

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

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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.

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- 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.
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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

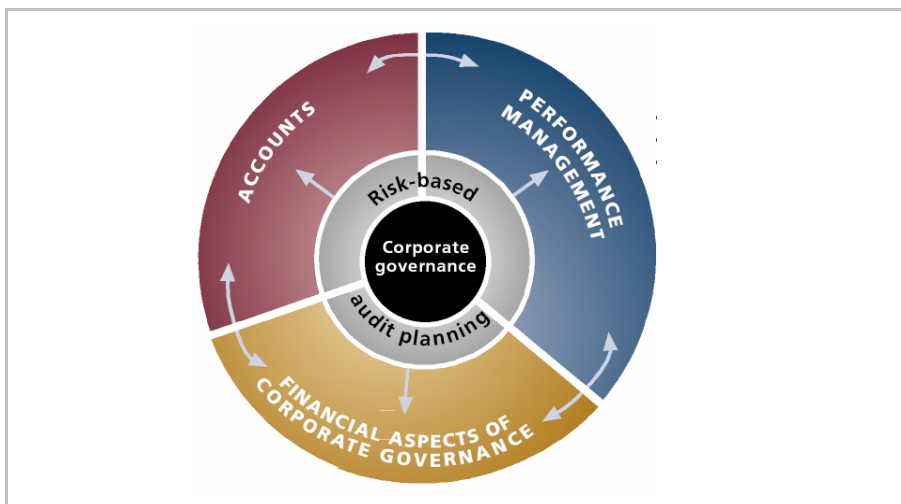
- 95 This is our Joint Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and Appointed Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and 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.