

MEETING

AUDIT COMMITTEE

DATE AND TIME

WEDNESDAY, 21 DECEMBER 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
Agnes Slocombe Leslie Sussman

Substitutes:

Councillors

Terry Burton Danish Chopra Jeremy Davies
Malcolm Lester Monroe Palmer Ansuya Sodha

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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10.	ANY OTHER ITEMS THAT THE CHAIRMAN DECIDES ARE URGENT	-	-

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AGENDA ITEM: 6

Page nos. 1-27

Meeting	Audit Committee
Date	21 December 2005
Subject	SWIFT Computer system/ Social Service Debt (Adult Services)
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 (Adult Services). The report has been deferred from the previous meeting and has been subject to revision.

Officer Contributors	Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A : (Management response/action : Adult Services). Appendix B : Follow-up : Audit Review of SWIFT dated November 2005 (Adult Services). Appendix C : 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.
- 2.2 The Audit Committee on 10 October 2005 resolved that the report on Swift Computer System/Social Services Debt be finalised with comment and input from the Heads of Service concerned, and brought back to the next meeting of the Committee.

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, as well as first class education service and tackling crime.

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 (Adult Services).

- 8.2 Internal Audit can provide limited assurance on SWIFT meeting its objective in Adult Social Services because of the risks identified below. However, effective and prompt management action to address the risks identified will increase the assurance level.
- 8.3 Within the Children and Families service we can provide satisfactory assurance on SWIFT meeting its objective.
- 8.4 Internal Audit acknowledge the following issues concerning the SWIFT system :
- Prior to SWIFT going live in October 2003 systems were primarily paper-based, with limited information held on CRISSP (the previous IT system) which was purely used as an administrative tool.
 - Since SWIFT went live, considerable changes in practice have been realised with all social work staff now using SWIFT to record case-based information, although paper files are still held. There is an ongoing change process with further embedding of SWIFT taking place.
 - In the future, the Electronic Social Care Records (Children & Families service and Adult Social Services) and Integrated Children's System (Children & Families service) initiatives will enable all information to be created and stored electronically in electronic case files, which will have the added benefit of the improved security and confidentiality that comes from e-systems.
 - Management are improving processes and procedures to address concerns regarding completeness and accuracy of data.

SWIFT

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

SWIFT issues

8.6 Statutory and Local Reporting requirements

Adult Social Services

- 8.6.1 The review confirmed that SWIFT was able to provide local reports for management purposes. However, due to data integrity issues (see para no. 8.8.1-2 : Linking of information on service users), management information for statutory and local reporting requirements

may be inaccurate and incomplete due to a historical lack of adequate data controls.

8.6.2 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 (BVPIs) in Adult Social Services will probably be reserved for 2004/05 (ie the external auditor cannot be satisfied that the information is complete, valid, accurate or timely). It should be noted that the above management letter made reference to the following improvements in Adult Social Services:

- There has been improvement in overall data quality particularly in determining appropriate policy direction and reporting of performance;
- The Council has clearly started to address our main concerns about the completeness and accuracy of data across all the key indicators;
- The level of join up between data held on the SWIFT system and the supporting files is strengthening although there is still some way to go;
- Arrangements for dealing with third party providers in terms of data quality are starting to strengthen although will need further detailed work.

Risk:

Priority 1

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

Management response/action (Adult Social Services):

1. See management response/action : Appendix A.
Children & Families Service

8.6.3 We have been informed by External Audit and management that none of the 5 SWIFT based BVPIs will be reserved. The report on BVPIs is due to be issued in November 2005.

Management response/action (Children & Families Service) :
No action required.

8.7 Business Processes

8.7.1 The review confirmed that business processes have been changed as a result of the implementation of SWIFT.

Adult Social Services

- 8.7.2 No review has been carried out to assess if the new processes are effective or if efficiencies have been realised .

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/action (Adult Social Services):

1. See management response/action : Appendix A.

Children & Families Service

- 8.7.3 A review was carried out by the Council which identified benefits realised in the Children & Families service. Also we were informed by management that the service is currently reviewing the business processes to comply with central government requirements for implementing Electronic Social Care Records (ESCR) and Integrated Children's System (ICS).

Management response/action (Children & Families Service) :
No action required.

Infrastructure issues

8.8 Linking of information on service users

Adult Social Services

- 8.8.1 Limited data integrity checks are carried out by officers to ensure that data is accurately and completely input on SWIFT.
- 8.8.2 We have been informed by Adult Services management that a Data Error Resolution System has been implemented to ensure completeness and accuracy of data; for example, by producing error reports and compiling procedures for officers to correct errors identified. In addition, Adult Services has arranged a 'mock' BVPI audit with internal audit to test data integrity.

Risk:

Priority 1

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

Management response/action (Adult Social Services):

1. See management response/action : Appendix A.

Children & Families service

- 8.8.3 The Service has implemented systems regarding data integrity and are further improving systems to ensure that service teams take responsibility for ensuring that data is accurate and complete.

**Management response/action (Children & Families Service) :
No action required.**

8.9 E-Government agenda

- 8.9.1 The Council will not meet all of the central government timescales for implementing Electronic Social Care Records (ESCR) and Integrated Children's System (ICS).

- 8.9.2 The Information Systems service have appointed an EDRM 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. It should be noted that Internal Audit have carried out a review of Document Management Systems (DMS). Management (IS service) stated that the most effective way to improve systems in this area is for a strategy to be compiled on DMS and to procure a system to be used for recording social care records which may be used as a corporate solution for implementing DMS in the Council.

- 8.9.3 The project plans, as at August 2005, stated that the EDRM System solution is planned to be purchased in February 2006.

Adult Social Services & Children & Families service

- 8.9.4 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.

Children & Families service

- 8.9.5 Integrated Children's System is a requirement of social services departments that looks to improve practice, building on learning from a wide-range of areas such as the Laming Enquiry. This improved practice must be supported by a process driven electronic system that

will incorporate a workflow and electronic forms so that all information can be created/captured electronically and then stored in electronic form (ESCR). This will interface with SWIFT to provide financial and performance information. 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.

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/action (Adult Social Service) :

1. See management response/action : Appendix A.

Management response/action (Childrens & Families Service) :

1. The IS service have appointed a Project Manager to procure an electronic document records management system (EDRM) system which will ensure that all data will be easily accessible. When the EDRM system has been procured, the Service will implement the ESCR system. This Project Manager will also manage the procurement process of the ICS system.
2. Current usage of SWIFT meets the first target for new referrals.
3. The new ICS system will be procured in early 2006. This system and the ESCR are planned to go live at the same time in October 2006.

Management response/action (IS service) :

1. 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.

8.10 IT Infrastructure

8.10.1A report, dated July 2005, 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/action (IS service) :

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

Management response/action (Adult Social Services):

1. See management response/action : Appendix A.

Management response/action (Childrens & Families Service) : No action required.

8.11 Integration of care management and finance system

8.11.1 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);
- (iii) Income : adult client charges concerning homecare, residential and nursing care.

Management response/action (Adult Social Services):

1. See management response/action : Appendix A.

8.12 Final report/ Follow-up : Audit Review of SWIFT dated November 2005 (Adult Services)

8.12.1 A follow-up of the previous audit report on SWIFT/Performance management (Adult Services) revealed that out of the 4

recommendations made, one has been implemented, one has been partially implemented and two not implemented. Management have agreed revised implementation dates to address the above outstanding recommendations (see Appendix B).

8.13 Social Service Debt (Adult Social Services)

8.13.1 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).

8.13.2 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).

8.13.3 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 was 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.

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

8.13.5A 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 C : Final report/Follow-up : Audit Review of the Assessment and Income Section dated September 2005).

8.13.6 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.

8.13.7As at November 2005, management (see detailed management response to the follow-up Audit report below) have stated that 4 out of the 6 recommendations which have been not/partially implemented are no longer applicable due to the implementation of the SAP financial system. Also the 2 recommendations outstanding will be addressed by the financial assessment module which is due to be implemented in January 2006.

8.13.8 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.

Risk:	Priority 1
<i>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.</i>	

Management Response (Adult Services) :

1. There needs to be a clear distinction between the SWIFT audit and debt-related elements of the Income and Assessments Audit. There is no direct link between the two other than the improvements that are being made with data quality within SWIFT are enabling invoices and thus debt issues to be raised on a more timely basis. The existing focus of the Income and Assessments Audit and follow-up review is now out

of date with current developments in this area and across Council (particularly the implementation of SAP).

2. A key point that has just been agreed in October 2005 is the clear division of responsibilities for debt management between the Income and Assessment team in Adult Social Services and Central Income Team at the corporate centre. This has a profound impact on the existing recommendations in the follow-up review paper as many are no longer applicable to Income and Assessment activities. This together with data quality improvement and the development of a service level agreement between income and assessments and the central debt recovery team should prevent the build up of further bad debt in the future.

3. This has not been clarified with the Central Income Team, but their remit will now cover the following key aspects:

- The production of a debt recovery strategy (in consultation with the Income and Assessment team). We believe a draft of this strategy is currently with the Borough Treasurer's department.
- Drawing up a Service Level Agreement (SLA) with the Income and Assessment team that will cover issues such as timeliness of passing information, quality standards and checks.
- Addressing the backlog of debt – with someone already in place tackling this problem.

4. Management response (Adult Services) as at November 2005 : Final report/ Follow-up : Audit Review of Income and Assessment Section dated September 2005.

(Internal Audit have not verified the following below. The risks identified in this area will be assessed as part of the planning process for the Audit Plan 2006/07).

Response to recommendation 1

Implemented.

Response to recommendation 2

The Financial Assessments module of SWIFT could not have been implemented in all previous versions or in the existing version of SWIFT. However SWIFT is now being upgraded to version 20 (which can accommodate Financial Assessments), with technical testing planned for November, user acceptance testing planned for November/December 2005, and 'go live' planned for January 2006. The Income and Assessments team and the SWIFT team are working closely with Anite to ensure effective implementation and are reviewing

business processes and any potential areas of duplication as part of the upgrade.

Response to recommendation 3

The implementation of the SAP financial system across the Council resulted in a corporate decision to manage all income collection through SAP and not SWIFT. Coupled with the response to recommendation 2, this recommendation is no longer appropriate.

Response to recommendation 4

As recommendation 3.

Response to recommendation 5

Superseded by activities of Central Income Team outlined in Point 3 above. This recommendation is no longer valid.

Response to recommendation 6

Superseded by activities of Central Income Team outlined in Point 3 above. This recommendation is no longer valid.

Response to recommendation 7

The Financial Assessments (FA) module has the potential to produce reports that will inform management decision-making. The test plan for implementing the FA module will also cover reporting. The Income and Assessments team are reviewing the production of detailed reports for their area as well as producing briefing notes and update reports for Adult Social Services senior management team on a monthly basis.

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.

8.14 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. Should be mitigated within 3 months unless the nature of work required to mitigate the risk does not easily allow this.

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

detected. Should be mitigated as soon as possible but ideally within 6 months.

Priority 3 - Should be mitigated as soon as resources allow, but at least within 12 months.

Timing - These are standard definitions and as such cannot capture the circumstances behind individual risks. Clients and auditors should agree a timescale for mitigating each risk which is relevant to the significance identified.

9 LIST OF BACKGROUND PAPERS

9.1 None

Legal: JEL
BT: CM

Adult Social Services : management response/action dated November 2005

Adult Social Services acknowledges the report compiled by the internal audit team and wishes to make the following management comments in relation to the seven main objectives of the Swift audit:

- 1. Statutory and Local Reporting Requirements.** The report highlights the risk that ineffective management decisions may be made and BVPIs reserved as a result of inaccurate and incomplete performance data. In response:

Management response and action

- After the recent external audit of Best Value Performance Indicators in Adult Social Services, a BVPI Audit Action Plan was developed to address the issues raised. This is now being implemented and tackles issues around the accuracy, timeliness, reliability and completeness of data in Swift and consistency with the paper casefile.
- In 2005, external auditors said that “There has been improvements in overall data quality particularly in determining appropriate policy direction and reporting of performance” and “the Council has clearly started to address our main concerns about the completeness and accuracy of data across all the key indicators”.
- A Data Error Resolution System was implemented from September 2005 to ensure completeness and accuracy of data in Swift. This involves systematic production of error reports which are then resolved by front line staff to encourage learning and to reduce recurring errors.
- ASSD are working with internal audit to arrange a mock BVPI audit to test data integrity, examine the sources of the data used in performance indicators and involve middle managers to improve data and performance. This is scheduled for December 2005.
- A system of data integrity checking by middle managers is now in place whereby every case where social worker involvement is closed is checked for both data completeness and performance against targets.
- All performance indicators that can be produced from Swift data are now produced from Swift data in line with audit requirements.
- Monthly performance reports are issued to senior managers and service teams. A performance improvement action plan monitors each PI for progress towards targets.

- 2. Business Processes.** The report highlights the risk that if business processes have not been reviewed to assess efficiencies, management cannot assess the benefits realised. In response:

Management response and action

- The implementation of the Swift programme in January 2005 established 5 projects that looked specifically at Swift related issues. As part of our project management methodologies, we mapped business processes across a range of functions that will be fed into a wider review of business processes in 2006. Many business processes have already been reviewed and revised to improve the efficiency and effectiveness of key activities. For example:
 - i. The implementation of Swift has changed the business processes within ASSD, with front line social workers now responsible for inputting the client contact, referrals and assessments directly into the Swift database. This information is linked closely in Swift with the purchasing data about provision of client services, the costings for these services and the purchasing and invoicing function of the department.
 - ii. Examination of business processes also led to a change in the client reviewing system. A mini-project identified potential efficiencies in the reviewing process and changes have now been implemented to ensure all Barnet clients get an annual review thus meeting the relevant performance indicator.
 - ASSD will be launching a 'remodelling core business' project in the first quarter of 2006. This project will use information from the earlier Swift programme to assess efficiencies across core functions as well as looking at further streamlining of processes where they interface with Swift.
 - ASSD has established formal project management methodologies to be able to fully realise the benefits of Swift. As part of the project mentioned above we will a) identify the original and planned benefits of Swift and assess these benefits against the original business case and b) identify any new benefits and efficiencies.
- 3. Link all information on service users.** The report highlights the risk that ineffective management decisions may be made as a result of inaccurate and incomplete client and performance data.

Management response and action

- All action points and project listed in previous sections support the joining-up of service user information across Adult Social Services and partners.

4. **E-Government Agenda.** The report highlights the risk that the 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 and action

- The department now has an agreed project initiation document to implement the Electronic Social Care Record system. ASSD are working jointly with Children & Families and the IS Division to procure and pilot a document management system that will eventually be rolled out across the Council. This system will link to the Swift client record.
- It is widely known that only a small number of Councils in England and Wales have implemented the first stage of ESCR to the original deadline of October 2005; LBB intends to meet the second stage target of all current client files being electronic by October 2006.

5. **IT Infrastructure.** The report highlights the risk that an ineffective IT infrastructure could affect efficient, timely and effective service delivery.

Management response and action

- The Business Improvement and Performance Manager now meets on a monthly basis with the Social Affairs IS manager to review hardware, software and network issues affecting staff – both centred around Swift and the other applications used to deliver our service.
- The current network configuration within the council prohibits the sharing of Swift generated documents; only the user who created the document can presently access it after saving. This will be addressed by both the Electronic Social Care Record project which will manage documents within bespoke software and the 'Modernising our Infrastructure' project which will update the networks and provide a central storage place for all electronic files.
- The platform that hosts Swift, called Citrix, is now being managed and supported by PRIME – our IT network contracted partners; this will increase stability and hasten resolution of Citrix problems.

6. **Integration of care management and finance system.** The report mentions that Swift was being integrated with the core MCS SAP software at the time of the audit. In response:

Management response and action

- Swift is now fully integrated with MCS SAP through an electronic interface which was designed, implemented and worked successfully to the deadline of 1st August.
- This interface is used to pay all ASSD care invoices which are processed through Swift; SAP then transfers these to the corporate Payments Team for payment.

- Project plans are now in place to complete the financial integration with MCS SAP for the accounts receivable (client charging) interface in January 2006.
- Budget management and monitoring can now be achieved through the SAP system as planned.

7. Interfaces with Other Systems. The report highlights the need to determine the effectiveness of the interfaces as part of the post implementation review of SAP.

Management response and action

- Two interfaces are currently in operation with Swift; the first is to the MCS SAP financial system. This is used to transfer invoices that have been reconciled in Swift into payments to suppliers through SAP. The second is to the CM2000 CallConfirm homecare monitoring system which pulls details of homecare clients from Swift to populate CallConfirm. The other major interface project, with the Mental Health Trust ePex system, was fully investigated but found to be not cost effective because of the imminent replacement of ePex and the cost of the interface solution.
- The Single Assessment project is a medium-long term project looking at the future integration of systems across our range of partners.

Appendix : B

Audit: Swift/Performance Management : FOLLOW UP REVIEW

Client: Adult Social Services

FINAL ACTION PLAN

Date: November 2005

Review of previous audit : report no. 2004-137 dated March 2004 and followed up 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><i>Agreed</i> - 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 Support Manager</p>	<p>Not implemented</p> <p>Implementation date: August 2006 (Outstanding interface : Call Confirm)</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 2006</p>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
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<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-</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>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
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	<p>line.</p> <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>			<p>Implementation Date: December 2005</p>
<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</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>	<p>April '05</p>	<p>Assessment and Income Manager and the SWIFT team.</p>	<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
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required to effectively manage the service.				
<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
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<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</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>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
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	invoicing system which will release resources now used for invoice punching.			
<p>Debtors Review</p> <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>Agreed 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</p>	November '04	Assessment and Income Manager	<p>Not Implemented</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>

Recommendation	Agreed Action	Implem. Date	Responsible Officer	Status
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	diverted to maintaining acceptable levels of client service. This now needs to be addressed.			
<p>Performance management</p> <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>Partially Implemented</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>

AGENDA ITEM: 7 Page nos. 28-77

Meeting	Audit Committee
Date	21 December 2005
Subject	Internal Audit Interim Annual Report 2005/6
Report of	Chief Internal Auditor
Summary	The committee is asked to note the Internal Audit Interim Annual Report for 2005/6 and appendices.

Officer Contributors	Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	<p>Appendix A: 2005/6 Internal Audit Interim Annual Report</p> <p>Appendix B: 2005/6 Internal Audit Recommendation Analysis Summary</p> <p>Appendix C: 2005/6 Internal Audit Performance Indicators</p> <p>Appendix D: 2005/6 Internal Audit Annual Audit Plan Update</p>
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 Tel No 0208 359 7151

1. RECOMMENDATIONS

- 1.1 That the Committee note the contents of the report.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 9 June 2005 included in the work programme for 2005/6 a report on the Internal Audit Interim Annual Report 2005/6.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council is committed to Best Value and to show that services represent value for money and that there is a continuous drive to improve quality, efficiency and effectiveness of the service (Corporate Plan).

4. RISK MANAGEMENT ISSUES

- 4.1 The purpose of the Internal Audit Interim Annual Report 2005/6 is to highlight to the Chief Executive, Audit Committee, lead member, Corporate Management Team and External Audit the findings of Internal Audit work conducted so far this year (as well as that work carried forward from 2004/5 not previously reported).
- 4.2 The report identifies those areas which are of significant risk in the work undertaken by Internal Audit during this period.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None

6. LEGAL ISSUES

- 6.1 None

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including 'Satisfying the Council that the internal auditor carries out sufficient systematic reviews of the internal control arrangements, both operational (relating to effectiveness, efficiency and economy) and financial'.

8. BACKGROUND INFORMATION

Introduction

- 8.1 Part of this Committee's work programme is to review the Internal Audit Interim Annual report for 2005/6.

8.2 Appendix A attached provides summary details of all Internal Audit reports produced for all 2005/6 projects which have been agreed and finalised with clients as at 10th November 2005. Additionally 2004/5 projects, which had not previously been reported to the Committee, are included.

Executive Summary

8.3 Although it is impractical to give an overall opinion on the control environment in such a diverse organisation, generic control weaknesses are identified in the analysis document at Appendix B. Although the areas of weakness are spread quite evenly, the most recurring areas of weakness are:

- Inadequate monitoring controls over resources (19 instances out of a total 110 recommendations made)
- Either no or inadequate policies and procedures (17/110)

(Recommendations in this area do not necessarily mean that policies and/or procedures do not exist but that improvements or additions to existing policies and/or procedures may be required.)

- Inadequate monitoring of management information to ensure objectives are achieved (11/110).

(Recommendations in this area do not necessarily mean that objectives are not being achieved.)

8.4 All three of these were identified as key weaknesses in the Internal Audit Interim Annual Report 2004/5 and the second and third in the Annual Report 2004/5.

8.5 36% of recommendations were 'priority 1' i.e. 'significant risk that either objectives will not be met efficiently and effectively or that fraud or irregularity will not be prevented or detected'.

8.6 60% of recommendations were 'priority 2' i.e. 'only limited assurance that objectives will be met efficiently and effectively and that fraud or irregularity will be prevented or detected'.

8.7 We have made recommendations to address all weaknesses in the respective reports, which, if implemented, will improve the overall control environment.

8.8 Follow-ups

All Internal Audit work where a recommendation has been made is followed up as a matter of course. The Interim Annual Report provides summaries of the findings at follow-up audits. Follow-up excerpts also indicate how the level of audit assurance has changed as a result of management implementation of

recommendations. Details of the assurance revisions on the 13 follow-ups conducted in the report period are detailed below.

Risk Category	No.
Medium to Low:	5
High to Medium:	1
Medium to Medium:	5
Medium to High	2
Total	13

8.9 While the risk exposure in these areas remains as stated, we are satisfied that management are aware of the need to implement the recommendations and actions are in progress. We are in the process of preparing the audit plan for 2006-7 and all of these areas will be considered for inclusion.

8.10 Internal Audit will continue to monitor implementation in these areas.

Internal Audit Performance Indicators

8.11 Attached at Appendix C are Internal Audit's performance indicators to the end of the second quarter 2005/6.

Progress against 2005/6 Annual Plan

8.12 Attached at Appendix D is a detailed breakdown regarding progress against the 2005/6 annual audit plan.

Corporate Governance and Risk Management

8.13 An important part of the Internal Audit annual reporting process is to give an opinion on the corporate governance and risk management arrangements within the organisation.

Corporate Governance

8.14 We conducted a corporate governance review in 2002/3. The follow-up review was completed in 2003/4 and concluded that significant improvements have been made but identified that further improvements are required regarding performance management, risk management and financial systems. At the time of writing this report we are finalising the fieldwork on a further audit review of corporate governance. A summary of the findings of this review will be included in the 2005-6 annual audit report which is scheduled to go to the Audit Committee in September 2006 (provisional calendar).

Risk Management

- 8.15 We undertook a formal audit of the processes and arrangements in place to deliver an embedded risk management structure in 2003/4. The overall conclusion was that limited assurance could be given that objectives would be achieved as implementation was at an early stage. Robson Rhodes, the external auditor, conducted a further full audit of Risk Management in 2005/6 which included following up the recommendations made in the Internal Audit report. We have relied on the work of external audit in this area. External Audit's final report came to the conclusion that:

'the current arrangements and processes form a good foundation for further developing risk management so that the areas for improvement identified during our review can be addressed'.

- 8.16 The Council's external auditors have acknowledged in their 'Use of Resources' report that the embedding of risk management is ongoing. Further arrangements will be addressed as part of a much wider 'Use of Resources' action plan.

Modernising Core Systems

- 8.17 The Modernising Core Systems Programme is fundamental to the delivery of the corporate priorities as laid out in the Corporate Plan. It is particularly significant to the attainment of the priority of delivering 'a better council for a better Barnet' through investment in modern systems.
- 8.18 The Audit Committee has identified the need to monitor the progress of the project because of the risks and opportunities it presents to the organisational control environment and the need for the project to deliver cultural change.
- 8.19 A progress report on these aspects of the MCS project and associated programmes will be presented to the Audit Committee after sufficient time has elapsed to evidence the changes to the organisational culture and control environment. This is likely to be in the third quarter of 2006/7 and will be presented by the Resources Directorate
- 8.20 Internal Audit work, in the interim, will focus on providing an opinion on whether the project has/is likely to deliver the anticipated benefits within reasonable timescales.

9. LIST OF BACKGROUND PAPERS

- 9.1 None

Legal: JEL
BT: CM

Appendix A

Internal Audit Interim Annual Report 2005/06

For a copy of this appendix please telephone 020 8359 2205

Internal Audit Performance Indicators 2005-6

PI Ref	PERFORMANCE INDICATOR	TARGET 2005/06	Position at end of:			
			Q1 2005/06	Q2 2005/06	Q3 2005/06	Q4 2005/06
1	Percentage of systems audits completed by end of March 2006, compared to what was planned.	84% (annual - cumulative)	0% complete or at draft report 20% at various stages of work in progress	10% complete or at draft report plus 35% at various stages of work in progress	At 31/10/05: 17% complete or at draft report plus 45% at various stages of work in progress	n/a
2	Percentage of Audit reports followed up within 12 months of issue of final report	100% (annual & cumulative)	0% complete or at draft report 17% at various stages of work in progress	30% complete or at draft report plus 18% at various stages of work in progress	At 31/10/05: 41% complete or at draft report plus 51% at various stages of work in progress	n/a

2005/06 Annual Audit Plan Update @ 31st October 2005

Notes:

1. Audit work highlighted in red is additional work not shown on original 2005/06 Audit Plan which includes:

Newly commissioned work 2005/06

Work carried forward from 2004/05

Work deferred from 2004/05

2. Under 'Original Quarter Planned' numbers in brackets indicate original start quarter for jobs which have been moved.

3. Under 'Title of Audit/Project' titles in italics indicate that the audit has been renamed.

4. Under 'Job Type' the key is as follows:

KC = Key Control

P = Project

S = System

F = Follow-up

CF = Carry Forward job

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
CORPORATE				
CE	CF 2004/5	Corporate Plan	F	Issued 19/07/05
CE	CF 2004/5	Corporate Governance	S	FW Stage
CE/CPO	2	Constitution	S	FW stage
CE	2	Freedom of Information Act 05/06	S	Planning stage
CE/CPO	2	Partnership Arrangements	F	Issued 17/10/05
CE/RES	3	Business Continuity	S	Not started
CE/CPO	3 (1)	BVPIs	S	Planning stage
CE/RES	3	Letting of Contracts/DPRs	S	Planning stage
CE/CAFT	3	Money Laundering	S	Not started
CE/RES	3	Safer Recruitment	S	Not started
CE/RES	3 (1)	Trove Replacement System (<i>RDT System</i>)	S	Planning stage
CE/CPO	4 (2)	Consultation	S	Not started
CE	Ongoing	Emergency Planning Service	P	Issued 05/09/05
CE/CPO	3	Corporate Governance 05/06	KC	Deferred to 2006/07 as 2004/05 audit still in progress
CE/CPO	2	Community Plan	S	Cancelled as a revised CP strategy in place; management no longer consider this a high risk area.
CORPORATE SUPPORT: Consultation, Corporate Performance Office & Communications				
CPO	3	Central Complaints	F	Planning stage
LAW & PROBITY including CAFT, Democratic Services, Elections & Land Charges, Legal, Overview & Scrutiny and Registrars				
L&P	1	Money Handling	S	FW stage
L&P	2	Elections	S	Issued 29/11/05
L&P	3	Births, Deaths & Marriage Certificates	S	Not started
L&P	3	RIPA (Covert Surveillance)	F	Planning stage
L&P (BT)	4	CAFT/Verification Framework	F	Planning stage
L&P	4	Scrutiny	F	Planning stage
L&P	2	Municipal Elections	S	Deferred to 2006/07 at client's request

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
BOROUGH TREASURER				
BT	CF 2004/5	Budgetary Control 04/05	F	Issued 28/09/05
BT	CF 2004/5	Banking (KC)	S	Issued 03/08/05
BT	CF 2004/5	Capital Expenditure	F	Issued 17/10/05
BT	CF 2004/5	Bailiffs	S	Issued 16/08/05
BT	2	Cash Collection Axis System	S	DR stage
BT	2	Council Tax Income & Expenditure	KC	FW stage
BT	2	NNDR 05/06	S	FW stage
BT	2	Treasury Management	KC	DR stage
BT	2	Welfare Rights	F	Issued 15/09/05
BT/RES	3	Asset Management	S	Not started
BT	3	BACs 05/06	S	Planning stage
BT	3	Cashiers	F	DR stage
BT	3	Creditors 05/06	KC	Not started
BT	3	Financial Systems & General Ledger	KC	Planning started (Including Stock Systems & Fixed Assets f-ups)
BT	3	Purchasing Cards	S	Planning stage
BT	3	VAT 05/06	KC	Not started
BT	4	Cashbook Reconciliation & Banking	KC	Not started
BT	4 (2)	Debt Management/Debtors 05/06	KC	Not started
BT	4	External Audit Issues (SAS 610)	F	Planning stage
BT	4	Milly Apthorpe	S	Issued 07/09/05
BT	Ongoing	Grants	P	Not started
BT	Ongoing	Pericles: Council Tax	P	FW stage
BT	3	Budgetary Control 05/06	KC	Deferred to Q1 2006/07 at client's request
BT	4	Grants	F	Deferred to 2006/07 as Grants project not started

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
CHILDREN'S SERVICES: Children & Families and Education				
C&F	CF 2004/5	Social Work for Children at Home	F	Issued 05/12/05
C&F	1	Children's Act	S	Planning stage
C&F	1	Looked After Children	S	FW stage (Deferred from 2004/05)
C&F	1	Out of Hours Service (Laming Report)	F	FW stage
C&F	3	Hospital Social Work	F	Planning stage
C&F	4	Looked After Children	F	Deferred to 2006/07 as audit CF to 2005/06 (<i>Prev Soc Work for Children in Care</i>)
ED	CF 2004/5	Research & Management Information I	S	DR Stage
ED	1	Music Service	F	Issued 27/09/05
ED	2	Education Finance	S	Planning stage
ED	3	Exclusions	F	Planning stage (Deferred from 2004/5)
ED (CS)	3	Marketing, Printing & Design	F	Planning stage
ED	3 (2)	Performance Mngt of SEN Spec Services	S	FW stage (Deferred from 2004/05)
ED	4 (2)	Human Resources Traded Services	S	Not started
ED	4	Research & Mngt Info I	F	Not started
ED	Ongoing	Primary Capital Programme	P	Not started
ED		Performance Mngt of SEN Spec Services	F	Deferred to 2006/07 as audit was deferred to 2005/06
ED	2	People's Network	S	Cancelled as work covered in Branch Libraries audit

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
COMMUNITY SERVICES: Adult Services, Housing & Strategic Development Unit				
AS	CF 2004/5	Community Care Grants Systems	S	Issued 19/08/05
AS	CF 2004/5	Learning Disabilities	F	Issued 31/08/05
AS	CF 2004/5	Older Adults	F	Issued 01/08/05
AS	1	Information Management/SWIFT 05/06	S	DR stage
AS	1	Social Services Assessment	F	Issued 16/09/05
AS	2	Direct Payments	S	Planning stage
AS	2 (1)	Homecare	S	Planning stage
AS	2 (1)	Procurement & Contract Management	S	FW stage
AS	4 (2)	Community Care Income	S	Planning stage
AS	4 (2)	Drug & Alcohol Purchasing	S	Planning stage (in conjunction with Strategic Planning audit)
AS	4	Recruitment & Retention	F	Planning stage
AS	4 (2)	Reviewing Team	S	Planning stage
AS	4 (2)	Strategic Planning & Health Partnership	S	Planning stage
AS	4	Community Care Grants	F	Deferred to Q2 06/07 due to timing of recommendations
HS	1	Affordable Housing	S	FW stage
HS	1	Rent Deposit Scheme	F	Issued 27/09/05
HS	2	ALMO Monitoring	S	FR stage
HS	2	Housing Benefits 05/06	S	FW stage
HS	3	Barnet Homes Monitoring	F	FW stage
HS	3	Housing Rents 05/06	KC	Not started
HS	3	Housing Strategy	F	FW stage
HS	4	Temporary Accommodation	F	Planning stage
HS	Ongoing	Pericles: Housing Benefits	P	FW stage
SD	CF 2004/5	Cricklewood & Brent X Regeneration	P	Issued 27/06/05 & ongoing
SD	Ongoing	Grahame Park Regeneration 05/06	P	Planning stage

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
ENVIRONMENT: Environment & Neighbourhood Services, Highways & Design and Planning				
E&NS	CF 2004/5	Grounds Maintenance	S	Issued 10/08/05
E&NS	CF 2004/5	Waste Collection (<i>Domestic Refuse</i>)	S	Issued 09/09/05
E&NS	1	Licensing Act 2003	S	Issued 22/11/05
E&NS	1	Trading Standards	S	DR stage
E&NS	2 (1)	BVPI 199	S	Not started
E&NS	2	Highways Maintenance Service	F	Planning stage
E&NS	2	Street Cleaning	F	FW stage
E&NS	2	Street Enforcement Service	S	Planning stage
E&NS	2	Vehicle Maintenance	F	Issued 25/10/05
E&NS	3	Residential Services	F	DR stage
E&NS	4 (1)	ECT Contract Monitoring	S	FW stage
E&NS	4	Refuse Commercial	KC	Not started
E&NS	4	Waste Collection (<i>Domestic Refuse</i>)	F	Not started
E&NS	4 (2)	Waste Minimisation	S	Not started
E&NS	2	Grounds Maintenance	F	Deferred to Q2 06/07 due to timing of recommendations
E&NS	4	Licenses	F	Deferred to Q3 06/07 due to timing of recommendations
H&D	CF 2004/5	Building Control	S	Issued 03/07/05
H&D	CF 2004/5	Controlled Parking 04/05 (KC)	S	DR stage
H&D	3	Rechargeable Works & Other Income	S	Not started
H&D	3 (2)	Transport for London Schemes	S	FW stage
H&D	4	Building Control	F	Planning stage
H&D	4 (3)	Parking Control 05/06	KC	Not started
H&D	Ongoing	PFI Roads, Pavements & Streetlights 05/06	P	FW stage
P	CF 2004/5	Regulatory Services	S	Issued 25/10/05
P	2	Planning Service	F	Issued 16/09/05
P	3	Fees Income	F	Planning stage
P	3	Regulatory Services	F	Deferred to Q2 06/07 due to timing of recommendations
P	4	Planning & Compulsory Purchase Bill	F	Cancelled as management letter contains no recommendations

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
RESOURCES: IS, Performance & Strategy, HR, Customer Services, Property Services & Valuations and Strategic Procurement				
IS	CF 2004/5	e-Government	S	Issued 28/10/05
IS	CF 2004/5	Operating Systems	S	Issued 23/09/05
IS	CF 2004/5	Document Management Systems	S	Issued 29/07/05
IS	1	Content Management System	S	FW stage
IS	1	Position Statement Preparation	F	FW stage
IS	2	Anti-virus Control	F	DR stage
IS	2	IS Development Review	KC	Planning stage
IS	2	IS/IT Strategy	S	FW stage
IS	2	Mobility	S	Issued 08/11/05
IS	3 (2)	E-mail 05/06	KC	Planning stage
IS	3	Intranet 05/06	KC	Not started
IS	4 (3)	Customer Relationship Management	S	Not started
IS	4	e-Government	F	Not started
IS	4	Physical & Environmental Review	S	Not started
IS	4 (1)	Service Desk	S	Planning stage
IS	4	Upgrade Control 05/06	KC	Not started
IS	Ongoing	Electronic Social Care Records	P	FW stage
IS	Ongoing	Infrastructure Transformation Project	P	Planning stage
IS	Ongoing	MCS Phase II: Authorisation	P	Not started
IS	Ongoing	MCS Phase II: e-Tendering	P	Not started
IS	Ongoing	MCS Phase II: Procedures	P	Not started
IS	Ongoing	MCS Phase II: Training	P	Not started
IS (BT)	Ongoing	MCS Phase I	P	ML3 issued 22/06/05 & ML4 issued 29/09/05
IS	1	Computer Misuse & Law	KC	Deferred to Q2 06/07 due to timing of recommendations
IS	3	Document Management Systems	F	Deferred to Q1 06/07 due to timing of recommendations
IS	3	Operating Systems	F	Deferred to Q2 06/07 due to timing of recommendations
IS	2	Mainframe	F	Cancelled as this f-up will be covered in the Position Statement Prep f-up process

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
HR	CF 2004/5	Equalities 04/05	F	Issued 06/09/05
HR	CF 2004/5	Use of Consultants	S	Issued 04/10/05
HR	2	Health & Safety	F	Issued 27/09/05
HR	2	Teacher's Pensions	F	Planning stage
HR	3 (1)	Devolved HR Operations	S	Not started
HR	3 (1)	Equalities 05/06	S	Not started
HR	3	HR Data from Schools	S	Not started
HR	3	LG Pensions Service 05/06	KC	Not started
HR	3 (1)	Payroll 05/06	KC + F	Planning stage
HR	4	Recruitment	S	Not started
HR	4	Use of Consultants	F	Deferred to Q2 06/07 due to timing of recommendations
HR	4	Transfer/Closure of Skills Training	F	Cancelled as Dir of Res to update BT on outstanding issues.
PS&V	CF 2004/5	Management of Shops	S	Issued 19/09/05
PS&V	4	Management of Shops	F	Deferred to Q2 06/07 due to timing of recommendations
SP	1	Strategic Procurement Team	F	Issued 27/09/05

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
BARNET HOMES				
BH	CF 2004/5	HRA Management	S	Issued 04/10/05
BH	1	Budgetary Control (BH)	S	Issued 26/09/05
BH	2	Cash Book Reconciliation (BH)	S	Issued 26/09/05
BH	2	Leasehold Management	F	Issued 15/09/05
BH	2	Saffron Rents Module	F	Issued 17/10/05
BH	2	Viewing & Signing Tenancy Agreements	F	Issued 23/08/05
BH	1	ICT Strategy	S	Cancelled at client's request
BH	1	Partnering/Price Negotiations	P	Cancelled at client's request

AGENDA ITEM:8

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Meeting	Audit Committee
Date	21 December 2005
Subject	Financial Governance Arrangements, Barnet Homes
Report of	Head of Housing
Summary	This report summarises the arrangements for financial governance and audit within Barnet Homes.

Officer Contributors	Nigel Hamilton, Head of Housing
Status (public or exempt)	Public
Wards affected	None specific
Enclosures	none
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Nigel Hamilton, 8359 6063, Nigel.Hamilton@barnet.gov.uk

1. RECOMMENDATIONS

- 1.1 That the Committee note the arrangements summarised in this report.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet agreed to proceed with the formation of an Arms Length Management Organisation (ALMO) on 2/12/02. On 19/1/04 it approved the constitutional arrangements (including the Management Agreement and the Memorandum and Articles of Association) required for submission to the Office of the Deputy Prime Minister (ODPM) under Section 27 of the Housing Act 1985 (permission to delegate the relevant functions to Barnet Homes). It agreed the first Delivery Plan and monitoring arrangements on 22/3/04,
- 2.2 Audit Committee on 10 October 2005 resolved "That the Head of Housing obtain details from Barnet Homes as to that organisation's internal financial governance arrangements, and report back to the December meeting of the Committee."

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Barnet Homes contributes to Supporting the Vulnerable by providing decent homes in sustainable environments. It also supports other Council priorities, particularly tackling crime through its anti-social behaviour team.

4. RISK MANAGEMENT ISSUES

- 4.1 Barnet Homes manages the Council's housing. It also manages the Housing Revenue Account on behalf of the Council. The properties remain in Council ownership and the tenants remain Council tenants. There is therefore a risk that any failure of governance or performance by Barnet Homes could represent a financial or reputational risk to the Council.
- 4.2 For these reasons Barnet Homes was identified as a key corporate risk in the 2004 Corporate Plan. However it was removed from the list of high risks in the 2005 Plan in the light of the experience of the first year of the operation of the organisation, and of the arrangements summarised in this report.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None specific to this report

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Council's Constitution Part 3 Section 2 details the functions of the Audit Committee including "ensuring that ...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

- 8.1 Barnet Homes was set up, with effect from April 2004, as an Arms Length Management Organisation (ALMO). ALMOs are companies set up by a local authority to manage, maintain and improve its housing stock. The local authority remains as the landlord and Council tenants remain secure tenants of the authority. An ALMO does not trade for profit and is managed by a board of directors comprising Council representatives, elected tenants and independents, usually on a third/third/third basis. The establishment of the ALMO enabled Barnet to access (subject to performance review) £89m to invest in improving its housing stock that would not otherwise have been available.
- 8.2 The establishment and funding of the ALMO was dependent on the agreement of the Office of the Deputy Prime Minister, a condition of which is the ability to have demonstrated sound financial planning, management and long-term financial viability through a high quality business plan. The governance of the Company is described in its Memorandum and Articles of Association which were approved by Cabinet (at its meeting on 19/1/04) and the ODPM as part of the documentation for this process (the "S27 application").
- 8.3 Barnet Homes was inspected by the Audit Commission in 2004 and subsequently awarded 2* ("good"), with excellent prospects for improvement. Their report, published in January 2005 found, in respect of governance in general, that "overall, strengths outweigh weaknesses" and that "Barnet Homes has detailed schemes and procedures to manage risk".
- 8.4 These procedures include a risk register and strategy, an annual audit plan, a Code of Conduct for Board Members, a whistle-blowing policy and fraud prevention and response policies. There is a necessity to formalise arrangements for working with the Council's Corporate Anti-Fraud Team.
- 8.5 Broadly the Board of the Company is responsible for its management. In respect of Finance it sets and monitors the annual budget. However it has delegated most aspects of its business to sub-groups, which report back to Board meetings on their work. Finance, risk management and other related issues such as those referred to in paragraphs 8.3 and 8.4 are the responsibility of the Business sub-group. This meets monthly and deals with any financial matters which may arise and takes a quarterly report on key risk areas for the Company, including financial matters. It reviews and agrees the budget and business plan for reference to the full Board. It also deals with matters such as Service Level Agreements with the Council, income management, procurement strategy, audit arrangements, value for money and efficiency and business

continuity. The Chair of the sub-group is a qualified Chartered Accountant as is one of the other Directors who sits on the sub-group.

- 8.6 The agenda, minutes and papers of these meetings are published on the Barnet Homes web-site and they are regularly reviewed by the Council's Head of Housing, who also attends occasional meetings as a reality check.
- 8.7 At officer level, overall governance is the responsibility of the Company Secretary. There is an appropriately qualified Head of Finance, who is a member of the senior management team of the Company, reporting directly to the Chief Executive. The capital programme, and related procurement, is managed by the Head of Technical Services.
- 8.8 The Company has appointed external auditors, Robson Rhodes, an arrangement which is approved annually by the Council's Head of Housing at the Company's AGM. Robson Rhodes have approved the Company's accounts for the first year of trading. It first used the Council's internal audit system but has terminated that contract and is in the process of tendering for a new internal auditor, with effect from February 1, 2006. The gap between contracts has been raised as a matter of concern by the Council and progress towards the February target date is being closely monitored. In mitigation of this, risk Barnet Homes have indicated that their audit plan remains in place and that a major audit, of rent procedures, planned for this quarter has been commissioned from Deloitte Touche.
- 8.9 Under the Management Agreement between Barnet Homes and the Council, monitoring of all aspects of the Company's performance, and the risks to the Council referred to in paragraph 4.1, is the responsibility of the Head of Housing. This is principally discharged through monthly monitoring meetings between the Head of Housing, the Chief Executive of Barnet Homes and other senior staff from both organisations, including the respective Heads of Finance. These meetings take reports from a separate meeting between the Council's Head of Housing Finance and the Company's Head of Finance. In practice, the technical nature of many of the financial and accountancy issues means that this is the principal forum for the financial aspects of contract monitoring. This arrangement is supplemented by a bi-annual review meeting including the Cabinet Member for Community Services and the Chair of Barnet Homes Board, again with senior officers from both organisations present.
- 8.10 A review of the Management Agreement has commenced. This is a matter of routine good practice and will enable the building on strengths and tackling of any weaknesses identified in the current arrangements.
- 8.11 In summary, I am satisfied that the arrangements for governance and audit were set up on a sound basis, that they have been externally validated by the Audit Commission inspection and that, subject to the timely appointment of new internal auditors, continuing monitoring demonstrates that they are generally working well in practice.

9 LIST OF BACKGROUND PAPERS

- 9.1 Memorandum and Articles of Association, Barnet Homes
- 9.2 Management Agreement between Barnet Homes and the Council
- 9.3 Barnet Homes Business Plan 2005-10
- 9.4 Any person wishing to inspect these documents should telephone 020 8359 6063.

Legal: JEL

BT: CM

AGENDA ITEM: 9

Page nos. 83-111

Meeting	Audit Committee
Date	21 December 2005.
Subject	External Auditor's Revised Report under Statement of Auditing Standards (SAS) 610 for the year 2004/05
Report of Summary	Borough Treasurer To consider the revised report from the external auditor on matters arising from the audit of the 2004/05 accounts.

Officer Contributors	Head of Finance – Core Accountancy Assistant Chief Valuer – Property Services
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Revised SAS610 report for the 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: Jonathan Bunt – Core Accountancy on 020 8359 7251

1 RECOMMENDATIONS

- 1.1 That the additional matters raised by the external auditor relating to detailed aspects of the 2004/05 accounts audit be noted.**
- 1.2 That the management response to matters raised by the external auditor be noted.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Statement of Accounts for 2004/05 were approved, subject to audit, by the General Functions Committee on 28 July 2005. The original report under Statement of Accounting Standard (SAS)610 was considered and approved by the Audit Committee on 10 October 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 which details 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. This was initially done through the report to this Committee on 10 October, but before the completion of the accounts audit. Two issues emerged subsequent to that Committee which were, in the view of the Council's external auditors, of sufficient significance to require a revised report to be issued.

- 8.2 The first issue concerned the financial reporting arrangements for the provision of vehicles utilised by Mill Hill Depot for the delivery of services. Since the contract was entered into in 2000/01, it has been treated as a hire contract between the Council and Serco Fleet Services. The external auditor has not queried this in previous years, but after more detailed technical accountancy work this year by both officers and the external auditors it was agreed that it should be treated and disclosed as an operating lease arrangement. Following on from this, management have agreed to review all hire arrangements that the Council has entered into to ensure they are being reported correctly in the Statement of Accounts. There has been no change to the capital or revenue outturn as a result of this reporting change.
- 8.3 The second, and far more significant, issue relates to the valuation process for Council owned land and buildings. In particular, the external auditor had difficulty in reconciling individual asset values to the original valuation certificates within the records maintained in Property Services. The weaknesses surrounding this area have been recognised by the Council and a separate action plan is being produced to address this for the future.
- 8.4 The management responses to the SAS610 report are shown in the appendix to this report.

9 LIST OF BACKGROUND PAPERS

- 9.1 None

Legal: Jeff Lustig

BT: Jonathan Bunt

London Borough of Barnet

Audit of Accounts 2004-05

Revised Report under Statement of Auditing Standards (SAS)

610

November 2005

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1 Introduction

Background

- 1.1 The 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 Our initial SAS 610 report presented to the Audit Committee on the 10 October 2005 highlighted that there were a number of matters outstanding. We undertook to update the report in the event that additional issues arose from our completion of these outstanding matters. This report summarises the principal matters arising from our final accounts audit, including two significant accounting issues identified when completing the matters indicated as being outstanding at 10 October 2005. One of these issues raised serious concerns about the adequacy of the Council’s arrangements for the valuation of fixed assets. 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. Since additional significant issues have been identified when completing the matters indicated as being outstanding at 10 October 2005, this revised report has been issued and reported to the December 2005 Audit Committee meeting.

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 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 the date of writing this report, the query had not yet been resolved and we have therefore not yet being able to certify the closure of the audit. However, since we believe this query will not have a material effect on the financial statements, it did not delay the issue of our audit opinion.
- 1.7 All remaining audit work has been completed and we issued an unqualified audit opinion on 31 October 2005.

1 Introduction

- 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 only matter outstanding relates to the query from a local government elector (refer to paragraph 1.6 above).

Auditor independence

- 1.10 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

- 1.11 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

- 1.12 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	We issued an unqualified audit opinion on the Council's accounts on 31 October 2005.
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>In addition, there are also adjustments not processed by Management. These are summarised in Appendix C but do not have a material impact on the accounts.</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 raise debtors are not in a position to write-off debts;

		<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>When following up the outstanding valuation certificates reported in our initial SAS610 report we identified that there has been a significant breakdown in the internal control processes for performing, documenting and recording the valuations of Other land & buildings and Non-operational assets performed during 2004/05. Further detail is provided in Appendix A below. We issued a separate report to the Council on this issue on November 7th 2005.</p> <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

2 Executive Summary

		<p>arrangements letter were not available at the start of the audit as required, which required follow-up during our audit.</p> <ul style="list-style-type: none"> • Lease accounting: when following up the outstanding query reported in our initial SAS610 report relating to the precise nature of vehicle contracts entered into, we identified that these contracts were operating leases and therefore needed to be disclosed as such in the Council's accounts. This resulted in additional disclosures to the value of £1.5m to ensure compliance with the SORP. <p>The importance of both timely and quality financial statements as 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.</p>
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 have resulted in a delay in the closure and certification of the 2004-05 accounts but 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 Once the query from a local government elector (refer to paragraph 1.6 above) has been resolved we will issue a completion certificate formally conclude the audit.

Appendix A – Action Plan

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Valuation Processes for Other Land & Buildings and Non-operational Assets</p> <p>When following up the outstanding valuation certificates reported in our initial SAS610 report, the Estates & Valuation Team was not able to locate the valuation certificates and supporting workings for our initial sample of Other Land & Buildings and Non-operational Assets properties. Although this assertion should perhaps be considered in the light of a number of changes of key personnel within the team concerned.</p> <p>In light of this finding we performed additional testing which revealed that:</p> <ul style="list-style-type: none"> The Estates and Valuation Team’s electronic records contained supporting documentation which agreed to the figures included on the asset valuation listing for less than 3% of the Other land & buildings and Non-operational assets valued during 2004/5 (£380m); and There was a net discrepancy of £7,733m between the valuation certificates found by the Core Accountancy Team 	<ol style="list-style-type: none"> Due to the significance of the weaknesses found we agreed with Management that additional disclosure of the nature and impact of the weaknesses was included in the final 2004-05 accounts and that our standard management representation letter was amended to provide us with additional representations on the ownership, disposal and valuation of Other Land & Buildings and Non-operational Assets properties. 	<ol style="list-style-type: none"> Arrangements should be put in place for ensuring there is an adequate audit trail of the valuations performed. A detailed review should be performed to determine the completeness and accuracy of the new SAP fixed asset register. 	<p>Agreed.</p> <p>A separate action plan had already been developed following the original SAS610 report to address the identified process weaknesses. The actions are to be led by the Valuation Team and will include reviewing the assets contained within the existing register, establishing the cyclical revaluation process and the development of documented procedures and guidance.</p> <p>The introduction of SAP will result in a clear audit trail of adjustments to the fixed asset register.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>and the detailed spreadsheet supporting the Other land & buildings and Non-operational assets disclosed in the accounts. This represented 3.2% of the property balances verified, 1.9% of the total Other land & buildings and Non-operational assets, 0.6% of the total Tangible Fixed Assets balance and 1.0% of the Fixed Asset Restatement Account balance.</p>			
<p>Lease Accounting</p> <p>During our audit of prepayments in 2004/05 we noted that there had been a number of significant but not material prepayments on vehicle hire contract agreements with Serco Fleet Services (“SFS”). Lease accounting has been an area of increased focus both internationally with the introduction of International Accounting Standard 17(IAS17) and in a local government context where leases previously deemed to be operating leases have been subject to wider scrutiny following increased focus by the Audit Commission. With this backdrop and recognising that the Council has historically entered into very few leasing arrangements we decided that a detailed assessment was required to determine whether these agreements were leases and if so whether they needed to be accounted for as finance or operating leases.</p> <p>The detailed assessment, which included obtaining representations from the Council’s Transport Manager on the nature and attributes of some of the vehicles categories,</p>	<p>4. Management have made the necessary disclosure amendments to the final 2004-05 accounts to account for the vehicle hire contracts as operating leases.</p>	<p>5. Appropriate arrangements need to be put in place to identify leases that have been entered into.</p>	<p>Agreed in principle.</p> <p>The extent to the level of review needs to be discussed and agreed with Robson Rhodes.</p>

Appendix A – Action Plan

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>revealed that:</p> <ul style="list-style-type: none"> • The agreements were leases; and • For the vast majority of vehicle categories there was insufficient information available to convincingly conclude that the agreements should be accounted for as finance leases. <p>We therefore concluded that the vehicle hire contracts should have been accounted for as operating leases.</p>			

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Change in the Pensions Liabilities Discount Rate</p> <p>The 2004 SORP introduced a change in the discount rate that actuaries were required to use to calculate the discounted value of FRS17 Pension Liabilities. There has been general agreement that the use of the new rate is a change in estimation techniques rather than a change in accounting policy, making prior period adjustments unnecessary.</p> <p>We have however been made aware that there have been two differing approaches used by Actuaries when calculating the actuarial gains and losses and interest costs for 2004/05. The approach adopted by most actuaries has been for pensions liabilities used for calculating 2004/05 movements to be effectively recalculated using the new rate on 1 April 2004. The difference between the old and the new figure has then been included as an actuarial Loss for 2004/05. The restated liabilities at 1 April 2004/05 were used to calculate the amount for the interest cost for 2004/05.</p> <p>The Council's Actuaries adopted a different approach where the 31 March 2004 balance has been rolled forward to 1 April 2004 and used the unadjusted liabilities for the calculation of the interest cost for 2004/05.</p> <p>The 2004 SORP has not specified the approach to be adopted and the two different approaches do not have any net impact on</p>	<p>6. An explanatory paragraph has been included in the notes to the accounts describing the basis adopted by the Council's Actuaries to calculate the 2004/05 interest cost and actuarial gains and losses.</p>	<p>7. None</p>	<p>None required.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>the figures reported, but result in classification differences between interest costs and actuarial gains and losses. We therefore believe that disclosing the basis adopted by the Council's actuaries in the notes to the accounts will enhance the understandability of the accounts.</p>			
<p>Non-enhancing Capital Expenditure</p> <p>Before expenditure can be capitalised to a fixed asset the SORP requires the expenditure to result in an enhancement in the value or use of the asset.</p> <p>During our audit we noted that no formal review is undertaken to identify whether any expenditure capitalised to tangible fixed assets has not enhanced the value of the related asset and should therefore be treated as revenue expenditure.</p>	<p>8. None</p>	<p>9. An annual review of expenditure capitalised to tangible fixed assets should be performed to identify whether any of the expenditure has not enhanced the value of the related asset.</p>	<p>Agreed.</p> <p>The capital programme and capital budget monitoring information will be used to inform the rolling revaluation programme.</p>
<p>Devolved Schools Capital Expenditure</p> <p>We were not able to identify any controls over devolved schools capital expenditure to ensure that schools actually spent capital monies against that intended or to ensure that it is appropriate to capitalise the expenditure incurred in with FRS 12 and / or the SORP and / or ODPM regulations. The only control over devolved schools capital expenditure that we were able to identify was the monitoring of capital expenditure against budget as part of the overall monitoring of the capital programme.</p>	<p>10. None</p>	<p>11. Appropriate arrangements need to be implemented to ensure that devolved schools capital expenditure has been spent against that intended and that it is appropriate to capitalise in accordance with FRS12, the SORP and ODPM regulations.</p>	<p>Guidance is provided to schools surrounding capital expenditure and this is monitored to ensure that all expenditure meets central government prescriptions.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Disclosure and Presentation Enhancements</p> <p>During the course of our audit we made a number of recommendations for improving the disclosure of presentation of the accounts. Whilst most of the recommendations we made have been incorporated into the final 2004-05 accounts some of the recommendations made have not been included. These mainly related to the explanatory foreword, leasing and pension costs and reserves.</p>	<p>12. None.</p>	<p>13. Management should consider incorporating the disclosure and presentation enhancements not incorporated into the 2004-05 accounts into the 2005-06 accounts.</p>	<p>These will be considered in the preparation of the 2005/06 Statement of Accounts by Core Accountancy.</p>
<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>14. Management have agreed to make all the relevant amendments we identified from our initial review of the accounts.</p>	<p>15. 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 	<p>16. 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 has now been undertaken and where appropriate the final</p>	<p>18. 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>

Appendix A – Action Plan

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>net admin adjustment of £18m included in "Central Services to the Public" which per BVACOP should only include "local 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>2004-05 accounts have been adjusted (refer Appendix B).</p> <p>17. Additional disclosure relating to the nature of Intangible Assets has been incorporated into the Final 2004-05 accounts.</p>		<p>Agreed. Detail of disclosure to be agreed with external auditor.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<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 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.</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>19. None as all outstanding matters have now been resolved.</p>	<p>20. 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. This action will be timetabled into the 2005/06 audit by 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</p>	<p>21. None as all outstanding matters have now been resolved.</p>	<p>22. 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</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>the ALMO.</p> <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>Accountancy team were stretched during closedown due to a number 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>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<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 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>23. Clarification of the information available to support the rolling programme of revaluation.</p>	<p>24. The Council needs to ensure that:</p> <ul style="list-style-type: none"> • it has an adequate revaluation programme in place to ensure that all Other land and buildings are revalued on a five year cycle • there is adequate management information system in place to enable, track, monitor and report on progress of this. 	<p>Noted and agreed. Valuers will actively be seeking improvement in this area for the future.</p> <p>Valuers have now provided the auditors with a schedule showing all future revaluation dates.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<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 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>25. Management have agreed for the adjustment required to record the disposals of the dwellings to be processed.</p> <p>26. A reconciliation between the 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>27. 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 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>Noted. The Head of Finance (Housing) will agree arrangements with Barnet Homes to ensure that this occurs in 2005/06.</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>28. An analysis of the MCS and Pericles implementation expenditure capitalised to Tangible fixed assets has been performed to identify costs that do not relate to equipment purchases. These costs have been re-classified as Intangible assets in the 2004-05 final accounts.</p>	<p>29. None.</p>	<p>Agreed. Core Accountancy to manage this.</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<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>30. None.</p>	<p>31. 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 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>32. Management have amended the final 2004-05 accounts as outlined.</p>	<p>33. None</p>	<p>Agreed and actioned</p>

Finding	Action required for 2004-05 Accounts	Other system improvement required	Management response
<p>Group accounts</p> <p>Based on our review of the group accounts against the SORP Disclosure checklist, we have recommended that the Council improve their disclosure around FRS17 liabilities of the group, in particular:</p> <ul style="list-style-type: none"> • explaining that the group balance sheet does not reflect the FRS17 liabilities of Barnet Homes • disclosing the FRS17 liabilities of Barnet Homes in a separate note to the group accounts 	<p>34. Consider disclosure improvements as outlined</p>	<p>None</p>	<p>Noted</p>
<p>Capital commitments</p> <p>A review of the supporting schedule for non housing capital commitments revealed that capital commitments for Sports, leisure & culture have been understated by £0.874m (relating to the Arts Centre project), which means commitments for the service should be £1.545m.</p> <p>A review of the supporting schedule of capital commitments received from housing revealed that Capital commitments for housing had been understated by £0.758m, which means commitments for the service should be £12.035m.</p>	<p>35. Management have amended the final 2004-05 accounts as outlined.</p>	<p>None</p>	<p>Noted</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 Revenue Account - Deferred Grant	
The contribution to the Capital Financing Account for Deferred Grants disclosed on the face of the CRA was overstated by £4,469k.	Amend 'Contribution to the Capital Financing Account for - Deferred Grants' from £6,289k to £1,820k and 'Asset management revenue account' from £54,417k to £49,948k.
Consolidated Balance Sheet – Intangibles and Tangible Fixed Assets	
Following the analysis of the MCS and Pericles implementation expenditure capitalised to Tangible fixed assets identify costs that do not relate to equipment purchases (refer Appendix A), the need to reclassify £4,360k from Vehicles & Plant to Intangible Assets – Software was identified.	Decrease Vehicles & Plant and increase Intangible Assets – Software by £4,360k.
Consolidated Revenue Account – Service Expenditure Analysis	
Following the 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 (refer Appendix A), a misclassification of income and expenditure was identified.	<ul style="list-style-type: none"> • Amend 'Central services to the public' 'Expenditure' and 'Net Expenditure' from £26,209k and £18,275k respectively to £10,261k and £2,327k respectively; • Amend 'Cultural, environment and planning services' 'Expenditure' 'Income' and 'Net Expenditure' from £65,788k, (£17,093k) and £46,695k respectively to £73,679k, (£22,342k) and £51,337k respectively; • Amend 'Corporate & democratic core' 'Expenditure' and 'Net Expenditure' from £4,981k and £3,770k respectively to £5,653k, and £4,442k respectively; and • Amend 'Non distributed costs' 'Expenditure' 'Income' and 'Net Expenditure' from £5,281k, (£0k) and £5,281k respectively to £k, (£k) and £k respectively
Consolidated Revenue Account – Contribution from the pensions reserves	
Contribution from pension reserve: total of (12,670) for 2004/5 and (10,633) for 2003/4 does not agree to note 10	Increase 'Non distributed costs' 'Expenditure' and 'Net Expenditure' by £3,650k and decrease the 'Contribution from the pension reserve' by £3,650k.

Finding	Summary of adjustment agreed
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	
<p>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.</p>	

Appendix C – Summary of accounts adjustments not processed by management

Finding	Impact
Adjustments that would affect results reported in the main financial statements	
<p>Incorrect cut-off of creditors</p> <p>Detailed testing on the cut-off of creditors testing on a sample of twenty post year end payments revealed one instance where an invoice had incorrectly been excluded from the year end creditor balance.</p>	<p>An understatement of creditors and expenditure of £52k.</p>
Classification adjustments that would affect the manner in which results are disclosed in the financial statements	
<p>Classification of Short term borrowings</p> <p>Testing on borrowings revealed that £130k which related to sums held on behalf of other parties had been included in temporary borrowings but should have been included in creditors.</p>	<p>An overstatement of Short term borrowings and an understatement of Creditors of £130k.</p>
Other disclosure adjustments	
<p>During the course of our audit we made a number of recommendations for improving the disclosure of presentation of the accounts. Whilst most of the recommendations we made have been incorporated into the final 2004-05 accounts some of the recommendations made have not been included. These mainly related to the explanatory foreword, leasing and pension costs and reserves.</p>	