions and other benefits after the year-end.

The fund should receive input sufficient to meet 100% of its overall liabilities (Local Government Superannuation (Amendment) Regulations 1993). The Government has allowed local authorities to decide themselves how long to phase in this requirement. Barnet has chosen a period of twenty years, which commenced 1st April 2004. The actual employer's contribution for 2004/05 was £22,122,061. Without the phasing, employers' contribution would have needed to be £30,797,379 equalling 21.3% of pensionable pay. The cash received both from employers and employees is also shown.

	Employees' Contributions 2004/05 £'000	Employers' Contributions 2004/05 £'000	Equal to % of pensionable pay	Benefits Payable 2004/05 £'000
Administering authority	5,303	12,979	15.3	19,834
Scheduled bodies:				
Middlesex University	1,346	3,025	13.6	1,238
Colleges	504	1,092	12.0	139
Barnet Homes	463	1,680	15.3	0
Admitted bodies:				
NLCEN	3	5	11.6	0
Fremantle Trust	238	499	15.8	63
Friends of Moat Mount Campsite	2	4	13.3	0
Open Learning Partnership	19	32	14.4	0
Housing 21	98	202	13.0	19
Greenwich Leisure	39	86	13.2	0
Others	14	28		
Additional Contributions for Early Retirement	0	2,490		
Totals	8,029	22,122		21,293

6. Management of the Fund

The Superannuation Fund Management Advisory Panel comprises three elected Members (one from each political party) appointed by the Council. This panel counsels the Borough Treasurer about investment of the fund. The W.M. Company also provides an independent performance measurement service.

Apart from internally managed holdings in property unit trusts, the fund is split equally between two balanced-fund managers, Henderson Global Investors and Schroders Investment Management. The fund managers report transaction details at quarterly meetings with the Advisory Panel. An independent fund advisor monitors the two fund managers for the Council.

Cash in hand and the market value of funds as at 31st March 2005 held by the managers totalled £366.1m. Henderson held 48.4% of this and Schroders 51.6%.

As mentioned above, the fund makes investments in property via property unit trusts. These amount to £41,948,166 (including cash earned on the property investment). As specifically allowed in the regulations, all the fund's day-to-day cash is invested by the Council. Interest totalling £1,140,580.25 (£636,088.36) was paid at appropriate rates. The average cash balance held during the year was £24,760,975 (£17,442,383) and the average interest rate applied was 4.6% (3.8%), which represents the average 7-day rate. The average daily interest was £3,083.91 (£1,742.71). The year-end cash balance was £31,871,277 (£26,923,129). The figures in parentheses are for 2003/04.

Current market valuation of the assets is based on current market convention where they are primarily traded. This is either the last traded or middle market price. When representative prices are unavailable, investments are valued on the most appropriate basis in the opinion of the relevant fund manager.

7. Investment Transactions and Performance

Purchases of investments during 2004/05 were £159.5m (£173.1m) and sales proceeds were £141.7m (£171.7m) Profits/ (Losses) on realisation were £0.9m (£3.9m). The figures in parentheses are for 2003/04.

As shown in the net asset statement, the fund invests in fixed interest stocks, UK equities, property (indirectly through unit trusts) and overseas equities and bonds. There were no investments in unlisted securities during the financial year under review. The fund also holds an interest earning cash balance, invested with the Council as mentioned above.

The fund made a general return in 2004/05 of 11.2%. The W.M. Company's statistics show that the average return for local authority pension funds was 11.7% and that Barnet was in the 52nd percentile of funds measured.

Performance of all pension funds was slightly subdued due to the persistent high oil prices in the year under review that have affected the world stock markets.

8. Prior Year Adjustments

There were no prior year adjustments.

9. Related Party Transactions

The administration expenses of £1,082,000 shown above were incurred by the London Borough of Barnet and are broken down as follows:

	2004/05	2003/04
	£'000	£'000
Human Resources pensions administration	742	560
Accountancy administration	45	14
Payroll	295	194
Payments	0	0
Total	1,082	768

Costs of Human Resources are the total cost of the section within HR administering pension's entitlement, contributions, etc; the cost of Accountancy Administration is an apportionment of the salaries of the Core Accountancy team determined by the time spent by members of the team on administrative matters relating to the pension fund. Payroll's expenses are determined by reference to the number of payslips processed which relate directly to the pension fund and

Payments expenses are established by apportioning the total cost of the Payments section according to the number of transactions generated by each section.

There were no material transactions between the Fund and the Trustees of the Fund, or between the Fund and the senior officers of the Borough, during the financial years 2004/05 and 2003/04.

The figure for contributions debtors included in the Net Assets statement includes amounts totalling £373,584.75 (£677,389.95) due from Middlesex University, representing one months' outstanding contributions. These were paid to the Borough in April 2005 (April 2004). Also contained within the Contributions debtors' figure is an amount of £1,535,989.89 (£1,520,532.02), representing one month's outstanding contributions due from the London Borough of Barnet and which was paid in April 2005 (April 2004). The figures in parentheses are for 2003/04.

The independent Fund Advisor who also monitors the fund managers on behalf of the council was paid a fee of £8,500 for this service during the financial year under review.

10. Post Balance Sheet Events

There were no post Balance sheet events in the year under consideration.

GLOSSARY

For the purpose of compiling the statement of accounts, the following definitions have been adopted:

Accruals

The recognition of income and expenditure as it falls due, not when cash is received or paid.

Assets

These can either be:

- Fixed assets – tangible assets that give benefits to the authority for more than one year.
- Community assets – assets without determinable life that the authority intends to hold in perpetuity. They may have restrictions on their disposal. Examples include parks and historic buildings.
- Infrastructure assets – fixed assets such as highways and footpaths that cannot be transferred to another owner.
- Investment property – includes land and buildings held by the authority that are awaiting sale or development. This category also includes some property let on a commercial basis as well as some property that is for the good of the community.
- Non-operational assets – fixed assets not directly used for service provision. This includes assets under construction that will be transferred to operational assets once they are in use.

Asset Management Revenue Account (AMRA)

An account that capital accounting regulations requires the authority to maintain. All principal repayments and interest charges on loans are charged to this account. The AMRA is used to reverse out the capital charges for asset rentals made to the service accounts to leave only the annual external interest and principal repayments in the consolidated revenue account.

Associate Company

An organisation is an associate of a parent local authority where the authority holds a long term, participatory interest and is in a position to exercise a significant but not dominant influence over that organisation.

Budget

The council's financial plans for the year. Both capital and revenue budgets are prepared and, amongst other things, used as performance indicators.

Capital Charges

A charge by the asset management revenue account to service revenue accounts for their use of assets.

Capital expenditure

Expenditure on the acquisition of a fixed asset or expenditure that adds to (rather than merely maintains) the value of an existing fixed asset.

Capital Financing Account

An account recording financing transactions relating to capital expenditure. This is not a reserve that can be used, but contains the balance of depreciation against the MRP, reserved capital receipts and usable capital receipts applied to meet capital expenditure.

Capital Receipts

The proceeds of the disposal of assets, non-approved investments and the repayment of grants made by the authority.

CIPFA

The Chartered Institute of Public Finance and Accountancy. This, the institute of professional local government accountants, produces standards and codes of practice followed in the production of an authority's accounts.

Code of practice

Issued by CIPFA, this is a code of proper accounting practice with which local authorities in England and Wales must comply in preparing their financial statements.

Collection Fund

A Statutory account that shows the collection and disbursement of council tax and the administration of National Non Domestic Rates.

Consolidated Balance Sheet

A summary of all the assets, liabilities, funds, reserves, etc. of the council. It brings together details of the individual funds maintained by the authority.

Creditors

Money owed by the authority to others.

Debtors

Money owed to the authority by others.

Deferred Charges

A type of capital expenditure that does not give rise to tangible assets. Examples are renovation grants and capital grants to other bodies such as housing associations.

Depreciation

The writing down of the value of a fixed asset in line with its programmed useful life.

Employee costs

Pay and associated costs such as national insurance, pension contributions etc.

Estimates

The component parts of the council's budget.

Exceptional items

Items that, although usual to the activities of the authority by their nature, need separate disclosures because of their unusual size or incidence.

Extraordinary items

Material items, needing separate disclosure because they are unusual to the activities of the authority by their nature.

Fixed Asset Restatement Account

An account showing the surpluses or deficits on revaluation of fixed assets. This reserve is not available for general use in the financing of capital expenditure.

FRS's

Financial reporting standards issued by the Accounting Standards Board requiring information to be shown in accounts.

General Fund

The main revenue fund of the authority, it shows income from and expenditure on the council's day to day activities. It excludes the provision of housing that must be charged to a separate housing revenue account.

Government grants

The amounts of money the authority receives from the Government and inter-government agencies to help fund both general and specific activities.

Government grants deferred

Capital grants that are credited to the balance sheet and amortised to revenue over the life of the relevant assets to offset charges made for depreciation.

Gross expenditure

Expenditure before deducting any related income.

Housing Revenue Account (HRA)

The account which shows the income from and expenditure on the provision of council housing. Other services are charged to the general fund.

Joint Venture

A joint venture is where a parent local authority holds an interest on a long term basis in an organisation and that organisation is jointly controlled by the local authority and one or more other entities under a contractual arrangement.

Leases

These may be finance leases that transfer the risks and rewards of ownership of an asset to the authority. Alternatively they may be operating leases that are more akin to a hire agreement.

Liabilities

Amounts the authority either owes or anticipates owing to others, whether they are due for immediate payment or not.

Long term contracts

A contract that, once entered into, will take longer than the current period of account to complete.

Major Repairs Allowance (MRA)

The MRA is a government subsidy that was introduced to replace Housing Revenue Account borrowing for repairs.

Major Repairs Reserve (MRR)

This reserve is for capital expenditure on HRA assets.

Minimum revenue provision (MRP)

Statute requires revenue accounts to be charged with a minimum revenue provision of 4% for general fund and 2% for the housing revenue account as a notional redemption cost of all external loans.

Net expenditure

Gross expenditure less directly related income.

Precept

The amount of income demanded of the collection fund by an authority entitled to such income.

Preceptor

An authority entitled to demand money of the collection fund. The preceptors on Barnet's collection fund are the council itself and the Greater London Authority.

Provisions

Amounts held in reserve against specific potential liabilities or losses where there is uncertainty as to amounts and/or due dates. Payment to a provision is counted as service expenditure.

Public Works Loan Board (PWLB)

A Government body that lends money to local authorities for periods in excess of one year, often at preferential interest rates.

Rateable Value

Assessment by the Inland Revenue of a property's value from which rates payable is calculated.

Related parties

Two or more parties are related parties when at any time during the financial period:

- i. one party has direct or indirect control of the other; or
- ii. the parties are subject to common control from the same source; or
- iii. one party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- iv. the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Reserves

Amounts prudently held to cover potential liabilities. Payments to reserves are not counted as service expenditure. Payments from reserves are passed through service revenue accounts, cf. provisions. Earmarked reserves are allocated for a specific purpose. Unallocated reserves are described as balances.

Revenue expenditure

Day to day running costs of services.

Revenue income

Day to day income received for services.

Revenue support grant

A Government grant paid towards the cost of general fund services. It is the authority's largest single source of income.

Running expenses

The cost of running a service less employee expenses and capital charges.

SSAP's

Standard statements of accounting practice. These are agreed by accounting bodies and describe standard treatment to be used in the preparation of accounts. They are gradually being replaced by FRS's.

Subsidiary

An organisation is a subsidiary of a parent local authority if the authority has either a majority share in the organisation or exercises a dominant influence over it.

Useful life

The anticipated period that an asset will continue to be of benefit to the authority.

STATEMENT ON INTERNAL CONTROL

This will be approved at Cabinet Resources Committee on 26 September 2005. After approval it will be included in the final published document.