

AGENDA ITEM: 7 Page nos. 9 - 39

Meeting	Audit Committee
Date	28 September 2006
Subject	External Auditor's Interim Report to Management 2005/06 Audit
Report of	Chief Finance Officer
Summary	This report summarises the key issues raised in the external auditor's interim report to management 2005/06 audit and sets out the authority's response to the Action Plan points within the report. The auditor's report is attached at Annex 1, together with the completed Action Plan, which is included in the auditors report as Appendix A.
Officer Contributors	Chief Finance Officer Head of Strategic Finance Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Annex 1 External Auditor's Interim Report to Management 2005/6 Audit Appendix A within Annex 1 includes completed action plan
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Jonathan Bunt - Head of Strategic Finance on 020 8359 7249.

1. RECOMMENDATIONS

- 1.1 That the Committee note the External Auditor's Interim Audit report for 2005/06.
- 1.2 That the Committee approve the management responses and agreed actions to the External Auditor's recommendations in appendix A to Annex 1.

2. RELEVANT PREVIOUS DECISIONS

- 2.1. Audit Committee 31 August 2005 – noted the Interim Report to Management 2004/05 audit and approved the management response to the action plan.
- 2.2. Cabinet Resources Committee 28 June 2006 – 2005/06 Final Outturn Report and final balances figure for 2005/06 approved.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1. It is important that Members review key reports from the External Auditor.
- 3.2. The Corporate Plan includes an objective for a 'strong and supportive governance framework' within 'A Better Council for a Better Barnet'.

4. RISK MANAGEMENT ISSUES

- 4.1. As part of the risk management process, it is important that issues raised by the external auditor are considered and an action plan agreed.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1. None

6. LEGAL ISSUES

- 6.1. None.

7. CONSTITUTIONAL POWERS

- 7.1. This report falls within the responsibility of the Audit Committee to consider. Refer to Responsibility for Functions section of the Constitution which details the Audit Committee's functions including "to consider the external auditor's annual letter, relevant reports, and the report to those charged with governance."

8. BACKGROUND INFORMATION

- 8.1. The interim management report forms part of the external auditor's initial work programme prior to undertaking the final accounts audit. It also has a bearing on

the Corporate Performance Assessment (CPA) - Use of Resources judgement. The report is attached as Annex 1.

- 8.2. The interim audit was primarily concerned with reviewing areas of use of resources and considering the impact of findings on the annual accounts audit approach. It forms part of a continuing dialogue between the Council and its external auditor.
- 8.3. The detailed findings are set out in the report and the key issues are summarised as follows:

Financial Standing:

- Financial health has improved from last year with a general fund balance of £10.49m (page 3 – paragraph 1.10).
- The Council should be commended for dealing strongly with the Section 11 notice issued in December 2003, within a challenging Gershon environment (the efficiency savings target for Local Authorities, published in July 2004, of 7.5% over three years) and several years of low settlements from central government (3 – 1.10).
- Challenges for 2006/07 will include delivery of significant savings programme (3 – 1.10).
- There has been no evidence regarding additional reporting of the balance sheet position with respect to National Non-Domestic Rates and Council tax collection and debt management as recommended last year (12 – 3.19).

Systems of Internal Financial Control:

- There has been an improvement in two key systems, housing benefits and stock, however the debtors system has worsened from limited assurance in 2004/05 to no assurance in 2005/06 (3 -1.12).
- External audit are able to place reliance upon internal audit's work for a number of key controls, however there still remains improvement for the Council to action (3 – 1.12).
- Internal Audit is fully compliant with the Chartered Institute of Public Finance and Accountancy's Internal Audit Standards (9 – 3.6).

Key Systems for producing the Accounts

- Eleven out of the twelve systems have been reviewed. This has identified some improvement, although further work is required to implement effectively key controls in areas such as payroll (3 – 1.19).
- Nine systems have been given assurance. Six of these are satisfactory and three have been given limited assurance as there are still some issues that need to be addressed. For one system (payroll) there is no assurance result currently available as the audit is still in its draft stage. For another

(Fixed Assets), the audit has been deferred until 2006/07 following the implementation of the Modernising Core Systems/SAP programme. One system (debtors) has been given no assurance (10 – 3.16).

- 8.4 The auditor's recommendations are set out in the Action Plan which is Appendix A to the auditor's report (Annex 1), and the management response is also included on the specific issues raised. Members are asked to agree this as part of the recommendations to this report.

9 LIST OF BACKGROUND PAPERS

- 9.1 None

Legal: JEL

CFO: Jonathan Bunt

London Borough of Barnet

Interim report to management 2005/06 audit

July 2006

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1 Executive Summary

Introduction

- 1.1 We have conducted our interim audit programme at London Borough of Barnet ('the Council'). The interim audit programme was primarily concerned with reviewing areas of use of resources and considering the impact of our findings on our annual accounts audit approach. In addition we have carried out work on aspects of performance management arrangements at the Council, some of which have been reported separately.
- 1.2 In planning and carrying out our interim audit work we have had due regard to the Statement of Responsibilities, issued by the Audit Commission, which sets out the respective roles and responsibilities of the Council and its auditors.
- 1.3 It is the Council's responsibility to ensure that its operations are conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that resources are used economically, efficiently and effectively. Our role is to give an independent opinion on the Council's financial statements and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.4 Our overall audit responsibilities are governed by the Audit Commission Act 1998, supported by the Code of Audit Practice (the Code) issued in 2005, which defines the scope of our audit to include:
- the Council's financial statements and its statement on internal control; and
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.5 The purpose of this report is to summarise for management the findings of our interim audit work programme. Key matters, and any which may remain unresolved, may also be reported separately to the Council in our Annual Audit and Inspection Letter upon completion of the financial statements audit.
- 1.6 This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance which third parties may place on it.

Scope and objectives

1.7 The scope of our interim audit visit was to undertake work on arrangements for the use of resources, together with some preparatory work on the accounts opinion. The scope of our audit work including interim visit and further planned work is detailed in Table 1 below:

Table 1: Scope of audit work for 2004-05

Topic	Code Objective	Further Work Planned (July –September 2006)
Closedown and WGA Timetable	– Financial statements	None
SAP and Audit Trail function	– Financial Statements	None
Opening balances post transfer into SAP	– Financial Statements	None
Prudential Code	– Financial Statements	None
Valuations follow up	– Financial Statements	None
Pooled budgets follow-up	– Financial Statements	July - September
Leasing follow up	– Financial Statements	None
Review of Internal Audit	– Financial Statements – Use of Resources	None
Budgetary control and financial standing update	– Use of Resources	On-going review of the financial position
Gershon in 2006/07 and the outturn of the 2005/06 savings plan	– Use of Resources	None
Data Quality Overall arrangements	– Use of Resources	Work commenced 5 th of June 2006
16 CPA indicators	– Use of Resources	Work commenced 5 th of June 2006
UoR action plan follow up	– Use of Resources – Financial Statements	July - September
PFI Audit Opinion	– Financial Statements	None

Key matters arising from the audit

Financial Standing:

- 1.10 Following on from last year's improvement in financial health, the Council has achieved a surplus of over £5m with a general fund balance of £10.49m. Whilst the increase is a positive reflection of the efforts directed by members and officers to the improvement of the financial position, continued delivery of a significant savings programme will remain a challenge in 2006/07. Overall the Council is to be commended for dealing strongly and effectively with the Section 11 notice that we issued in December 2003 when its balances had declined below the £1m mark, all of which has been undertaken within a challenging Gershon environment and several years of low settlements from central government.
- 1.11 Part of our review of budgetary performance includes a review of reserve balances to ensure that the current levels are in line with minimum standards as evidenced in other London Boroughs. We recommended in previous reports issued to the Council that a minimum of £10m should be set aside in reserves, following the final outturn general reserve balances have now been reached at £10.49m.

Systems of internal financial control:

- 1.12 At the time of our interim visit Internal Audit was in the process of finalising a number of reviews with the Council's management. Due to the implementation of SAP throughout the year and a number of other pressures facing the finance teams a number of the projects were delayed. From our review of internal audit's assurance as issued to the Council thus far we are aware that there has been an improvement in 2 of the key systems, housing benefits and stock, for which we intend to place reliance on at the final accounts audit. However, the debtors system has worsened from limited assurance in 2004/05 to no assurance in 2005/06. Overall, we have been able to place reliance on internal audit's work for a number of key controls however there still remains areas of improvement for the Council to action. We are also able to report that in our view internal audit is fully compliant with CIPFA's Internal Audit Standards.

Key Systems for producing the Accounts

- 1.19 As part of our interim audit we reviewed the key controls within the 12 key systems used for the production of the accounts in order to determine the level of reliance that could be placed upon them. We have completed this review for 11 out of the 12 systems and the results of our reliance and additional work required at the final audit are documented in Appendix C. Overall our review has identified some improvement although further work is required to effectively implement key controls in areas such as payroll.

The way forward

- 1.21 Our detailed findings are reported in Sections 2 and 3 and recommendations are included in the Action Plan at Appendix A.

Acknowledgement

- 1.22 Our audit covers a broad range of areas involving many of the Council's services. We would like to take this opportunity to thank Council staff for their assistance and co-operation during the course of the audit.

**RSM ROBSON RHODES LLP
JULY 2006**

2 Financial Statements

Introduction

2.1 We detail in this section the principle areas of work undertaken and the matters arising from our review of the Council's arrangements for production of the financial statements. Our work has been designed to review the adequacy of the Council's arrangements for:

- Closedown and WGA timetable;
- SAP and audit trail function;
- Opening balances post transfer into SAP;
- Prudential code follow-up;
- Valuations follow-up;
- Leasing follow-up;
- Review of internal audit; and
- PFI opinion.

Closedown and WGA timetable

2.2 The Council went through the process of analysing the closedown process of the final accounts from the previous year, this was with a view of improving the timetable necessary for compliance purposes. The accounts were received on the 30 June 2006, highlighting that the Council were successful in meeting the timetable.

2.3 In the past there have been problems experienced in the quality of working papers to support the accounts. As a result, in specific areas such as Barnet Homes and the HRA, the Council has established fortnightly meetings with accountable officers in a view of resolving recurrent issues. To ensure that Council complies with our working paper requirements we provided a detailed arrangements letter to responsible officers for distribution in February 2006. It is envisaged that at the time of our final audit we will be presented with fully referenced working papers that comply with our arrangements letter.

2.4 The closedown timetable did not include any information in respect of Whole of Government Accounts (WGA) as information was not available to the Council until the end of March; at that stage the guidance received was tailored and sent out to accountancy teams. The WGA has been brought forward in accordance with the timetable in Table 1.

Table 1: Statutory timetable for accounts approval and publication

Year ending	Accounts approved by	Accounts published by
31 March 2005	31 July 2005	31 October 2005
31 March 2006	30 June 2006	30 September 2006

SAP and the audit trail function

- 2.5 Prior to the implementation of SAP we provided the Council with a report detailing a number of concerns regarding pre-implementation. For 2005-06, it is the Council's intention to utilise the Audit Trail Module within the SAP system. Given the Council are still in the process of considering how this would work in practice we have yet to carry out our review of 2005-06 audit trails. We therefore propose to follow up on progress made in this area as part of our post implementation review.
- 2.6 To ensure that the appropriate audit trails are in place within SAP we selected a random sample of transactions and ensured that these could be traced to the originator or source document. Based on these tests we concluded that there were appropriate audit trails in place to trace the originator of the transactions.

Opening balances post transfer into SAP

- 2.7 Prior to SAP going live in August the original system, LAFIS, was used to record all transactions for a total of 18 weeks. Reports were designed to extract information from LAFIS which were then compiled in spreadsheets to upload into SAP once live. Reconciliation's were performed once the information was uploaded into SAP to ensure that the process was accurate and complete. Our testing reviewed each week of uploads, this provided us with assurances over the opening balances being transferred successfully onto SAP. Although, we did find minor discrepancies with transfer into other codes these were not considered material to our work, and they were being actioned by staff at the Council.

Prudential Code follow-up

- 2.8 Part of our interim visit included a review of prudential indicators to establish whether they are effectively embedded within the Council. This review followed on from our more detailed piece of work carried out in 2004/05. This review highlighted the following:
- The Council should report Prudential Indicator targets and performance to the member group;
 - The Council should demonstrate a clear link between Prudential Indicator performance and capital expenditure/investments/borrowings; and
 - The Council should demonstrate positive links between Prudential Indicator setting, capital budgets and strategy, and the investment borrowing strategy.
- 2.9 Based on our recommendations the Council had implemented measures to address the weaknesses identified. Whilst it could be seen that the Council members had been provided with reports for Prudential Indicator performance when the Council had changed its borrowing, there was not a systematic process whereby Prudential Indicator information is reported along side revenue and capital information. Performance against prudential indicators should be tailored into revenue, capital

and treasury management reports to members (**Recommendation 1**). This would allow members to view the affordability and sustainability of the capital programme and treasury management activities on a regular basis and make decisions accordingly.

Valuations follow-up

2.10 Following our final accounts audit for 2004/05 we performed a review of the Council's internal control processes for performing, documenting and recording the valuations of 'Other land & buildings' and 'Non-operational assets'. A result of this, a separate report has been drafted and a number of recommendations have been made to address potential issues pre final accounts audit.

Pooled budgets

2.11 Due to the materiality of pooled budgets within the Council's operations we have not performed a review in 2005/06. We will carry forward our plans to review this area to 2006/07.

Leasing follow-up

2.12 Following on from our audit of the accounts for 2004/05, we found that the Council had not correctly disclosed operating leases that resulted in additional disclosures of £1.5m. To ensure that the arrangements have improved going forward we undertook a high level review of leases for preparation of the 2005/06 accounts. We found that the Council had been detailing all leases within a spreadsheet, for material transport leases, which will enable them to make the necessary disclosures within the accounts. The area of leases will be reviewed in more detail at the final accounts stage to ensure that any new leases are accounted for in accordance with SSAP21/IAS17. We would also suggest that the Council identifies those transactions re-charged to other services, for example Barnet Homes, for preparation of the group accounts, as this would be a consolidation adjustment (**Recommendation 2**).

3. Use of Resources

Introduction

- 3.1 It is the responsibility of the Council to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control. The Council is also responsible for reporting on these arrangements as part of its annual statement on internal control.
- 3.2 Under the Code of Audit Practice, we are required to be satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this requirement we are required to examine evidence that is relevant to the Council's corporate performance management and financial management arrangements and report on these arrangements.
- 3.3 Such corporate performance management and financial management arrangements for a key part of the Council's system of internal control and should comprise the arrangements for:
- Establishing strategic and operational objectives;
 - Determining policy and making decisions;
 - Ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
 - Ensuring compliance with established policies, procedures, laws and regulations;
 - Identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
 - Ensuring compliance with the general duty of best value, where applicable;
 - Managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
 - Monitoring and reviewing performance, including arrangements to ensure data quality; and
 - Ensuring that the audited body's affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

3.4 In preparation for our opinion of the Council's 2005-06 use of resources, we have reviewed the following:

- Internal audit;
- Budgetary control and financial standing;
- Gershon in 2006/07 and the outturn of the 2005/06 savings plan;
- Data quality overall arrangements;
- CPA Indicators;
- Use of resources action plan follow-up; and
- PFI opinion.

3.5 Our findings in these areas are set out in further detail below.

Internal Audit

3.6 As part of the managed audit approach we intend to place reliance on internal audit's work for key financial systems. To enable us to place reliance on internal audit we conducted an overall review of their processes against the CIPFA Internal Audit Code 2003. The following table highlights the standards we reviewed and the findings against each standard:

Table 2: Review of internal audit against 2003 CIPFA Code of Internal Audit

Standard	Compliant
One: Scope of internal audit	Satisfactory
Two: Independence	Satisfactory
Three: Audit Committees or equivalent	Satisfactory
Four: Relationships with management, other auditors and other review bodies	Satisfactory
Five: Staffing, training and development	Satisfactory
Six: Audit Strategy	Satisfactory
Seven: Management of audit assignments	Satisfactory
Eight: Due professional care	Satisfactory
Nine: Reporting	Satisfactory
Ten: Quality Assurance	Satisfactory

3.7 Under standard 2, independence, it was noted that the Head of Internal Audit is required to complete annual returns regarding declarations of interest and independence however the requirement is not extended to include individual auditors within the internal audit team. Although we do not consider this a significant issue, we would recommend that on an annual basis auditors are requested to acknowledge their independence. **(Recommendation 3)**

3.8 At the start of the year we agreed with internal audit the key financial systems for which we intended to place reliance on. These 12 systems as follows will be subject to regular audit and will follow the process of a full risk based systems review in year one, followed up by a follow-up in year two and a key control review in year three:

- Accounts payable;
- Accounts receivable;
- Council tax;
- Financial ledger;
- Fixed Assets;
- Housing benefits;
- Housing rents (now Barnet Homes responsibility);
- NNDR;
- Payroll;
- Pensions;
- Stock systems; and
- Treasury management.

3.9 At the time of our review 11 of the 12 key financial systems were available for inspection, fixed assets review has been delayed until 2006/07. Some of the reports are in draft stage and await management comments prior to internal audit finalisation. There has been a delay in completion of the internal audit plan due to the availability of Council's staff and the MCS project remaining priority. We have liaised with internal audit to ensure we have sufficient coverage of our key controls for which we can place reliance on for our final accounts audit.

3.10 Table 3 shows the assurance provided by internal audit for each of the key financial systems in 2005/06 that had been finalised at the time of this report.

Table 3: Summary of internal audit assurance on key financial systems in 2005/06

System	IA Assurance 2004-2005	IA Assurance 2005-2006
Council Tax	Satisfactory	Satisfactory
Housing Benefits	Limited	Satisfactory
Housing Rents	Limited	Limited
NNDR	See Note (1)	Limited
Pensions	Limited	Limited
Stock systems	No assurance	Satisfactory
Treasury Management	Satisfactory	Satisfactory
Financial ledger	Satisfactory	Satisfactory
Debtors	Limited	No assurance
Creditors	Note (4)	Limited
Payroll	Limited	Note (2)
Fixed Assets	Limited	Note (3)

KEY

- (1) Audit was deferred by agreement as a result of Pericles implementation
 - (2) The audit has been recently completed and no assurance result available
 - (3) The project has been deferred to 2006/07
 - (4) Project was deferred
- 3.11 We note from Internal audit's reports completed to date that they have concluded that key controls on few systems provide at least satisfactory assurance that risks material to the achievement of system objectives are adequately managed. Where a system has been recognised as having a limited assurance we would recommend that the Council refer to internal audit's reports for implementing further recommendations. These areas will form the basis of our risk assessment for a final accounts audit and will require additional substantive procedures as a result.
- 3.12 As delays are expected by internal audit for delivering the fixed assets project by the end of June we will seek to undertake our own enquiries to ascertain the operation of some high level controls. We intend to conduct this high level review as part of our final accounts audit.
- 3.13 Internal audit have also been documenting the key systems into flowcharts, these will be finalised during July and will aid us in documenting the system for the requirements of international auditing standards and for clearer mapping of the high level controls in existence at the Council.
- 3.14 Based on our review of internal audit's work on key systems we have identified areas that will be reviewed in detail during our final accounts audit, these have been documented in Appendix C.
- 3.15 We will update our comments on the Council's system of internal financial control once we have completed appropriate audit work, as part of our audit of the financial statements and grants later this year.

Budgetary control and Financial Standing

- 3.16 Based on our review, we have concluded that the arrangements in place at the Council are sufficient to ensure that information produced in relation to its financial position is largely soundly based. In addition we have concluded that the Council has adequately designed budgetary control and management accounting arrangements.
- 3.17 Our work in respect of the Council's overall arrangements for ensuring financial standing involved:
- Overview of budgetary control and management accounting procedures; and
 - Consideration of financial performance against budget and current year-end forecasts.

Budgetary control and management accounting procedures

- 3.18 It was noted during the review of budgetary control that only four revenue monitoring reports were presented to the Cabinet Resources Committee during the 2005/06 at the time of our

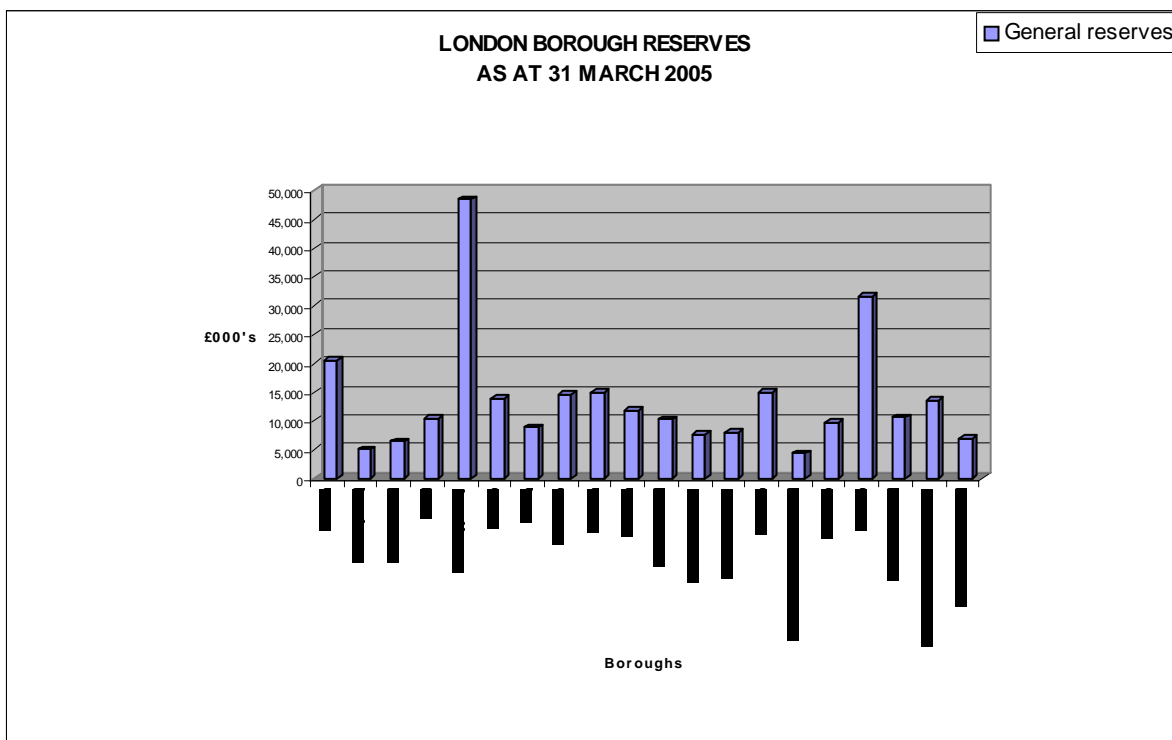
review in March. The initial report issued to the Committee was not presented until almost half way through the financial year. Despite this, the Council appears to be taking action where necessary as a result of weekly monitoring procedures adopted in response to risk identification of income streams.

- 3.19 Last year we made a recommendation to the Council that they should consider monitoring the Council's balance sheet position with respect to NNDR and Council tax collection, debt management and treasury management to the same extent as the revenue and capital position. As yet we have not evidenced any additional reporting. We would recommend that the Council considers this recommendation regarding additional balance sheet monitoring throughout the year.

Performance against budget

- 3.20 Following the interim visit, there were no indications of significant issues around the current year's financial position. Subsequently the Council's actual outturn shows the following year end position:
- General fund – the surplus for the year was £5.38m with a general fund balance of £10.49m. As at March the estimated value for the general fund was £9.3m, which included £1.865m received from the Local Authority Business Growth Incentive. Since this revision there has been a number of variances to budget which will be further analysed as part of our accounts audit.
 - Housing Revenue Account – whilst it was projected to break-even at year-end based on financial monitoring information presented to the Board as of February 2006, the HRA account experienced a £2.1m deficit this year compared to £1.2m in the previous financial year. There were a number of variances to budget, most notably the increase in service level agreement charges from Barnet Homes which resulted in a £594k variance. A review of bad debts has also contributed to £330k contribution to the provision.
- 3.21 We have been requested in the past to provide the Council with an estimate of the minimum balance that should be maintained for the general reserve. Since review of the final outturn report the general fund balances the Council has set aside the suggested minimum of £10.49m. As can be seen from Chart 1 (as at March 2006) below the Council has smaller reserve balances compared to some other comparable London Boroughs. We recommend that the Council continues to monitor its level of reserves to ensure that these are kept at appropriate levels (**Recommendation 4**).

Chart 1: Comparison of London Borough reserve balances



3.22 The 2005/06 capital programme (including housing) approved by the Council in March showed an expected outturn of £86.335m, the final outturn position is £78.932m. Approval has been sought to carry forward £12.216m of capital slippage into the 2006/07 programme, of this 82% will be funded from borrowing. The slippage taken forward to 2006/07 highlights that there remain issues in relation to the management of the capital programme, however it is acknowledged that progress has been slow as a result of slippage from the previous years. Another concern is that there is now considerable reliance placed on prudential borrowing, with approximately 54% of the capital programme now funded by borrowing. There are opportunities for the Council to improve its monitoring in terms of formal reporting to members. The monitoring report for the programme was only reported once to the Cabinet Resources Committee, ideally the reporting should be continually monitored along with revenue. Also, the report only highlighted significant variances in the programme, however given some smaller projects may be experiencing problems, a timescale slippage report may be beneficial for members (**Recommendation 5**).

3.23 We will continue to monitor financial standing throughout the course of the year and formally conclude our comments in the annual audit and inspection letter.

Gershon in 2006/07 and outturn of the 2005/06 saving plan

3.24 The Government commissioned a review of Local Government expenditure headed by Sir Peter Gershon. The findings of the review (published in July 2004) placed new requirements on Local Authorities to make efficiency savings of 7.5% over 3 years, contributing to a national

total of £6.45 billion. At least 50% of these savings must also be "cashable", i.e. representing an actual cash saving.

- 3.25 For the purpose of identifying its efficiency savings target, the Council's baseline expenditure was set by Central Government at £257.60 million. This translates to £19.32 million over 3 years (7.5%). During 2004/05 the Council carried out a base budget review along the lines of Gershon. It identified efficiency savings of £7.171 million in year 1 alone, all of which were cashable, and incorporated these into the 2005/06 budget. The 2005/06 Forward Look Statement lodged with the ODPM also reflected this.
- 3.26 Of the £7.171m in efficiency savings reported in the 2005/06 Forward Look statement, £4.743m have been classed as achieved/on target, £1.656 as at risk and £0.772m as high risk/unachievable. In regards to the validity and accuracy of the efficiency savings identified as achieved we performed a review to ensure they are reasonably based and targets are sufficiently supported, monetary and performance wise. We selected adult social services and environmental services, from this review we concluded that the targets were sufficiently supported and reasonably based.
- 3.27 The base budget review continued in setting the 2006/07 budget and Gershon efficiency savings of £6,675,000 were identified. The Council has achieved an outturn of £5.96m in 2005/06 which is less than the forecast outturn of £6.74m, as such the achievement of the 3 year target of £19.32m, as set by Central Government, is set to be challenging.

Data Quality and CPA indicators

- 3.28 The Audit Commission has issued new guidance on the audit of Best Value Performance Indicators (BVPIs) for the 2005/06 financial year for which it has titled data quality. This has been driven by the perception that good quality data is the essential ingredient for reliable performance and financial information to support decision-making. There is a requirement that data used to report on performance must be fit for purpose, represent an organisation's activity in an accurate and timely manner. At the same time there must be a balance between the use and importance of the information, and the cost of collecting the required data to the necessary level of accuracy.
- 3.29 Our review of data quality will involve a three stage approach which will include an assessment of management arrangements, completeness checks and finally spot check reviews of a sample of PIs. We have begun our Stage 1 and stage 2 aspects of this review. We will report in detail our findings at the conclusion of the third stage of this piece of work.

Use of resources action plan

- 3.30 At the end of November 2005 we issued a report on our findings of the use of resources, key lines of enquiry. This was with the view of providing the Council the opportunity to improve the results going forward into 2005/06. In response to our report, the Council has compiled an action plan for which they have been continually feeding back the results to members. From this report the Council is able to use this as a foundation for supporting their basis for an improved score within the 5 categories of the key lines of enquiry.

- 3.31 We expect to use the Council's action plan, in conjunction with an updated self assessment, for the use of resources work being undertaken between July and September. We expect that the continual monitoring of these issues going forward will reduce the audit resources required over the audit period. We will report on our findings in the annual audit and inspection letter.

PFI audit opinion

- 3.32 In early April 2006 the Council concluded on the PFI scheme for street lighting assets. Based on the qualitative and quantitative assessments of the balances of risks between the Council and the Operator, the Council concluded that the asset should be treated as off balance sheet. Our review of the financial advice received by the Council in this matter has not given us any cause at this stage to form a different view although we will carry out a detailed accounting review as part of the 2006/07 accounts when the transaction will be included in the financial statements. We would like to draw attention to the Council that, within the 2005/06 financial statements, a disclosure should be made as a post balance sheet event the details of the transaction.

Appendix A: Recommendations and Action Plan

The key recommendations arising from our interim audit visit are detailed in this Appendix, along with management responses to the recommendations and agreed actions plans.

We have not repeated within this report recommendations raised by Internal Audit as these are already being addressed by management.

Key to priority ratings

PRIORITY	
1	Significant effect on control system
2	Effect on control system
3	Best practice

Appendix A

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
1	2.9	<ul style="list-style-type: none"> Performance against prudential indicators should be tailored into revenue, capital and treasury management reports to members. 	3		
2	2.12	<ul style="list-style-type: none"> The Council should identify those transactions re-charged to other services with regard to any leases, for example Barnet Homes. This would be required for the purposes of preparing group accounts as it is considered a consolidation adjustment 	2		
3	3.7	<ul style="list-style-type: none"> We would recommend that on an annual basis auditors are requested to acknowledge their independence. 	3		
4	3.21	<ul style="list-style-type: none"> We would recommend that the Council continues to monitor general reserve balances to ensure they are adequate. 	2		
5	3.22	<ul style="list-style-type: none"> The capital programme should be monitored regularly and reported to the Board for constant monitoring. The Council may also benefit from preparing additional information on timescale slippages for larger projects. 	2		

APPENDIX B: Summary of Internal financial Control Weaknesses

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
Financial Ledger	Satisfactory	1	<ul style="list-style-type: none"> Reconciliation's of the Council Tax, NNDR, and Housing Benefits systems to the general ledger have not been undertaken since the implementation of SAP in August 2005.
Fixed Assets	Deferred to 2006/07	N/A	<ul style="list-style-type: none"> N/A
Stock	Satisfactory	3	<ul style="list-style-type: none"> The Council needs to further define what constitutes stock and incorporate within Stock procedures and Financial Regulations of the Council. Valuations of stock is to be Incorporated within the Financial Regulations, Accounting Manual and the Year End Procedures as appropriate. Policy and procedures for approval of disposals should be incorporated into Stock procedures and Financial Regulations, Accounting Manual and the Year End Procedures as appropriate.
Debtors	No assurance	2	<ul style="list-style-type: none"> The Council should seek to document its debt management strategy. The Council lacks robust processes to ensure that all debt due are promptly identified and recovered.
Council Tax	Satisfactory	0	<ul style="list-style-type: none"> N/A
Treasury management	Satisfactory	0	<ul style="list-style-type: none"> N/A
Payroll	Note 1	18 (see Note 1)	<ul style="list-style-type: none"> There are inadequate processes over allocation, recording and review of access authorisation of payroll staff to financial information and data on the SAP system There is a lack of a risk assessment for all payroll functions Lack of exception reports for

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System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
			<ul style="list-style-type: none"> high risk areas o Lack of payroll reconciliations o Effective monitoring overpayments o Procedures not currently up to date.
Pensions	Limited	2	<ul style="list-style-type: none"> o Processes needed improvement in regards to checking life certificates to minimise the potential for fraud. o There are no processes in place to ensure any amendments to key fields are independently verified.
NNDR	Limited	1	<ul style="list-style-type: none"> o The Council need to improve on the timeliness of action taken to identify and write off uncollectable receivables in line with the write off policy.
Creditors	Limited	0	<ul style="list-style-type: none"> o N/A
Housing Benefits	Satisfactory	0	<ul style="list-style-type: none"> o N/A
Housing Rents	Limited	2	<ul style="list-style-type: none"> o The Council should seek to set targets for housing rent collections to ensure cashflows remain constant o There is not sufficient control over Barnet Homes to ensure that maximum rent are being collected

Note 1 – Internal Audit have not yet finalised their overall opinion on payroll services, these are draft recommendations.

APPENDIX C: Financial Systems and their impact on the accounts

We summarise in Table 8 below the impact of the findings of both Internal Audit and ourselves on our final accounts audit approach in relation to each key financial system:

Table 8: Impact of control weaknesses identified on audit approach at final accounts

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Financial Ledger	✓	<ul style="list-style-type: none"> ○ Reconciliation's of the Council Tax, NNDR, and Housing Benefits systems to the general ledger have not been undertaken since the implementation of SAP in August 2005. 	<ul style="list-style-type: none"> ○ None. 	<p>Our audit testing will focus on ensuring that:</p> <ul style="list-style-type: none"> - Key control accounts have been fully reconciled at year-end.
Fixed Assets	x	<ul style="list-style-type: none"> ○ N/A 	<ul style="list-style-type: none"> ○ N/A 	<p>Our focus will be to ensure that:</p> <ul style="list-style-type: none"> - The capital programme has been monitored throughout the year with any major variances identified and explained by responsible officers - The fixed asset register has been reconciled to the ledger at year-end. - Depreciation calculations are reasonable and in accordance with SORP and the council's accounting policies.

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System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Stock	✓	<ul style="list-style-type: none"> ○ The Council needs to further define what constitutes stock and incorporate within Stock procedures and Financial Regulations of the Council. ○ Valuations of stock is to be Incorporated within the Financial Regulations, Accounting Manual and the Year End Procedures as appropriate. ● Policy and procedures for approval of disposals should be incorporated into Stock procedures and Financial Regulations, Accounting Manual and the Year End Procedures as appropriate. 	<ul style="list-style-type: none"> ○ None 	<p>Our work will include:</p> <ul style="list-style-type: none"> - Analytical review of movements in stock compared to last year. - Review of year-end valuation of stock to ensure that the basis of valuation is in accordance with SORP and the council's accounting policies. - Review of year-end reconciliation of stock records to the ledger as appropriate. - Assessing the completeness of stock identification at year-end, and the extent to which disclosure of stock is appropriate.
Debtors	x	<ul style="list-style-type: none"> ○ The Council should seek to document its debt management strategy. ○ The Council lacks robust processes to ensure that all debt due are promptly identified and recovered. 	<ul style="list-style-type: none"> ○ None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - Review the year-end control accounts reconciliation. - Assess whether significant debts raised at year-end, and those over 6 months old are collectable.

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System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Council Tax	✓	<ul style="list-style-type: none"> ○ None 	<ul style="list-style-type: none"> ○ None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - Review the year-end control accounts reconciliation - Consider performance on income collection
Treasury management	✓	<ul style="list-style-type: none"> ○ None 	<ul style="list-style-type: none"> ○ None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - Consider governance and accounting issues arising from any unusual new loans or investments in the Council's financial statements.
Payroll	x	<ul style="list-style-type: none"> ○ There are inadequate processes over allocation, recording and review of access authorisation of payroll staff to financial information and data on the SAP system ○ There is a lack of a risk assessment for all payroll functions ○ Lack of exception reports for high risk areas ○ Lack of payroll reconciliations ○ Effective monitoring overpayments ○ Procedures not currently up to date. 	<ul style="list-style-type: none"> ○ None 	<p>In the absence of a high level reconciliation between HR and payroll data, we will:</p> <ul style="list-style-type: none"> - Review year-end control accounts reconciliation for salaries and wages - Carry out line by line analytical review for all salaries and wages codes and seek further corroboration of any unusual variances

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System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Pensions	x	<ul style="list-style-type: none"> o Processes needed improvement in regards to checking life certificates to minimise the potential for fraud. o There are no processes in place to ensure any amendments to key fields are independently verified. 	<ul style="list-style-type: none"> o None 	<ul style="list-style-type: none"> - We will undertake an audit of the pension scheme accounts.
NNDR	✓	<ul style="list-style-type: none"> o The Council need to improve on the timeliness of action taken to identify and write off uncollectable receivables in line with the write off policy. 	<ul style="list-style-type: none"> o None 	<p>In addition to our standard audit tests we will:</p> <ul style="list-style-type: none"> - Ensure that income is measured against budgeted results - Ensure there is reconciliation to external valuation reports - Review the year end reconciliation of NNDR systems.
Creditors	x	<ul style="list-style-type: none"> o Since the introduction of SAP there are a number of key controls not reassessed since the adoption of the new system. 	<ul style="list-style-type: none"> o None 	<p>We will focus our audit work on the completeness of creditors.</p>
Housing Benefits	✓	<ul style="list-style-type: none"> o None 	<ul style="list-style-type: none"> o None 	<p>We will undertake detailed substantive audit testing of the housing benefits grant claim.</p>

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System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Housing Rents	x	<ul style="list-style-type: none"> o The Council should seek to set targets for housing rent collections to ensure cashflows remain constant o There is not sufficient control over Barnet Homes to ensure that maximum rent are being collected 	<ul style="list-style-type: none"> o None 	<ul style="list-style-type: none"> - We will focus on analytical procedures for income levels - We will review reconciliations between Barnet Homes and SAP.

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Ref	Para ref	Recommendation	Priority	Management Response	Timescale
1	2.9	<ul style="list-style-type: none"> Performance against prudential indicators should be tailored into revenue, capital and treasury management reports to members. 	3	Agreed. Has been done with effect from monitoring report to July Cabinet Resources Committee.	
2	2.12	<ul style="list-style-type: none"> The Council should identify those transactions re-charged to other services with regard to any leases, for example Barnet Homes. This would be required for the purposes of preparing group accounts as it is considered a consolidation adjustment 	2	<p>Agreed. This is done as part of the recharging process.</p> <p>All transactions with Barnet Homes are identified as part of consolidation of group accounts.</p>	
3	3.7	<ul style="list-style-type: none"> We would recommend that on an annual basis auditors are requested to acknowledge their independence. 	3	Internal Audit has already put appropriate action into place to confirm independence. Independence is confirmed in writing by all auditors.	
4	3.21	<ul style="list-style-type: none"> We would recommend that the Council continues to monitor general reserve balances to ensure they are adequate. 	2	Agreed. Projected balances are monitored throughout the year as part of regular reporting to CRC.	
5	3.22	<ul style="list-style-type: none"> The capital programme should be monitored regularly and reported to the Board for constant monitoring. The Council may also benefit from preparing additional information on timescale slippages for larger projects. 	2	Agreed. Capital is now reported alongside revenue and prudential indicators to every CRC as required by the Constitution.	