

MEETING

AUDIT COMMITTEE

DATE AND TIME

TUESDAY, 4 APRIL 2006

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

ORDER OF BUSINESS

Item No.	Title of Report	Contributors	Page Nos
1.	MINUTES	-	-
2.	ABSENCE OF MEMBERS		
3.	PUBLIC QUESTION TIME	-	-
4.	DECLARATION OF MEMBERS' PERSONAL AND PREJUDICIAL INTERESTS	-	-
5.	MEMBERS ITEMS		
6.	Audit Arrangements, Barnet Homes	HHsg	1-3
7.	2006/7 Internal Audit Annual Plan	CIA	4-43
8.	Annual Audit Letter 2004/05	CE, DoR,CFO & HCPO	44-76
9.	Work Programme for 2006/07	DDR & CFO	77-85
10.	ANY OTHER ITEMS THAT THE CHAIRMAN DECIDES ARE URGENT	-	-

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AGENDA ITEM: 6 Page nos. 1-3

Meeting	Audit Committee
Date	4 April 2006
Subject	Audit Arrangements, Barnet Homes
Report of	Head of Housing
Summary	This report updates the Committee on the internal audit arrangements 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 internal audit arrangements within Barnet Homes, as described in this report.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 At its meeting on 21 December 2005 the Committee received a report on the financial governance arrangements of Barnet Homes and agreed, amongst other things, "That the Head of Housing be instructed to follow up with Barnet Homes the issue of appointment of a new internal auditor, and to investigate whether any external audits had been carried out on Barnet Homes's internal governance arrangements and to report back to a future 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

- 4.1.1 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.
- 4.1.2 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 the December 2005 report to this Committee.

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 thataction 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 At the time of the December 2005 report concern was expressed by both Officers and Members that there was a gap between Barnet Homes' termination of their contract for internal audit with the Council and the appointment of new auditors. The selection process for new internal auditors was scheduled to complete on February 1 2006. Members have therefore asked for assurance that this process was satisfactorily completed.
- 8.2 The process was monitored through the monthly partnership meetings between the Head of Housing , the Chief Executive of Barnet Homes and other senior staff.
- 8.3 Barnet Homes appointed Tribal Business Assurance (TBA) to provide 150 days per annum of audit work following interview on 18 January 2006, a decision confirmed by its Business sub group on 8 February 2006. The contract runs for 3 years. Barnet Homes advise that the 150 days to be provided considerably exceeds the 98 days provided for by the internal contract. TBA brings together teams from The Internal Audit Association and Tribal Local Government Consulting. Barnet Homes has an audit plan in place but this is being reviewed with the new auditors to ensure it reflects key business priorities and risks, particularly the capital programme and the general control environment. It is also expected that the new auditors will assist with documenting processes in conjunction with the implementation of SAP. It is planned to take a revised audit plan for 2006/07 and 2007/08 to the Business sub-group on 5 April.
- 8.4 Members also asked for information about external audit of Barnet Homes' governance. There has been no external audit specifically of this issue. However, the Housing Inspectors of the Audit Commission reviewed the arrangements as part of their inspection in 2004 and found that "overall strengths outweigh weaknesses" and that "Barnet Homes has detailed schemes and procedures to manage risk." Barnet Homes has employed the consultants Housing Quality Network to review the training needs of the Board. Barnet Homes' external auditors are Robson Rhodes who will have reviewed governance and accountability as part of their annual reporting. The draft internal audit plan for 2006/07 has 6 days allocated to governance.

9 LIST OF BACKGROUND PAPERS

- 9.1 Report to Barnet Homes Business sub-group, 8 February 2006 "Appointment of Internal Auditors"
- 9.2 Any person wishing to inspect the background papers should telephone 020 8359 6063.

Legal: JEL
CFO: CM

AGENDA ITEM: 7 Page nos. 4 - 43

Meeting	Audit Committee
Date	4 April 2006
Subject	2006/7 Internal Audit Annual Plan
Report of Summary	Chief Internal Auditor The Committee is asked to consider the Internal Audit annual plan for 2006/7.

Officer Contributors	Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A: 2006/7 Internal Audit Draft Annual Plan
For decision by	Audit Committee
Function of	Council
Reason for urgency/ exemption from call-in (if appropriate)	Not applicable
Contact for further information	Michael Bradley, Chief Internal Auditor Tel No 0208 359 7151

1 RECOMMENDATIONS

- 1.1 That the Audit Committee approve the Draft 2006/7 Internal Audit Annual Plan.

2 RELEVANT PREVIOUS DECISIONS

- 2.1 None

3 CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council is committed to Best Value and to showing 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 this report is to seek approval for the annual Internal Audit plan for 2006/7. This plan should focus audit resources on the highest risk areas facing the organisation.

5 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None

6 LEGAL ISSUES

- 6.1 None

7 CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3, Section 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

2006/7 Draft Annual Audit plan

- 8.1 Attached as an Appendix A to this report is a draft annual audit plan for 2006/7 prepared by the Chief Internal Auditor after a detailed risk assessment of the Council's systems and consultation with the key stakeholders. The audit plan for 2006/7 is presented to the Committee for comment and approval.

8.2 The Committee should be satisfied that it can make an appropriate assessment of the internal control environment based on the programme of work outlined in Appendix A.

9 LIST OF BACKGROUND PAPERS

9.1 None

Legal: MM

CFO: CM

Appendix A

London Borough of Barnet

Internal Audit Service

Draft Audit Plan 2006 - 2007

Contents

Section	Page number
Introduction	3
2006 - 2007 Audit Plan: Systems audits:	
Corporate Audits	5
Education and Children	7
Environment	12
Law & Probity	16
Community Services	17
Resources: Chief Finance Officer	22
Resources: Shared Services	25
Resources: Organisational Dev't & Customer Services	33
2006 - 2007 Audit Plan: Key Systems audits	35

Internal Audit Services 2006 - 2007 Audit Plan

Introduction

Background

The Council has a statutory duty to maintain an adequate and effective internal audit function. The Internal Audit unit provides this function.

Our primary objective is to offer the Council (via the Audit Committee) and Chief Executive an independent and objective appraisal of whether objectives are being met efficiently, effectively and economically. We also provide advice and guidance to management on risk and control issues within individual systems. We aim to achieve this through a planned programme of work based on an annual assessment of the major risks facing the authority.

External Audit

The council's External Auditors, Robson Rhodes, verify the accuracy of the Council's annual financial statements and review the systems in place to support their production. In order to work towards a managed audit approach, we meet regularly with the external auditors to ensure that we plan our work effectively, minimise any duplication of work and ensure that we satisfy the statutory audit requirements.

Internal Audit Performance Standards

Although there are no national performance indicators for Internal Audit, we are continuing our efforts to improve our service to managers. We have a suite of local performance indicators which are approved and monitored by the Audit Committee.

Internal Audit Resources

The annual plan has been drawn up to address the statutory requirements and key risks for the Council, taking into account the available resources within the section. We will be working jointly with our audit partners to deliver the annual plan.

Follow-up audits

All planned audit work undertaken is subject to a formal follow up to ensure that the agreed action to address all recommendations has been implemented. The timing of each follow up review is agreed with the client for the original audit, who will remain responsible for ensuring recommendations are addressed. We report to the Audit Committee summary findings of all internal audit work as well as levels of implementation of agreed recommendations and the impact that this has on our risk assessment of that area.

Recommendations

Internal Audit reports in 2006-7 will not contain any recommendations from the audit team. The report will state the findings and associated risk and the management action to address the risk will be agreed at the time of the exit meeting. The intention is to try and achieve maximum ownership of the response to identified risks as well as further embedding principles of risk management and internal control.

Assurance Levels

All internal audit projects result in a statement of assurance of either 'satisfactory', 'limited' or 'no' assurance. These conclusions are based on the number of 'priority 1' recommendations made in the report - this indicates that, in the auditor's opinion, there is significant risk that either objectives will not be met efficiently and effectively or that fraud or irregularity will not be prevented or detected.

Deferrals

Occasionally it is necessary to defer (or sometimes delete) audits which have been included in the agreed plan. To ensure that audit resources are maximised we have introduced a short 'substitute list' of audits to be included when audits are 'dropped' from this plan.

The 2006 - 2007 Internal Audit plan

Key denoting the Corporate Priorities:

STV = Supporting the Vulnerable in our Community

RRAP = Repairing Roads and Pavements

FCE= First Class Education Service

CGB = Cleaner, Greener Barnet

TC = Tackling Crime

CORPORATE AUDITS

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
BVPIs	A review to be conducted in conjunction with CPO, examining the reasons for continuing amendments to be necessary to submitted BVPI documentation	Head of CPO	2	All
Community Plan	Deferred from 2005-6, this review will consider the effectiveness of procedures for producing, disseminating and monitoring the outcomes of the Community plan.	Head of CPO	2	All
Consultation	A review of the effectiveness of consultation arrangements particularly focusing on monitoring the benefits achieved from addressing the outcomes of consultation exercises.	Head of CPO	2	All
Corporate Governance	Key Control Review	Head of CPO	2	All

Golden Thread	This review will consider management arrangements for ensuring that KPP requirements are owned and delivered through management to front line staff. The adequacy of appraisals to effect this will form part of the focus. This review will be extended to include Learning and Development and appraisals.	Head of CPO	2/3	All
Performance and Policy Cycle	This review will seek to provide assurance on the arrangements for greater 'self-organisation' by services. One aspect of the review will be an examination of the improvements delivered by the findings from the staff survey	Head of CPO	2/3	All
Partnership Arrangements	Key Control audit	Head of CPO	3	All
BVPIs	Follow-up of work conducted in 2005-06	Head of CPO/ Head of ASS	2	All
Freedom of Information Act	Follow-up of work conducted in 2005-06	Director of Resources	2	All
Constitution	Follow-up of work conducted in 2005-06	Head of CPO	4	All
Letting of Contracts/ DPRs	Follow-up of work conducted in 2005-06	Director of Resources	4	All

EDUCATION AND CHILDREN

Director of Children's Services

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Children's Act	Systems review to examine the arrangements to ensure that the outcomes as envisaged by the Children's Act will be delivered efficiently, effectively and economically.	Director of Children's Services	3	FCE STV

Education

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Standards and Effectiveness				
Development and Consultancy	Audit to review the traded training services to schools. The review will look at whether management's objectives for this area are fully met and optimum value obtained.	Deputy Chief Education Officer/ Development and Consultation Manager	2	FCE STV TC CGB

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Resources and Performance				
Primary Schools Capital programme	Ongoing project work and follow up of any recommendations made in 2005-06	Head of Education and Chief Education Officer	Ongoing	FCE STV TC CGB
Schools Asset Management	A full review will be undertaken of asset management within the Education Service.	Head of Business Performance	1	FCE CGB
Human Resources Traded Service	Deferred review from 2005-06	Head of Education and Chief Education Officer	2	FCE STV TC
Catering	Full review of the catering service including arrangements for monitoring and control over financial targets.	Head of Education and Chief Education Officer	3	FCE STV
HR Data from Schools	Deferred review from 2005-06.	Director of Resources	4	FCE

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Education Finance	Follow-up of work conducted in 2005-06	Head of Education and Chief Education Officer/ Borough Treasurer	4	FCE STV
Research and Management Information	Follow-up of work conducted in 2005-06	Head of Education and Chief Education Officer	4	FCE
Standards and Inclusion				
SEN Budget and Contract	<p>Systems audit to review the tracking, processing and monitoring of all financial information relating to pupils with a Statement of SEN. This includes pupils attending Barnet mainstream and special schools, pre school settings and out-borough placements.</p> <p>Review to included arrangements for commissioning for SEN and children with disabilities focusing on the joint arrangements with the PCT.</p> <p>Consideration will be given at the planning stage of this audit to including arrangements for Looked after children.</p>	Head of Education and Chief Education Officer	2	FCE STV

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Performance Management of SEN Specialist Service	Follow-up of work conducted in 2005-06	Head of Education and Chief Education Officer	4	FCE STV

Youth Service and Connexions				
Use of Premises	Audit to review the premises used by the Youth Service to seek to give assurance that maximum value is obtained – to include how they are used; assessments of fit for purpose; income management. The review will take account of the review of Community Centres being undertaken by the Housing Service.	Head of Education and Chief Education Officer	3	STV FCE
Libraries, Museums & Local Studies				
Stock Management	Audit to review management arrangements for procurement, handling stock, write-offs, disposals and accuracy of stock record across the service.	Head of Education and Chief Education Officer	2	FCE STV

Children and Families

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Child Protection	A systems review will be undertaken to ensure that the needs of children are met through effective review system, case planning and improved outcomes.	Head of Children and Families	3	STV
Fostering	Audit will provide assurance that effective processes are in place to address recommendations reported following the review by CSCI (Commission for Social Care Inspection) of the Service.	Head of Children and Families	3	STV
Looked After Children	Follow-up of work conducted in 2005-06	Head of Children and Families	3	STV

ENVIRONMENT

Highways and Environment

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Street Lighting 2006/07	Ongoing project work and follow up of any recommendations made in 2005-06	HHE	Ongoing	TC STV
Green Space	Full review of the Service (it is likely that this area will be subject to a restructure with effect from 1 April 2006)	HHE	1	CGB
Public Transportation and Traffic Mgmt	Full systems review of the process to deliver Mayor's Transportation strategy through Local Implementation Plan (LIP).	HHE	1	STV RRAP
Stores	A full systems review including arrangements for security of stock and use of SAP for management monitoring and control. The planning stage for this audit may conclude that advice on risk assessment may be the most valuable audit input.	HHE	1	CGB RRAP
Refuse Commercial – Trade Waste	Deferred review from 2005-06.	HHE	2	CGB
Winter Maintenance	Full systems review to confirm implementation of the new policy from the Government and to ensure that spending delivers value for money.	HHE	2	RRAP

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Graffiti	Full review of the current service provision.	HHE	3	CGB TC
Parking Control	Key control review and a separate follow-up of the Controlled Parking audit completed in January 2006.	HHE	3	RRAP
TMA 2004	Full systems review of the arrangements to implement changes and new standards, including facility to raise additional income, contained in the Traffic Management Act 2004.	HHE	3	RRAP
Waste Minimisation 2006/07	Full systems audit.	HHE	3	CGB
Transport	Full review in preparation for re-tendering in the following year.	HHE	4	STV RRAP
Parking Unit	Follow-up of the Parking Unit project completed in April 2005 which will be extended to include a full risk assessment of the Parking Unit's objectives.	HHE	1	RRAP
Grounds Maintenance	Follow-up of work conducted in 2005-06	HHE	2	CGB
Street Enforcement Service	Follow-up of the review completed during 2005-6.	HHE	3	CGB RRAP TC

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Rechargeable Works & Other Income	Follow-up of the review completed during 2005-6.	HHE	4	RRAP
Recycling	Follow-up of the ECT contract monitoring review completed during 2005-6.	HHE	4	CGB
Transport for London	Follow-up of the TFL review completed during 2005-6.	HHE	4	RRAP

Planning and Regulation

Audit Title	Scope/Audit History/Comments from Client	Client	Quarter	Contribution to the Corporate Priorities
Hendon Cemetery and Crematorium	There are plans to externalise the management of this function, audit will provide assurance on the risk assessment process before transition.	Head of Planning and Regulation	1	CGB
Works in Default	Full review to include examination of arrangements for the recovery of debts and the use of charge to properties.	Head of Planning and Regulation	1	STV
Building Control	Key systems review including assessment of risks resulting from changes following the restructure, introduction of SAP and actions taken post follow-up review.	Head of Planning and Regulation	3	CGB
Planning Service	Further follow-up to establish level of implementation of outstanding recommendations from 2005-6 follow-up review.	Head of Planning and Regulation	1	CGB
Regulatory Services	Follow-up of the review completed during 2005-6.	Head of Planning and Regulation	2	CGB
Trading Standards	Follow-up of the review completed during 2005-6.	Head of Planning and Regulation	2	STV
Licences	Follow-up of the review completed during 2005-6.	Head of Planning and Regulation	3	TC

LAW AND PROBITY

Audit Title	Scope/Audit History/Comments from Client	Client	Quarter	Contribution to the Corporate Priorities
Business Continuity	A full systems review to ensure that there are adequate business continuity arrangements for all key services.	Borough Solicitor	3	All
Emergency Planning	A full systems audit to review the recently enhanced Emergency Planning arrangements.	Borough Solicitor/ Head of CAFT	3	STV
Money Laundering	A full systems review to ensure that there are adequate money laundering arrangements for all key services.	Borough Solicitor	3	TC
Municipal Elections	Systems audit deferred from 2005-6 to review the arrangements for the effective conduct of municipal elections.	Borough Solicitor	4	All
RDT System	Follow-up of work conducted in 2005-06	Borough Solicitor/ Democratic Services	4	STV
General Elections	Follow-up of work conducted in 2005-06	Borough Solicitor	4	All
Money Handling	Follow-up of work conducted in 2005-06	Borough Solicitor	4	All
Registrars	Follow-up of work conducted in 2005-06	Borough Solicitor	4	All

COMMUNITY SERVICES

Adult Social Services

Audit Title	Scope	Client	Quarter	Contribution to the Corporate Priorities
Electronic Single Assessment Process	Project – Internal Audit will provide input into the on-going development of Electronic Single Assessment Process.	Head of Adult Social Services	ongoing	STV
Financial management and invoice payments	Project – continuation from 2005-6 of input to focus on risk and control during systems review and design.	Head of Adult Social Services	1	STV
Adult Social Services Income & Assessment	Full systems audit to include review of changes resulting from the implementation of SAP and progress made on outstanding recommendations from the follow-up review. (The Audit Committee have requested that this review be undertaken in Q1 of 2006/7)	Head of Adult Social Services	1	STV
Data Capture	A full review of this system to address issues identified in previous Internal Audit work in this area.	Head of Adult Social Services	1	STV
Learning Disability	Key control audit to include review of changes since last audit and progress made on outstanding recommendations from the follow-up review.	Head of Adult Social Services	1	STV

Reviewing Team	Deferred review from 2005-06	Head of Adult Social Services	2	STV
Electronic Social Care Records	Full systems review to ensure objectives of the project are delivered effectively.	Head of Adult Social Services	4	STV
Grant systems (received)	Follow-up of work conducted in 2005-06	Head of Adult Social Services	2	STV
Swift (Project)	Follow-up of work conducted in 2005-06	Head of Adult Social Services	3	STV
Adult Social Services Income	Follow-up of work conducted in 2005-06	Head of Adult Social Services	4	STV
Direct Payments	Follow-up of work conducted in 2005-06	Head of Adult Social Services	4	STV
Home care	Follow-up of work conducted in 2005-06	Head of Adult Social Services	4	STV
Procurement & Contract Management	Follow-up of work conducted in 2005-06	Head of Adult Social Services	4	STV
Reviewing Team	Follow-up of work conducted in 2005-06	Head of Adult Social Services	4	STV
Strategic Planning and Health Partnership	Follow-up of work conducted in 2005-06	Head of Adult Social Services	4	STV

Housing

Audit Title	Scope/Audit History/Comments from Client	Client	Quarter	Contribution to the Corporate Priorities
Pericles: Housing Benefit	Ongoing IA input	HSSC	Ongoing	All
Housing Needs & Resources	Full systems review of private sector leasing to ensure the scheme is self financing and safety risks are managed effectively.	Head of Housing	1	STV
Decent Homes Investment Programme	Full review of the monitoring process to ensure delivery of decent homes under Barnet Homes investment programme.	Head of Housing	2	STV
Home Ownership	Full review of the monitoring process to ensure that Barnet Homes are providing effective service to Council home owners.	Head of Housing	2	STV
Rent Deposit Schemes	Key control audit to include review of changes since last audit and progress on managing outstanding risks since the follow-up review.	Head of Housing	2	STV
Housing Benefits	Key systems audit review including risks associated with document imaging arrangements and separate follow-up of review completed in 2005-6. Full systems review if Pericles implemented for Housing Benefits.	Head of Housing	3	STV

Audit Title	Scope/Audit History/Comments from Client	Client	Quarter	Contribution to the Corporate Priorities
Housing Revenue Account	Full review of the monitoring process to ensure that Barnet Homes are meeting Council requirements for maintaining Housing Revenue Account.	Head of Housing	3	STV
Housing Strategy & Performance	Full systems audit of the strategy and business planning to ensure delivery of the most current Housing Strategy.	Head of Housing	4	STV
Barnet Homes Monitoring	Follow-up of the review completed during 2005-6.	Head of Housing	1	STV
Affordable Housing	Follow-up of the review completed during 2005-6.	Head of Housing	3	STV
Housing Rents	Follow-up of the review completed during 2005-6.	Head of Housing	3	STV

Strategic Development Proposed Audit Plan 2006-7

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Cricklewood and Brent Cross Regeneration	Ongoing IA input. Review arrangements for costed resource schedule for Council liabilities in Q1 and follow-up in Q3.	Head of Strategic Development Unit	Ongoing	STV
Grahame Park Regeneration	Ongoing IA input. To include a review of arrangements for the 1 st phase of housing construction in Q3 2006/7 to confirm robust arrangements to deliver development.	Head of Strategic Development Unit	Ongoing	STV
Stonegrove Regeneration	Ongoing IA input. Review arrangements for agreement on head of terms (for entering into contract) in Q2.	Head of Strategic Development Unit	Ongoing	STV
West Hendon Regeneration	Scope of ongoing audit involvement to be agreed at an early planning meeting in 2006/7	Head of Strategic Development Unit	Ongoing	STV

RESOURCES: STRATEGIC SERVICES

Strategic Finance

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Treasury Management	Follow-up of review completed in 2005-6.	CFO/HSF	3	All

Strategic HR

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Attendance Management	Full systems review to ensure that attendance is managed effectively and sickness performance data is accurate & timely. Shared Services will be the lead on performance information for this review.	Director of Resources	3	All
Devolved HR Operations	A full systems review, deferred from 2005-6, to ensure minimum standard of the HR service has been established and is being monitored for effectiveness and consistency.	Director of Resources	3	All

Human Resources Strategy	Full systems review to provide assurance that a robust strategy is in place with supporting policies and arrangements for ensuring compliance.	Director of Resources/CFO	3	All
Use Of Consultants	Follow-up of the review completed during 2005-6.	Director of Resources	2	All
Equalities	Follow-up of the review completed during 2005-6.	Director of Resources	4	All
Safer Recruitment	Follow-up of the review completed during 2005-6.	Director of Resources	4	All

IS Strategy

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
IS Development Systems	Follow-up of review completed in 2005-6.	Director of Resources	4	All
IS/IT Strategy	Follow-up of review completed in 2005-6.	Director of Resources	4	All

Strategic Procurement Team

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Central Contract Monitoring Unit	A review to assess whether the corporate risks around management of contracts are managed effectively.	Director of Resources	2	All

Property Services

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Accommodation Strategy	A systems review to ensure effective arrangements for the delivery of the accommodation strategy.	Director of Resources	3	All
Property Asset Management	A corporate review of the council's asset management arrangements. Deferred from 2005-6.	Director of Resources	3	All
Management of HRA Shops	Follow-up review of work conducted in 2004-5. Deferred from 2005-6.	Director of Resources	2	STV

RESOURCES: SHARED SERVICES

Shared Service Centre

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Modernising Core Systems	Ongoing Internal Audit involvement in key stages of Phase II of the MCS project.	Director of Resources	Ongoing	All
Modernising Infrastructure – project	Ongoing Internal Audit involvement in the Modernising Infrastructure project	Director of Resources	Ongoing	All
Document management systems	Follow-up of review completed in 2005-6.	Director of Resources	1	All
Content Management System	Follow-up of review completed in 2005-6.	Director of Resources	3	All
Electronic Social Care Records-project	Follow-up of project work completed in 2005-6.	Director of Resources	3	All

Competency Centre	Full systems review to ensure key elements of competency service is delivered effectively.	Director of Resources	2	All
Shared Information And Business Intelligence	Full systems review to assess whether the objectives of the Information Observatory regarding the identification, gathering and handling of key corporate information.	Director of Resources	3	All
Project Support	Full systems review to establish if the objectives of the Project Support function are being met.	Director of Resources	4	All
Service Desk	Follow-up of review completed in 2005-6.	Director of Resources	4	All

Infrastructure and IS Operations

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Computer Misuse and the Law	Key control review deferred from 2005/6	Director of Resources	2	All
IT Assets Management & Disposals	Full systems review to ensure change management is effective. (i.e. to cover any staff changes; hardware or software changes; organisational changes - e.g. restructure, externalisation etc.	Director of Resources	3	All

Infrastructure	Full systems review of externalised arrangements to ensure effective delivery of service on completion of the project.	Director of Resources	4	All
Mobility	Follow-up of review completed in 2005-6.	Director of Resources	2	All
Operating Systems	Follow-up of review completed in 2005-6.	Director of Resources	2	All
E-mail	Follow-up of review completed in 2005-6.	Director of Resources	4	All
Physical & Environmental Security	Follow-up of review completed in 2005-6.	Director of Resources	4	All
Software Applications Management	Follow-up of the Upgrade Control audit completed in 2005-06	Director of Resources	4	All

Revenues

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Pericles: Council Tax	Ongoing IA input.	Head of Shared Service Centre (HSSC)	Ongoing	All
Debtors - Balance Sheet	Full review of the arrangements to ensure that the value of all debtors on the balance sheet give a true and a fair view.	HSF	1	All
Accounts Receivables – Income & Debt Management	Key systems audit including review of post SAP recovery systems (Norwell) & new mortgage systems and a separate follow-up of the Debt Management audit completed in 2005-6.	HSSC/ CRO	3	All
Council Tax	Key systems audit and separate follow-up of the review completed in 2005-6. Full systems review if Pericles implemented for Council Tax.	HSSC/ CRO	3	All
NNDR/ Business Rate	Key systems audit and separate follow-up of review completed in 2005-6.	HSSC/ CRO	3	All
Grants	Ongoing IA input	HSSC	Ongoing	All

Bailiffs	Follow-up of review completed in 2005-6.	HSSC/ CRO	2	All
Cashiers Systems	Follow-up of Axis review completed in 2005-6.	HSSC/ CRO	2	All

Corporate Services

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Risk Management	Full systems audit to review the development of Corporate Risk Management since responsibility transferred to the Directorate.	CFO	2	All

Finance Support Services

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Budgetary Control	Full systems review deferred from 2005/6.	Head of Strategic Finance(HSF)/ HSSC	1	All
Creditors - Balance Sheet	Full review of the arrangements to ensure that the value of all creditors on the balance sheet give a true and a fair view.	HSF	1	All
Stock - Key Control	Key systems review of the arrangements to ensure that the value of stock on the balance sheet give a true and a fair view.	HSF	1	All
Fixed Assets - Key Control	Key systems review of the arrangements to ensure that the value of fixed assets on the balance sheet give a true and a fair view.	Director of Resources (DOR)/ Head of Property Services	2	All
Milly Apthorp	Annual audit of accounts.	CFO	2	STV
Capital Expenditure	Consultancy review to examine arrangements for monitoring of the Capital Programme and post completion reviews	Chief Finance Officer(CFO)/ Capital Assets Group	3	All

Accounts Payable – Payments	Key control review for 2006-7 including a separate follow-up of review completed in 2005-6.	HSSC	4	All
Cash Book Reconciliation	Key control and separate follow-up of work completed in 2005-06.	HSSC/ Chief Revenue Officer (CRO)	4	All
BACS	Follow-up of review completed in 2005-6.	HSSC	3	All
Banking	Follow-up of review completed in 2005-6.	HSSC	4	All
Financial Systems and General Ledger	Follow-up of review completed in 2005-6. (Future audit work in this area to more closely align with SAP arrangements and terminology)	HSSC	4	All
P-Cards	Follow-up of the review completed during 2005-06	CFO	4	All
VAT	Follow-up of the review completed during 2005-06	HSSC	3	All

HR Services

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Recruitment	Deferred review from 2005-06	Director of Resources	1	All
Payroll	Key control review and a separate follow-up of the full systems review completed during 2005-6.	Director of Resources	3	All
LG Pensions Service	Key control review and a separate follow-up of the key control review completed during 2005-6.	Director of Resources	4	All
Recruitment	Follow-up of the review completed during 2005-6.	Director of Resources	4	All

RESOURCES: ORGANISATIONAL DEVELOPMENT & CUSTOMER SERVICES

Information Observatory

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Shared Information and Business Intelligence	Full systems review to assess whether the objectives of the Information Observatory regarding the identification, gathering and handling of key corporate information are being met.	Director of Resources	3	All
Project Support	Full systems review to establish if the objectives of the Project Support function are being met.	Director of Resources	4	All

Customer Services

Audit Title	Scope/Audit History/Comments	Client	Quarter	Contribution to the Corporate Priorities
Customer Care	A systems review to ensure objectives are set and arrangements in place for the delivery of adequate customer care.	Director of Resources	2	All

Web Content Management	<p>A full systems review to examine the effectiveness of arrangements to deliver an up-to-date information portal readily available to staff within the organisation and external users."</p> <p>The planned audit will address risks associated with the following areas, in addition to any other relevant risks: - forward planning for attainment of transactional capability; web development priorities; monitoring function of the web board; training for distributed authors.</p>	Head of OD &CS	3	All
e-government	Follow-up of review completed in 2005-6.	Director of Resources	3	All
Customer relationship management	Follow-up of review completed in 2005-6.	Director of Resources	4	All

KEY SYSTEMS AUDITS

The council's external auditors minimise the work they do by placing reliance on the work of internal audit on certain key systems. These key systems, as defined by the external auditors, are listed below and included in the relevant service section above. Our approach to auditing key systems has been discussed and agreed with the external auditor with regard to timing and scope.

As a result of our risk-based analysis of the council's systems, some of these areas are identified as areas for full systems audits. The remainder, due to the fact that these systems have been subject to a full systems audit recently will be subject to a follow-up or key control audit.

We have agreed that these key systems should be subject to regular review and have therefore put together a programme, which will ensure that each system is regularly audited. The following table summarises our plans.

Key Systems and MCS

System weaknesses identified in key systems have been collated by the auditor assigned to the MCS project. As part of the ongoing audit involvement in the MCS project we will seek to ensure that developing systems are finalised taking these into account and ensuring they are appropriately addressed.

Key control audits

A "key control" review will focus on identifying changes to the system since the last review, and amending the system documentation appropriately. Testing will be restricted to those controls which address the identified risk which are of significant impact and likelihood and are therefore key to the effectiveness of the system. Key control audits will also follow up on any agreed action from previous audit work.

Financial system	2005/6	2006/7	2007/8
Accounts Receivable – Debt Management (previously – Debtors)	Key Control	Key Control	Full review
Accounts Payable - Payments (previously Creditors)	Systems Audit (RR request)	Key Control	Full review
Financial system	2005/6	2006/7	2007/8
Stock systems	Follow up (focus in Adult Social Services – RR)	Key Control	Full review
Payroll	Systems + follow-up	Systems	Full review
Treasury Management (Cash and investments)	Systems	Follow up	Key Control
Fixed assets	Follow up	Key Control	Full review
Financial ledger	Systems	Follow up	Follow-up
<u>Income systems</u>			
Council tax	Systems (with NNDR)	Systems + Follow-up	Key Control
NNDR	Systems (with CT)	Key Control + Follow-up	Key Control
Housing Rents	Systems	Follow up	Key Control

<u>Expenditure systems</u>			
Housing Benefits	Key Control – focusing on reconciliation with rents	Systems	Key Control
Council Tax	Systems	Follow-up	Key Control
Pensions	Key Control	Key Control	Key Control

AGENDA ITEM: 8 Page nos. 44-76

Meeting Audit Committee

Date 4th April 2006

Subject Annual Audit Letter 2004/05

Report of Chief Executive
 Director of Resources
 Chief Finance Officer
 Head of Corporate Performance Office

Summary This report advises the Committee of the Audit Commission report on the 2004/05 Audit of Accounts and Inspection.

Officer Contributors Chief Executive
 Director of Resources
 Chief Finance Officer
 Head of Corporate Performance Office

Status (public or exempt) Public

Wards affected Not applicable

Appendices Annual Audit & Inspection Letter 2004/05

For decision by Audit Committee

Function of Council

Contact for further information: Andy O'Brien, Head of Corporate Performance Office
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 Clive Medlam, Chief Finance Officer
 ☎ 020-8359-7110

1. RECOMMENDATIONS

- 1.1 That the Audit Commission Audit & Inspection Letter be accepted as a reasonable statement on the Council's position in respect to financial standing, and financial and performance management arrangements.**
- 1.2 That the Chief Finance Officer and Head of Corporate Performance are instructed to develop an action plan to respond to the Audit & Inspection Letter and this be reported to the next meeting of this Committee.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The annual Audit and Inspection Letter addresses fundamental aspects of financial standing and performance management in Barnet, which relate to the Council's 'a better Council for a better Barnet' priority.

4. RISK MANAGEMENT ISSUES

- 4.1 The annual Audit and Inspection Letter has many positive things to say about the Council, but highlights areas of weakness that must be addressed over the coming year.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 This report deals with the Council's financial standing. The external auditor's recommendation on balances should be noted.

6. LEGAL ISSUES

- 6.1 The relevant statutory provisions are referred to in the body of the report and the Annual Audit and Inspection Letter.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "Reassuring the Council that the scope and depth of external audit work and the External Audit Plan are sufficient and conducted competently, including...endorsing the annual External Auditor's Letter".

8. BACKGROUND INFORMATION

- 8.1 The purpose of the Annual Audit & Inspection Letter is to summarise the conclusions of and significant issues identified by the Council's External Auditor, RSM Robson Rhodes, during their audit and inspection.
- 8.2 The External Auditor is expected to attend the Committee meeting to introduce his report and respond to questions. In the meantime, this covering report

extracts the key messages from within the Audit and Inspection Letter 2004/05, which is attached.

8.3 The following is drawn to the attention of the Committee:

- 8.3.1 The accounts were given an unqualified audit opinion and significant improvements had been made within accountancy to achieve the statutory deadline. It should be noted that in the previous year's audit letter it was pointed out that achieving the deadline would be extremely difficult given the parallel implementation of SAP. The 2004/05 accounts, however, cannot be certified as closed due to an ongoing audit investigation into the disposal of land to Barnet Football Club in 2001/02.
- 8.3.2 The Council's financial position has improved considerably since the issuing of a section 11 notice in January 2004. At 31 March 2005, general fund balances stood at over £5 million and a further £3 million was transferred to balances as part of the 2005/06 budget setting process.
- 8.3.3 The external auditor believes it is critical for the Council to continue to build up the level of general fund reserves to at least £10 million as well as maintaining its established focus on delivering recurrent efficiencies that do not impact on the service outcomes for corporate priorities.
- 8.3.4 A qualified opinion on the Council's Best Value Performance Plan (BVPP) has been issued due to weaknesses in respect of data supporting Best Value Performance Indicators. The majority of the eighteen reserved indicators related to Human Resources (HR) and Adult Social Services as a result of continued fundamental system weaknesses.
- 8.3.5 The Council has achieved a 2 star rating under the new Corporate Performance Assessment (CPA) framework and is assessed as improving well. Five out of the six service blocks are 'performing well' (scoring 3 out of 4) with Social Care the only service to be assessed as 'performing adequately' (2 out of 4) .
- 8.3.6 The Council continues to strengthen corporate arrangements for performance management led by a strong Corporate Performance Office supported by strong corporate scrutiny of services and budgets by Members and senior managers.
- 8.3.7 The majority of audit issues raised throughout the letter are either historic problems resulting from legacy computer systems which have been replaced or are being addressed through agreed action plans, principally HR and Adult Social Services. Follow up work undertaken by Robson Rhodes has already identified substantial improvement in the data quality held within HR.
- 8.3.8 Improvements are required in the documentation provided to support the Statement of Accounts, mainly with respect to aspects of fixed asset accounting and valuation process and the Housing Revenue Account. Further work is also required on historical issues regarding the accuracy and completeness of the fixed asset register, as a significant breakdown in the

control processes for the performing, documenting and recording of valuations was identified.

- 8.3.9 Good progress has been made in improving overall arrangements for risk management though there are issues that require further work, in particular the assessment of likelihood and impact of key corporate risks occurring and the prioritisation of those risks.
- 8.3.10 The bringing forward of the statutory accounts deadline for 2005/06 and the implementation of SAP during this period represent a significant challenge for the Council.
- 8.3.11 The Statement of Internal Control (SIC) produced by the Council identified a number of improvement opportunities in respect to financial control and, following the implementation of the Modernising Core Systems programme, it is essential that the Council takes the opportunity to address the historical weaknesses around fixed assets, payroll, debtors and creditors as well as strengthening arrangements around contract management and monitoring.
- 8.3.12 Arrangements to address fraud and corruption have been considerably strengthened with the dedicated Corporate Anti-Fraud Team (CAFT), although internal control weaknesses in the HR systems and lack of up to date procedures, which give rise to fraud risks, must be addressed.

9. LIST OF BACKGROUND PAPERS

- 9.1 Annual Audit and Inspection Letter attached.

Legal: JEL
CFO: Jonathan Bunt

Annual Joint Audit and Inspection Letter

January 2006



Annual Joint Audit and Inspection Letter

London Borough of Barnet

Audit 2004/2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Contents

Key messages	5
Council performance	5
The accounts	5
Financial position	5
Other accounts and governance issues	6
Action needed by the Council	6
Performance	7
CPA scorecard	7
Use of resources judgements	9
Corporate assessment reports	11
Other performance work	11
Performance information	14
Best Value Performance Plan	15
Other Audit Commission inspections	15
Accounts and governance	17
Audit of 2004/05 accounts	17
Report to those with responsibility for governance in the Council	17
Matters arising from the final accounts audit	17
Financial standing	18
Systems of internal financial control	20
Standards of financial conduct and the prevention and detection of fraud and corruption	20
Legality of transactions	21
Other work	22
Grant claims	22
National Fraud Initiative	22
Questions from members of the public	22
Looking forward	24
Future audit and inspection work	24
Revision to the Code of Audit Practice	24

4 Annual Joint Audit and Inspection Letter | Contents

Closing remarks	25
Availability of this letter	25
Appendix 1 – Background to this letter	26
The purpose of this letter	26
Audit objectives	26
Appendix 2 – Audit reports issued	28
Appendix 3 – Audit fee	29
Inspection fee update	29

Key messages

Council performance

- 1 Barnet Council is one of 34 single tier and county councils (STCCs) across the country to achieve two stars overall within the new and harder CPA framework 2005. The direction of travel in delivering continuous improvements to services is positive overall and improving well. This accords with the findings of the two service inspections carried out during this period which both resulted in 'excellent' prospects for improvement judgments.
- 2 The five service areas of children and young people, housing, environment, culture and benefits are all performing well (scoring 3 out of 4). Social care (adults) is the only service area which is performing adequately overall (2 out of 4). The way in which the Council uses its resources is assessed as adequate.

The accounts

- 3 The Council is to be commended for meeting the earlier accounts submission and audit deadlines for 2004/05, especially in the context of the parallel implementation of phase 1 of the new SAP system. There is still scope to improve aspects of the preparation of its financial statements. Accounting for fixed assets and in particular the quality of the working papers to support valuations is an area that leaves significant scope for improvement. The 2004/05 accounts cannot be certified as closed due to an ongoing audit investigation related to the disposal of land to Barnet Football Club in 2001/02.

Financial position

- 4 The Council's financial position has improved considerably since we issued a section 11 notice in respect of the Council's diminished general fund balances, which fell to less than £1 million in January 2004. General fund balances now stand at over £5 million and a further £3 million was transferred to balances as part of the 2005/06 budget setting process. The Council is currently predicting that general fund balances will be at least £7 million by 31 March 2006. The improved financial position is a strong achievement in the context of a number of difficult financial settlements in recent years which have increased the pressure on council tax levels and necessitated a major programme of recurrent savings. The Council recognises the need to continue to deliver on existing savings plans as well as continue to strengthen general fund balances over the medium term.

Other accounts and governance issues

- 5 The implementation of the Modernising Core Systems ('MCS') programme from August 2005 represents a significant opportunity for the Council to improve its internal control environment. Related weaknesses in accounts, financial management and internal control are the main factors preventing the Council from improving its current Use of Resources score of 2 to a 3 in 2006.
- 6 In particular the Council needs to ensure that long standing systems weaknesses in payroll, fixed assets, debtors and creditor systems are firmly addressed under the new financial regime ushered in by MCS. The Council recognises that changing systems alone will not in itself improve financial management and internal control and that the development of an embedded culture of financial management and control across the authority is essential going forward.
- 7 The Council has continued to take steps to improve aspects of its governance arrangements and in particular we would note the development of a strong Audit Committee focussed on improving internal control and holding appropriate members and officers to account. The continued focus of Internal Audit on exposing control weaknesses in a variety of financial systems is an essential part of the Council's governance agenda. Furthermore, the continued development of the Corporate Anti-Fraud Team ('CAFT') which has achieved considerable success since its launch in May 2004. The Council will need to continue to carefully review the resources made available to CAFT in the context of improvements in the control environment.

Action needed by the Council

- 8 The key actions required of the Council to address issues as a result of our work are as follows.
 - Continued focus on maintaining a sound financial position and building up the level of general fund reserves to at least £10 million as well as maintaining its established focus on delivering recurrent efficiencies that do not impact on the service outcomes for corporate priorities.
 - Ensuring that 2006 results in a real and sustained change in the internal control environment and culture across the Council and that the opportunities offered by the MCS project to bring internal control arrangements up to the standards of good and excellent councils are realised.

Performance

- 9 We carried out a number of detailed performance reviews in 2005. The main messages from this work were as follows.
- MCS implementation – the first stage of MCS implementation was carried out to timetable and budget on 1 August 2005. A project of this scale inevitably contains a number of risks which need to be addressed in the post-implementation period. Our work identified a need for continued focus to ensure that weaknesses in the previous suite of financial systems were not replicated under MCS. This issue is being closely monitored by both internal audit and the Audit Committee.
 - Contract management – as part of the overall development of its procurement management the Council considered it was important that we reviewed detailed arrangements for contract management. There were a number of weaknesses in the Council's arrangements for the monitoring and reporting on contracts as well as issues with regards to the completeness and accuracy of the contract management database. The Council intends to take the opportunity of the MCS project to help strengthen its contract management arrangements.
 - Risk management – overall the Council's risk management arrangements are adequate and developing well. The Council needs to further embed risk management in services by putting formal arrangements in place for each Service to support the Council's overall statement of internal control.
 - Performance information – 18 Best Value Indicators were reserved in 2004/05 a clear improvement on the 25 reservations in the previous year. As in the previous year this result in a qualified opinion on the Council's Best Value Performance Plan. However, it should be noted that the majority of reserved indicators were in just two services, Human Resources and Adults Social Services and that detailed action plans have been developed to rectify the weaknesses in 2006.

CPA scorecard

- 10 We have reviewed the core service areas shown below. Each service is scored on a scale of 1 to 4, with 1 being the lowest and 4 being the highest.

Table 1 CPA scorecard

Service	2005
Benefits – The Council's performance in providing housing and council tax benefit services. The assessment is made by the BFI and is based primarily on achievement against the 2005 Housing benefits/council tax benefits performance standards.	3

Service	2005
Children and young people – The Council's performance in providing children's services. The joint assessment is made by the CSCI and Ofsted following a review of Council overall performance and key indicators.	3
Culture – The Council's contribution to culture services and outcomes as assessed by the Audit Commission. The assessment combines culture inspection reports with a range of performance indicators. For 2005 the overall score used for CPA will be the higher of the 2005 score or the score from the 2004 libraries and leisure block score.	3
Environment – The Council's performance, as assessed by the Audit Commission, in providing environmental services. The assessment is made by combining environment inspection reports with a range of performance indicators.	3
Housing – The Council's performance, as assessed by the Audit Commission, in providing community housing and, where applicable, housing management services. The assessment is made by combining housing inspection reports with a range of performance indicators.	3
Social care (adults) – The Council's performance in providing adult social care services. The assessment is made by CSCI following a review of Council overall performance and key indicators.	2
Use of resources	2
Council ability – score used for 2005 is from the 2002 corporate assessment	2

- 11 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement, which measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is two stars.
- 12 The Council is generally making improvements in priority services and wider community outcomes, and overall residents' satisfaction with the Council has improved. Half of all indicators are now in the top performance categories, though 17 per cent do not compare well with other local authorities. Education attainment, road repairs, recycling, determination of planning applications and life expectancy are improving. Value for money is adequate, but performance in crime, the top community concern has not improved. The Council is working to improve access to services, but cannot yet show clear outcomes for all users.

There are good prospects for service improvements and although it is not meeting all of its ambitious corporate targets, it has plans in place for example in pavement repairs. Barnet has the capacity to deliver its plans in areas such as children's and planning services and although not all plans such as the overarching HR and Organisational Development are in place, it has the building blocks to develop its corporate capacity. There are no significant failures in corporate governance that would prevent improvement levels being sustained.

Use of resources judgements

- 13 The use of resources assessment is a new assessment, which focuses on financial management but links into the strategic management of the Council. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each Council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 14 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall	2 out of 4

(Note: 1=lowest, 4=highest)

- 15 Overall the Council achieved a score of 2 for the 2005/06 judgements, which represents an assessment of adequate performance on the Audit Commission's scoring system.
- 16 We identified a number of areas of good practice including the processes for developing and monitoring savings plans, the continued focus of internal audit on identifying areas of control weakness, the development of strong audit committee arrangements and the continued success of CAFT in tackling fraud perpetrated from both within and outside of the Council. The Council also strengthened its risk management arrangements in 2005 with the development of a financial risks and opportunities register and consistent and in depth and challenging reporting to members of the financial and other risks associated with decision making.

- 17 In terms of the specific areas where the Council failed to achieve Level 2 performance and hence significant attention and resource needs to be given prior to next years judgements we have listed the three key areas below.
- 18 **Quality of working papers to support the final accounts:** The Council needs to put appropriate arrangements in place to address the weaknesses in this area if a Level 2 or higher is to be achieved in 2006/07. Specifically, significant improvements are required in relation to the Housing Revenue Account and the information received from the ALMO in addition to the information used to support the Fixed Asset register, in particular from the in-house valuations service.
- 19 **Asset Management:** Linked to the above point, significant improvements are required to address the historic completeness and accuracy issues in relation to the Fixed Asset Register and also ensure that appropriate plans are in place around backlog maintenance across the Council's whole property portfolio.
- 20 **Systems of Internal Control:** Again in relation to ensuring that all Level 2 criteria are met going forward, the Council needs to continue to develop mechanisms to evidence senior officer involvement in the SIC and also ensure through the implementation of the MCS project that not only is there a complete set of procedure notes in place but that these are being followed in relation to all the Council's key systems.
- 21 Cultural change in the way in which the Council's financial systems and processes have historically operated is essential and the opportunities offered by the MCS projects must be grasped. The Council will be aware that failures in new systems implementations are often caused by financial behaviours associated with the previous system being inappropriately 'bolted on' to the new systems.
- 22 The timing of the assessment for 2005/06 proved to be challenging for the Council as it is currently part way through an extensive improvement programme (referred to above), which has been designed to address the numerous historic weaknesses identified in recent years. It is also recognised that the guidance for the assessment was not published until June 2005 and that many of the best practices recommended by the Commission would inevitably take time to be implemented and embedded.
- 23 The Council was able to achieve a Level 2 through demonstrating that appropriate arrangements are now largely in place but not yet achieve a Level 3 due to the fact that at an operational level these improved arrangements can not yet be evidenced as fully embedded within the culture of the organisation and hence are not yet operating effectively across all services.
- 24 It would be our view that if the Council continues on its improvement track that looking forward to next year's judgement it should be well placed to improve its score to a 3 which would recognise that the Council is 'performing well' in terms of its use of resources.

Corporate assessment reports

- 25 To view the Council's corporate assessment report, please visit the Audit Commission website (www.audit-commission.gov.uk).
- 26 Until 2008, when all councils will have been assessed using the new-style corporate assessment, the CPA category will be based on either its new corporate assessment score or the previous one if that is higher. Barnet is scheduled for a joint corporate assessment and joint area review inspections in May and June 2006.

Other performance work

Modernising Core Systems ('MCS')

- 27 On 1 August 2005 the first part of the Council's MCS programme went live. The project was delivered to time and budget and represented both a significant project management achievement as well as the opportunity to effectively modernise the Council's financial systems.
- 28 Given the scale of the project, we agreed with the Council to carry out an ongoing 'live' review of progress of the scheme up until the go-live date with a view to flagging up risks that either needed to be addressed immediately or were residual risks that needed to be addressed in the post-implementation period.
- 29 Our work identified four specific significant residual risks, which the Council needed to address/mitigate in the post-implementation period. These are interrelated issues which build upon each other and need to be addressed appropriately.
 - Whether there was sufficient time available to complete all of the delivery tasks associated with such a major implementation project. Areas of particular concern included the delivery of interfaces, alignment of the AXIS and MCS projects, data migration, systems volume and stress testing, change management action plans at a service level, the adoption of appropriate procedures, and the delivery of a major programme of training across the Council.
 - Whether adequate arrangements have been put in place to ensure that appropriate security and segregation of duties have been built into the SAP system. Areas of particular concern include reviewing the segregation of duties and authorisations to ensure all possible security weaknesses have been addressed.
 - Whether there has been sufficient focus in the project and its execution on addressing weaknesses in the control environment identified by sources such as internal and external audit and in delivering best practice in financial stewardship recommended under the CIPFA Financial Management model.

- Whether in the context of the above, there was sufficient time available to complete and more importantly address the outcomes of assurance reviews on the systems by the MCS project team, line management as appropriate and audit reviews. Of particular concern here were any issues arising from systems testing, internal audit reviews of both documentation and historic control weaknesses.
- 30 In addition our review identified two specific issues that the Council needed to address following implementation of SAP on 1 August.
- Embed improvements to the financial management and internal control environment across the Council. These will require constant scrutiny and follow up. We expect to be able to measure progress with regards to the above in the 2005/06 Statement on Internal Control.
 - The need to build upon the existing benefits realisation principles which have been set out as part of the project and to underpin them with detailed outcome based targets in areas such as the cost of processing, the quality of management and financial reporting and the degree of assurance that audit is able to give over key systems.
- 31 A key part of our 2005/06 audits will be to follow up the development of the project and how effectively the key risks we identified have been mitigated.

Contract management

- 32 As part of its continued development of its procurement arrangements the Council asked us to carry out a specific review of contract management arrangements.
- 33 We undertook a review of the Council's Strategy and standard documentation in relation to contract management in addition to a review of the current Contract Management system used to record contracts. In addition to this we also carried out an analysis of contract spend across the organisation.
- 34 Overall we were satisfied with the nature and scope of the corporate documentation and found it to be compliant with relevant good practice guidance. We noted one potential area for improvement concerning the lack of any written policies and procedures for the monitoring of performance against any given contract.
- 35 However, our review of the Council's current Contract Management system for recording contract information highlighted a number of issues with regards to the following:
- weaknesses surrounding the completeness and accuracy of the data held; and
 - the lack of functionality within the system to enable users to effectively manage and monitor the data held.

- 36 We understand that the current system was introduced on a short-term basis with a view to transferring the data into the SAP system during phase two of the MCS project. Our review suggests that the improved functionality that the SAP system offers may be undermined unless robust arrangements are put in place to ensure that complete and accurate data is held on existing systems before the data transfer.
- 37 The contracts database contained 231 contracts at the time of our review. The Council's procedures state that contracts should be in place for all suppliers with whom an excess of £25,000 is spent. Our spend analysis identified almost 1,200 suppliers with whom over £25,000 had been spent during the first nine months of 2004/05.
- 38 Whilst we would expect some instances where a contract is not necessary our review suggests concern as to whether:
- contracts do actually exist for each of the relevant suppliers;
 - there are a number of contracts in existence which are not recorded on the central database;
 - all expenditure is incurred in compliance with the Council's Constitution and Financial Regulations; and
 - Best value is received in payments to suppliers.
- 39 The above issues must be addressed prior to the transfer of relevant information into the SAP system. Furthermore, if it is the case that there are a number of suppliers who should have contracts in place but currently do not, then there is a risk that the Council is not achieving value for money in its transactions and that economies of scale are not being realised. In addition to the above, the lack of formal documented and monitored contracts for high value sums may also expose the Council to a greater degree of risk of fraud and corruption.
- 40 The Council has developed an action plan to address the issues raised by our review and we will work together in 2006 to assess the progress made.

Risk management

- 41 The Council has made progress over the past 12 months in improving its overall arrangements for dealing with risk management. Given the importance of this area we carried out a review of the extent of progress during 2005. Our review highlighted a number of good practice points, including the following.
- A risk management strategy and risk management guidelines have been developed and approved by Cabinet.
 - Key corporate risks have been identified enabling senior managers to have a good understanding of the key risks facing the organisation.
 - A lead member has been allocated responsibility for risk management (this has been allocated to the Cabinet portfolio holder for Performance, Partnerships and Best Value).
 - A financial risks and uncertainties register has been developed.

- All committee papers (including Area Forums) now include a section of the risk management implications of the paper, these include financial, policy and other risks in depth as appropriate.
- Risk management forms part of existing planning and review processes. Heads of Service are challenged on their risk management processes through the quarterly Finance and Performance Review meetings (F&PR) which have achieved success in addressing a number of corporate risks including the financial position and sickness absence.

42 The most significant issues for the Council to continue to develop.

- Formal processes are not in place to incorporate key corporate risks identified as part of the F&PR challenge and review process into a corporate risk register and/or included in the key corporate risks updates given to Cabinet.
- The likelihood and impact of key corporate risks occurring has not been formally assessed and key risks have not been prioritised for action although we recognize that the internal audit planning process is a Directors led review of corporate and other risks.
- Risk management forms a key part of the Statement on Internal Control (SIC) framework. 2005/06 offers an opportunity to embed formal arrangements to support the SIC across the Council's Services.

43 We believe that the current arrangements and processes form a good foundation for further developing risk management and that if the various areas for improvement identified during the course of our review are addressed, further steps can then be taken to embed a culture of risk management within the organisation.

44 In addition to the above, Risk management is a significant feature of the Audit Commission's Use of Resources Judgement which forms a key part of the Council's overall CPA score. Linked to this, the ability to demonstrate that risk management is more fully embedded within the Council would facilitate the Council in achieving a higher score going forward.

Performance information

45 Our audit of the Best Value Performance Indicators in 2004/05 led to the reservation of 18 indicators, which represents some improvement on the 25 indicators reserved in the prior year.

46 These reservations were mostly within Adults Social Services and Corporate Health and were as a consequence of continued fundamental systems weaknesses in Adults Social Services and Human Resources, which we identified during our follow up work in these two areas.

47 We have since undertaken a further follow up review of progress made in relation to data quality in Human Resources and are of the view that based on our limited additional testing there have been significant improvements in the data quality of files that the Council has so far reviewed and cleansed.

- 48 We also reviewed a number of non- BVPI CPA indicators for the first time in 2004/05 and found that there is scope to improve the overall data quality in relation to the collation and reporting of the Library indicators going forward.
- 49 With the forthcoming Audit Commission National data quality audit, which will form an important part of our new value for money conclusion planned for 2006, it is important that the Council continues to develop its management arrangements for the production, review and submission of all PIs.

Best Value Performance Plan

- 50 The Council prepared its Best Value Performance Plan ('BVPP') in line with the statutory deadline of 30 June 2005. We completed our review of the information included within the plan and issued our report on 23rd December 2005.
- 51 As a result of the 18 reservations we qualified our opinion on the Council's Best Value Performance Plan (as we did in 2003/04) as the number of reservations remains above the thresholds recommended by the Audit Commission. The Council is currently working on detailed action plans in Adults Social Services and Human Resources with a view to clearing all the reserved indicators by 2006/07 at the latest.

Other Audit Commission inspections

- 52 The Audit Commission reported on two inspections during 2005 relating to the council's planning services and Barnet Homes, the arms length management organisation. Both were assessed as having excellent prospects for improvement with the former receiving a one-star 'fair' service and the latter a two-star 'good' service. Copies of the full reports can be accessed via the Commission's website www.audit-commission.gov.uk.
- 53 The inspection of the Council's planning service was reported in June 2005 and covered services delivered through the Planning services division of the Environment Directorate, including development control functions, planning policy and urban design and appeals and enforcement. The report highlighted a number of positive achievements including improved access for users and strong performance in the processing of planning applications. The widespread commitment to the continuous improvement of planning services was acknowledged along with the establishment of key policy frameworks such as the LDF, (local development framework) to deliver sustainable growth while protecting the environment and enhancing the borough's local character. Some of the areas highlighted for improvement include addressing user concerns over inconsistency in planning decisions and the quality and value for money of pre-application advice; broadening and enhancing the range of supplementary planning guidance; upgrading the reception area and providing a more pro-active planning enforcement.

- 54 The inspection of Barnet Homes was positive, reporting in January 2005. The assessment identified a number of areas of strength including performance in responsive repairs and maintenance, a strong focus on service users, high satisfaction rates across a number of service activities and a clear plan in place for the achievement of the decent homes standard. There were a number of areas for further improvement including compliance with DDA requirements; re-let times for empty homes; satisfaction rates within BME communities; complaints handling, and quality of repairs work.

Accounts and governance

- 55 We gave the Council's accounts an unqualified audit opinion in accordance with the statutory deadline. This was a strong achievement as the deadline for accounts submission at the end of July 2005 coincided with the introduction of the new SAP system placing a significant resource workload on the new Resources Directorate. We would, however, note that significant improvements are required in the quality of documentation provided by the Council to support aspects of fixed asset accounting as well as entries for the Housing Revenue Account.
- 56 The Council's overall corporate governance arrangements are satisfactory in most key areas. The one key exception relates to internal control arrangements which are recorded in the Council's SIC, the Chief Internal Auditor's Annual Report and our Interim report and remain weak in a number of key areas including the adequacy of financial management procedures across a number of financial systems and the quality of data to support Human Resources and Adults Social Services performance management systems.

Audit of 2004/05 accounts

- 57 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.
- 58 We gave an unqualified opinion on the Council's accounts and Pension Fund on the 31 October 2005. We have yet to issue our certificate closing the audit due to outstanding queries from local government electors related to a sale of land to Barnet Football Club.

Report to those with responsibility for governance in the Council

- 59 We are required by professional standards to report to those charged with governance (in this case to Audit Committee) certain matters before we give an opinion on the financial statements.

Matters arising from the final accounts audit

- 60 Members approved the Council's annual accounts on 28 July 2005. In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement.

- 61 Whilst the accounts have been prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year when accounts must be approved by 30 June 2006 and audited by 30 September 2006.
- 62 In 2004/05, we identified that there has been a significant breakdown in the internal control processes for performing, documenting and recording valuations of Other land & buildings and Non-operational assets. We issued a separate report and action plan to management in November 2005 and have agreed to report back on progress to the Audit Committee in April 2006.
- 63 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) Barnet Homes created on 1 April 2004, particularly in relation to the preparation of the Housing Revenue Account and related supporting working papers.

Financial standing

- 64 The overall financial health of the Council strengthened considerably in 2004/05 with an outturn of over £5 million in available general fund balances. In the context of several difficult settlements since 2002/03 this represents a real and consistent improvement following the Section 11 notice issued in January 2004. In setting the 2005/06 budget and in planning for future years, the Council has recognised the need to continue to strengthen general fund balances.
- 65 There remains however a number of significant of financial challenges over the medium term which include the following.
- Delivery of a significant package of recurrent savings which is pivotal to both maintaining financial balance and delivering Gershon efficiencies.
 - Realising the longer term savings inherent in the MCS project and controlling any unplanned costs which result from the new systems implementation.
 - Ensuring that budget holders capacity to monitor, manage and report their budgets is effectively enhanced by the MCS project.
 - The need to strengthen balance sheet reporting so that there is an increased focus given to the management and recovery of debtors and overall treasury management arrangements.
 - Ensuring that best practice financial and risk management is embedded into the contract management arrangements with Barnet Homes.
 - Ensuring that the new arrangements to manage an effective capital programme with the framework of the Prudential Code are closely monitored.
- 66 The Council has reported a revenue surplus of £1.285 million in its 2004/05 accounts. The Council's financial results at year-end has been helped by a contribution to balances of £3.6 million in year as well as the Council being able to capitalise redundancy costs of £4.1 million following a capitalisation approval from ODPM.

- 67 In setting the 2005/06 budget and in planning for future years, the Council recognised the need to continue to strengthen general fund balances with a further allocation of £3 million to balances as part of the budget.
- 68 The latest financial report available (October 2005) forecast that the level of General Fund balances is likely to increase to just over £7 million by 31 March 2006 which given the financial pressures highlighted above represents a continued upward trend in financial performance although the Council will want to be clear that the current level of balances is held or improved until the year end and that ongoing risks to the financial position continue to be effectively managed. Looking forward it is important that the Council continues a push towards balances of at least £10 million which given the challenges of financial settlements and other costs pressures would represent an appropriate level of cover for an authority that with its annual revenue spend.

Housing Revenue Account

- 69 The HRA showed a deficit of £1.2 million on a gross expenditure of £79 million and reducing the overall level of balances to £5.8million. Reports to the end of October 2005 suggest that the HRA will achieve breakeven in 2005/06 although there are still a number of risks attached including finalising the Service Level Agreement with Barnet Homes for management of the stock.

The Pension Fund

- 70 The pension fund reported a net increase in the value of its assets as at 31 March 2005. The value of the fund asset is currently £407 million. However, under the requirements of Financial Reporting Standard 17 the Council's overall level of funding of its estimated future liabilities has decreased from 60 per cent to 53 per cent as its overall pension fund accounting deficit has now risen to £262 million. However, this needs to be considered in the context of the Council's consistent approach of increasing fund contributions in line with actuarial recommendations and its recognition that funding of the pension fund remains a crucial financial issue in the medium to long term. As part of its ongoing management and monitoring of this area the Council has replaced one of its investment managers following lower than acceptable yields.

Capital programme

- 71 In 2004/05 the Council spent some £61 million on capital schemes against a budget of £65 million with the majority of expenditure spent on schools, roads and housing in line with the Council's corporate priorities. The Council has recognised the critical importance of having robust capital management arrangements in place and new procedures have been introduced in 2005/06 to strengthen management and monitoring arrangements in this area.

Systems of internal financial control

- 72 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. This has been a consistent theme in the Council's SIC, the Chief Internal Auditor's Annual Report and our Interim Report since 2002/03 and has reflected a suite of inadequate financial systems which were no longer fit for purpose, no longer had the confidence of users and needed to be replaced.
- 73 The implementation of the MCS programme with go-live from August 2005 represents a significant opportunity for the Council to improve its use of resources. Related weaknesses in accounts, financial management and internal control are the main factors preventing the Council from improving its current score of 2 out of 4 in the use of resources judgements. In particular the Council needs to ensure that long standing weaknesses in payroll, fixed assets, debtors and creditor systems are firmly addressed under the new financial regime ushered in by MCS.
- 74 The Council recognises that changing systems alone will not in itself improve financial management and internal control and that the development of an embedded culture of financial management and control across the authority is essential. The restructuring of the Council and the development of the new Resources Directorate will continue to play a pivotal part in strengthening the overall control environment.

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

- 75 The Council has made good progress in respect of the prevention and detection of fraud and corruption. Our work has identified a number of strengths in the Council's arrangements. In particular the Council has the following.
- A dedicated Corporate Anti-Fraud Unit (CAFT) which has operated since May 2004, undertaking preventative and detective work in relation to allegations of fraud and corruption including housing benefit fraud.
 - A Counter Fraud Framework and strategy which was approved by Members and has been in place since June 2004.
 - Clear focus and commitment to taking forward the results of the National Fraud Initiative, with good joint working arrangements between CAFT, the Council's Benefits Investigation Team and designated NFI leads in other Council departments.

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

Legality of transactions

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

Other work

Grant claims

- 81 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further is dependant upon the adequacy of the Council's control environment.
- 82 The Council's arrangements for managing and quality assuring grant claims submitted for certification has improved in recent years. Of the 22 grant claims relating to 2004/05 certified as at 31 December 2005, four have been subject to qualification and thirteen have been amended.
- 83 However, there remains scope for the Council to improve the control environment around the submission of grant claims for certification, especially in the context of the change in accounting system in 2005/06.

National Fraud Initiative

- 84 In 2004/05 the local authority took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 85 The Council's Corporate Anti-Fraud Team have led the investigations into the data provided through this national initiative and we are satisfied with the arrangements that CAFT have put in place to effectively identify and address any resulting issues.

Questions from members of the public

- 86 The Council's previous external auditors, PricewaterhouseCoopers are currently investigating an objection to the 2001/02 accounts in respect of a disposal of land to Barnet Football Club.

- 87** We have received a question from a member of the public in respect of the 2004/05 accounts in relation to indemnities granted to officers and members involved with the investigation of the land sale. For this reason we have not certified the audit of the 2004/05 as closed. Our investigation is still ongoing and is likely to run parallel to the PriceWaterhouseCoopers investigation as many of the areas are related. It is unlikely that this work will be completed until the summer of 2006 at the earliest.

Looking forward

Future audit and inspection work

- 88 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 89 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 90 The statutory requirements governing our audit work, are contained in:
- The Audit Commission Act 1998; and
 - The Code of Audit Practice (the Code).
- 91 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 92** This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at Cabinet Resources Committee on 27 February 2006.
- 93** The Council has taken a positive and constructive approach to our audit and inspection. We would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

Availability of this letter

- 94** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Claire Bryce-Smith
Relationship Manager

RSM Robson Rhodes LLP
Appointed Auditors
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

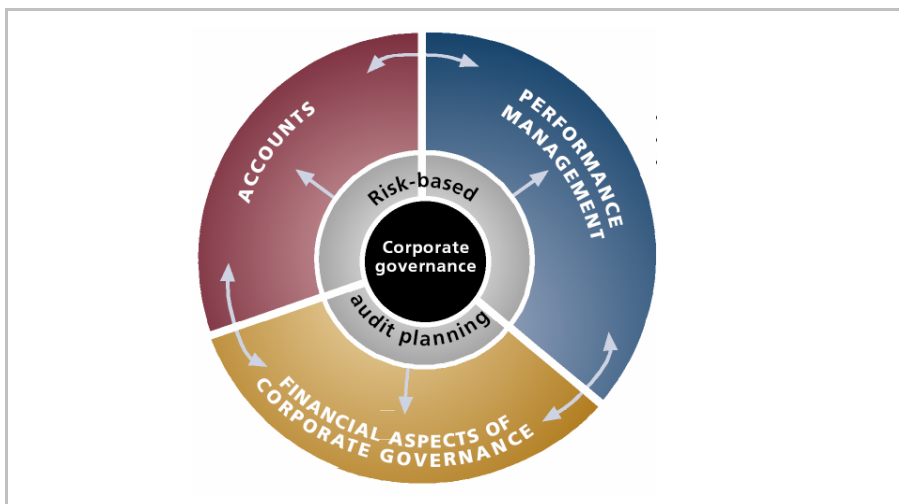
- 95 This is our Joint Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 96 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 97 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 98 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 99 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 100 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 101 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Joint Audit and Inspection Plan 2004/05	March 2004
Barnet Homes Inspection Report	January 2005
Joint Audit and Inspection Plan 2005/06	March 2005
Contract Management Report	May 2005
Planning Inspection Report	June 2005
Planning Services Inspection Report	July 2005
Interim Report	July 2005
Modernising Core Systems Report	July 2005
Grants Report on 2003/04	August 2005
Risk Management Report	September 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610) Pension Fund	September 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	September 2005 Revised November 2005
Leasing Report	October 2005
Valuations Report	November 2005
Use of Resources Report	November 2005
CPA scorecard and direction of travel statement	December 2005

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	111,250	131,250
Financial aspects of corporate governance	95,500	95,500
Performance	174,750	174,750
Total Code of Audit Practice fee	381,500	401,500
Additional voluntary work (under section 35)	Nil	Nil
Total	381,500	401,500

- 102 Note: Overrun incurred on the audit of the 2004/05 Accounts has been taken from a re-allocation of the 2005/06 Audit & Inspection Fee and hence taking the two years combined billing is in accordance with the agreed plans.

Inspection fee update

The full year inspection fee is £30,672. The work reported in this Joint Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.

AGENDA ITEM: 9

Page nos. 77-85

Meeting	Audit Committee
Date	4 April 2006
Subject	Work Programme for 2006/07
Report of	Deputy Director of Resources & Chief Finance Officer
Summary	To propose a work programme for the Audit Committee following on from the consideration of new terms of reference at the last meeting.

Officer Contributors	Deputy Director of Resources & Chief Finance Officer
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – Work Programme 2006/07
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	-

Contact for further information: Clive Medlam, 020 8359 7110

1. RECOMMENDATIONS

- 1.1 That, subject to the Special Committee (Constitution Review) and Council approving the revised terms of reference recommended at the last meeting of the Audit Committee the programme of work as set out in Appendix A be approved;
- 1.2 That the Democratic Services Manager be instructed to investigate alternative dates for some of the scheduled meetings of the Audit Committee as detailed in paragraph 8.4.
- 1.3 That the Committee gives its views on proposals for member briefings, workshops and seminars as set out in paragraph 8.10.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee, 15 February 2006, Dec 7 – resolved to recommend new terms of reference to the Special Committee (Constitution Review), to put in place a programme of training for its members and to instruct the Chief Finance Officer to map out the likely work programme for the forthcoming year, based on key stages in the financial accounting year, and report back to the next meeting of the Committee for further consideration and decision.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The audit plan is designed to review key systems, which in turn are designed to deliver key service objectives. These contribute to the delivery of Key Priorities and the Corporate Plan, in particular the priority of A Better Council for a Better Barnet.

4. RISK MANAGEMENT ISSUES

- 4.1 In recommending revised terms of reference to the Constitution Review Committee, the Audit Committee also accepted the following “Statement of Purpose” as part of the new terms of reference:-

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None.

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 The Audit Committee's terms of reference are noted in Part 3, Section 2 of the Council's Constitution. Approval of revised terms of reference by the Special Committee (Constitution Review) and Council is awaited.

8 BACKGROUND INFORMATION

- 8.1 When considering new terms of reference at its meeting on 15 February 2006, the Audit Committee requested a further report outlining an annual work programme based on having five meetings a year – the first meeting to agree the work programme and the following four meetings to deal with reports.
- 8.2 Attached at Appendix A is a summary of the terms of reference, indicating the reports that I consider it would be appropriate for the Committee to consider. I have also shown the months that these reports could be considered, some of which are dictated by statutory deadlines, e.g. the statement of accounts must be considered before the end of June, and the Statement of Internal Control before the end of September.
- 8.3 Based on this I consider the Audit Committee should consider meetings at the following times:-

Meeting	Items
January or February	<ul style="list-style-type: none"> • Consultation on annual review of council constitution, including:- <ul style="list-style-type: none"> ○ Audit Committee terms of reference ○ Financial Regulations ○ Contract Procedure Rules • Annual review of Audit Committee's Effectiveness • Setting work programme for the coming year
Late March / Early April	<ul style="list-style-type: none"> • Internal Audit Annual Plan • Annual Audit & Inspection Plan (external) • Annual Audit & Inspection Letter (external)
Late June	<ul style="list-style-type: none"> • Internal Audit Annual Report • Corporate Anti-Fraud Team Annual Report (including whistle blowing) • Statement of Accounts
Late September	<ul style="list-style-type: none"> • Interim Audit Management Report (external) • Statement of Internal Control & Risk Management • SAS610 Report (external)
November	<ul style="list-style-type: none"> • Internal Audit Interim Report • Grants Audit Report (external)
As & When	<ul style="list-style-type: none"> • Appointment of External Auditors • Matters referred by the Chief Executive, Directors, Chief Finance Officer • Others reports agreed with Internal and External Audit

- 8.4 Below is an assessment of the suitability of dates already in the Council

diary:-

2006

20 June	OK
30 August	Not needed
18 September	Preferably a week later
12 December	Bring forward to November

2007

28 February	OK, depending on the dates for the Constitution Review Ctte
26 April	Bring forward to late March
19 June	Preferably a week later

- 8.5 To focus the reports on the key issues and not become too detailed, it was agreed by the Audit Committee at its last meeting that it would be good practice for the Chairman, Vice-Chairman and key officers to meet mid-way between Audit Committee meetings to review the agenda and progress with reports.
- 8.6 The Audit Committee agreed at its last meeting that it should have access to reports from inspection agencies about the Council's financial management and governance, to provide a source of assurance and to compare with any relevant internal and external audit reports. It also acknowledged the need to monitor executive and management action arising from such reports. It was agreed, however, that these reports would not ordinarily be considered as agenda items at the Audit Committee other than in exceptional circumstances, and that these reports would just be circulated to Members of the Committee by way of background material.
- 8.7 In the same vein, the Audit Committee accepted its members should maintain an awareness of the work of overview and scrutiny committees, so that they could take account of issues relevant to the Audit Committee's areas of interest.
- 8.8 The Audit Committee agreed that in considering reports set out in Appendix A it should also review relevant strategies that the Council has in place to regulate its activities and control the actions of employees, elected members and contractors. These strategies might include:-
- risk management
 - value for money
 - anti-fraud and corruption
 - whistle blowing
 - complaints procedures.

Responsibility must rest with the relevant report authors to ensure the current position of these strategies is incorporated in their reports.

8.9 The reports on the annual Statement of Accounts and SAS610 bear further mention. The Audit Committee agreed at its previous meeting that in considering these reports it should focus on the following points:-

- the suitability of accounting policies and treatments, including any changes in these from the previous year;
- major judgemental areas (e.g. provisions);
- significant adjustments and material weaknesses in internal control reported by the External Auditor.

8.10 In finalising the annual work programme, the Committee should also bear in mind that it agreed to a programme of briefing sessions, workshops and seminars to be put in place for its members, which would run over a period of 12 months commencing as soon as possible after the May 2006 elections. I propose that this could be delivered by having a further date in the diary one month prior to each of the Committee meetings, at which discussions and briefings could focus on the background to the issues on the agenda for the forthcoming meeting.

9 LIST OF BACKGROUND PAPERS

9.1 None.

Legal: JEL
CFO:CM

Audit Committee – 2006/07 Work Programme

Terms of Reference		Reports	Report Author	Provisional Date
•	AUDIT ACTIVITY			
1	To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.	Internal Audit Annual Plan Internal Audit Interim Report ¹ Internal Audit Annual Report	CIA CIA CIA	March November June
2	To consider summaries of specific internal audit reports as requested.	Internal Audit Interim Report Internal Audit Annual Report	CIA CIA	November June
3	To consider reports dealing with the management and performance of the providers of internal audit services.	Internal Audit Annual Report ²	CIA	June
4	To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.	Internal Audit Interim Report Internal Audit Annual Report	CIA CIA	November June
5	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	Annual Audit & Inspection Letter Interim External Audit Management Report	HoSF HoSF	March / April September

¹ Following on from recent discussions at the Audit Committee, it is envisaged that the interim and annual reports from Internal Audit would be refocused to provide a brief assurance statement on each service (to tie in with arrangements for embedding risk management across the council), accompanied by a list of projects undertaken but with details only being provided on high risk areas.

² The current format of this report will be amended to include the performance indicator summarising feedback from post audit questionnaires.

Terms of Reference		Reports	Report Author	Provisional Date
6	To consider specific reports as agreed with the external auditor.	External Audit Grants Report ³	HoSF	November
7	To comment on the scope and depth of external audit work and to ensure it gives value for money.	Annual Audit & Inspection Plan	DoR	March/April
8	To liaise with the Audit Commission over the appointment of the council's external auditors.	-	-	Determined by Audit Commission
9	To commission work from internal and external audit.	It is envisaged that requests for ad-hoc reports would arise from the consideration of other scheduled reports.	-	At next available meeting (subject to time required to complete work), unless urgent.
• REGULATORY FRAMEWORK				
10	To maintain an overview of the council's constitution in respect of contract procedure rules and financial regulations.	To receive reports as part of the annual review of the council's constitution.	CFO	September to April
11	To review any issue referred to it by the Chief Executive or a Director, or any council body.	Ad hoc.	Person or body referring the matter.	At next available scheduled meeting, unless urgent.
12	To monitor the effective development and operation of risk management and corporate governance in the council.	It is envisaged that this would be part of the assurance framework presented with the annual report on the Statement of Internal Control – see 14.	-	-

³ This will be a new report to the Audit Committee.

Terms of Reference		Reports	Report Author	Provisional Date
13	To monitor council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the council's complaints process.	CAFT Annual Report (including whistle blowing)	BSol	June
14	To oversee the production of the authority's Statement on Internal Control and to recommend its adoption	Statement of Internal Control ⁴	DoR	September
15	To consider the council's compliance with its own and other published standards and controls.	It is envisaged that these points would be covered within all the other reports to this committee.	-	-
• ACCOUNTS				
16	To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.	Draft Statement of Accounts ⁵	HoSF	June
17	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	SAS610	HoSF	September

⁴ It is envisaged that this report would contain or be accompanied by a report of the Chief Internal Auditor, as part of providing the Audit Committee with assurance on the arrangements for producing the SIC.

⁵ To reflect feedback from CPA Use of Resources this report will need to provide more background information on accounting policies, a summary of how the closing of accounts went and any significant issues discussed with external audit.

Terms of Reference		Reports	Report Author	Provisional Date
•	REVIEW OF EFFECTIVENESS			
18	To conduct an annual review of the effectiveness of the Audit Committee	Annual Review of Audit Committee's Effectiveness	CFO	Jan/Feb

Report Authors

CFO Chief Finance Officer
 HoSF Head of Strategic Finance
 CIA Chief Internal Auditor
 BSol Borough Solicitor