

## AGENDA ITEM: 9

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Meeting	Audit Committee
Date	21 December 2005.
<b>Subject</b>	<b>External Auditor's Revised Report under Statement of Auditing Standards (SAS) 610 for the year 2004/05</b>
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

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## 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

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### 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"> <li>• The need to ensure that adequate procedure notes are in place to support users for all key financial systems when MCS is implemented; and</li> <li>• A lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase systems to the financial ledger during the year.</li> </ul> <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"> <li>• 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;</li> <li>• A need for a continuous process for updating details of capital expenditure relating to schools, infrastructure and vehicle plant and machinery;</li> <li>• The need to ensure proper segregation of duties so staff who raise debtors are not in a position to write-off debts;</li> </ul>

		<ul style="list-style-type: none"> <li>• Fraud prevention measures for Cashiers needing to be implemented as soon as possible;</li> <li>• 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</li> <li>• A need to improve payroll monitoring procedures to ensure that fraud prevention and detection steps are regularly performed.</li> </ul> <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 &amp; 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 7<sup>th</sup> 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"> <li>• <b>SORP compliance:</b> 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</li> <li>• <b>Working papers:</b> 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</li> </ul>

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"> <li>• <b>Lease accounting:</b> 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.</li> </ul> <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"> <li>• 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;</li> <li>• 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;</li> <li>• 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.</li> </ul>

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><b>Valuation Processes for Other Land &amp; Buildings and Non-operational Assets</b></p> <p>When following up the outstanding valuation certificates reported in our initial SAS610 report, the Estates &amp; Valuation Team was not able to locate the valuation certificates and supporting workings for our initial sample of Other Land &amp; 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"> <li>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 &amp; buildings and Non-operational assets valued during 2004/5 (£380m); and</li> <li>There was a net discrepancy of £7,733m between the valuation certificates found by the Core Accountancy Team</li> </ul>	<ol style="list-style-type: none"> <li>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 &amp; Buildings and Non-operational Assets properties.</li> </ol>	<ol style="list-style-type: none"> <li>Arrangements should be put in place for ensuring there is an adequate audit trail of the valuations performed.</li> <li>A detailed review should be performed to determine the completeness and accuracy of the new SAP fixed asset register.</li> </ol>	<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 &amp; 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 &amp; 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><b>Lease Accounting</b></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"> <li>• The agreements were leases; and</li> <li>• 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.</li> </ul> <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><b>Change in the Pensions Liabilities Discount Rate</b></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><b>Non-enhancing Capital Expenditure</b></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><b>Devolved Schools Capital Expenditure</b></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><b>Disclosure and Presentation Enhancements</b></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><b>Review of the Draft Annual Accounts</b></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><b>Compliance with SORP</b></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"> <li>The classification of Service Income and Expenditure in accordance with BVACOP. Specific examples included the</li> </ul>	<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"> <li>• Disclosure of all the mandatory divisions of service as required by BVACOP have not been made in the Statement of Accounts; and</li> <li>• The additional disclosure requirements following the introduction of Intangible Assets as a new category within the Consolidated Balance Sheet.</li> </ul>	<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><b>Working Papers</b></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><b>Working Arrangements with the ALMO</b></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"> <li>• preparation of quality financial statements in the form of the Housing Revenue Account, which has necessitated a number of amendments this year</li> <li>• ability to secure and provide adequate working papers for an area which has been relatively unproblematic in previous years.</li> </ul>			<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><b>Revaluation Programme for Other Land &amp; Buildings</b></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"> <li>• it has an adequate revaluation programme in place to ensure that all Other land and buildings are revalued on a five year cycle</li> <li>• there is adequate management information system in place to enable, track, monitor and report on progress of this.</li> </ul>	<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><b>Social Housing Stock Valuation</b></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><b>Classification of Assets between Tangible Fixed Assets and Intangible Assets</b></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><b>Treasury Management Strategy</b></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><b>Provision</b></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"> <li>• 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.</li> <li>• 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.</li> </ul>	<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><b>Group accounts</b></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"> <li>explaining that the group balance sheet does not reflect the FRS17 liabilities of Barnet Homes</li> <li>disclosing the FRS17 liabilities of Barnet Homes in a separate note to the group accounts</li> </ul>	<p>34. Consider disclosure improvements as outlined</p>	<p>None</p>	<p>Noted</p>
<p><b>Capital commitments</b></p> <p>A review of the supporting schedule for non housing capital commitments revealed that capital commitments for Sports, leisure &amp; 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
<b>Adjustments that affect results reported in the Consolidated Balance Sheet</b>	
<b>Disposal of Council dwellings:</b> 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.
<b>Classification adjustments that affect the manner in which results are disclosed in the financial statements</b>	
<b>Consolidated Balance Sheet – Classification of assets between operational and non-operational</b>	
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
<b>Consolidated Balance Sheet – Classification of non-operational assets</b>	
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.
<b>Consolidated Balance Sheet – Classification of Other land and buildings</b>	
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.
<b>Consolidated Balance Sheet – Debtors</b>	
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.
<b>Consolidated Balance Sheet – Creditors</b>	
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
<b>Consolidated Balance Sheet – Provision</b>	
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.
<b>Consolidated Revenue Account - Deferred Grant</b>	
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.
<b>Consolidated Balance Sheet – Intangibles and Tangible Fixed Assets</b>	
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.
<b>Consolidated Revenue Account – Service Expenditure Analysis</b>	
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"> <li>• Amend 'Central services to the public' 'Expenditure' and 'Net Expenditure' from £26,209k and £18,275k respectively to £10,261k and £2,327k respectively;</li> <li>• 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;</li> <li>• Amend 'Corporate &amp; democratic core' 'Expenditure' and 'Net Expenditure' from £4,981k and £3,770k respectively to £5,653k, and £4,442k respectively; and</li> <li>• Amend 'Non distributed costs' 'Expenditure' 'Income' and 'Net Expenditure' from £5,281k, (£0k) and £5,281k respectively to £k, (£k) and £k respectively</li> </ul>
<b>Consolidated Revenue Account – Contribution from the pensions reserves</b>	
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
<b>HRA Disclosure notes</b>	
<p>Misstatements were identified in the following HRA disclosure notes:</p> <ul style="list-style-type: none"> <li>• Note 3 - Balance Sheet Value of HRA Assets;</li> <li>• Note 4 – Major Repairs Reserve; and</li> <li>• Note 6 – HRA Capital Expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>• Non-operational assets of £0.572m to be added to disclosure in Note 3</li> <li>• 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</li> <li>• 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.</li> </ul>
<b>Other disclosure adjustments</b>	
<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
<b>Adjustments that would affect results reported in the main financial statements</b>	
<p><b>Incorrect cut-off of creditors</b></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>
<b>Classification adjustments that would affect the manner in which results are disclosed in the financial statements</b>	
<p><b>Classification of Short term borrowings</b></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>
<b>Other disclosure adjustments</b>	
<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>	