Audit Committee 20 September 2007, Agenda Item 7 – Appendix A

London Borough of Barnet

Annual Report to those Charged with Governance

Last updated 19 September 2007

Grant Thornton

Our Ref PD/MS/sh
Your Ref -

The Audit Committee
London Borough of Barnet
Hendon Town Hall
The Burroughs
London NW4 4BG

19 September 2007

Dear Sirs

LONDON BOROUGH OF BARNET - ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE

This Annual Report to those Charged with Governance has been prepared in order to record the key matters arising from our audit. [We have discussed our report with Clive Medlam, Chief Financial Officer and Jonathan Bunt, Head of Strategic Finance who confirm its factual accuracy], although the views expressed are those of Grant Thornton. The purpose of the document is further detailed in Section 1.

We would like to take this opportunity to thank the Head of Strategic Finance and other staff and directors for the co-operation and assistance afforded to us during the course of our audit.

Yours faithfully

Grant Thornton UK LLP

Contents

Appendices

1 Executive Summary

1.1 Background and purpose of the report

London Borough of Barnet (the Council) is responsible for the preparation of accounts which record its financial position as at 31 March 2007 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.

Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.

The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been re-produced in full in Appendices A and B and reflect the scope of our audit.

This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Head of Strategic Finance and his team and other officers as appropriate. International Standards on Auditing (UK & Ireland) require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the Audit Committee at its meeting on 20 September 2007.

Formatted: Bullets and Numbering

1.2 The accounts opinion – current status and key issues

We have performed our audit of the 2006/07 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2006/07, agreed with the Council.

We have still to complete our audit finalisation procedures which include:

- completion of audit procedures on reserves and tangible fixed assets, and net cost of services expenditure
- review of the group accounts
- resolution of queries from the Pension Fund accounts
- review of the final version of the statement of accounts
- updating our Post Balance Sheet Events review to the date of signing the accounts.

Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts** by the 30 September deadline.

The appointed day for electors to ask the auditor questions on the accounts this year was 10 September 2007. We received no objections or questions in respect of the 2006/07 accounts there are however two objections relating to prior years which are still being considered and mean that the audit will not be certified closed at 30 September 2007.

We would like to note that this was a difficult year for all councils in preparing accounts, due to the nature of the changes to the accounts required by the 2006 Local Government Statement of Recommended Practice ("SoRP"). We are pleased to note that officers took a pro-active approach to resolving these differences, which led to a smooth audit of the accounts.

There are a small number of recommendations arising from our audit, which can be found in the Action Plan at Appendix C. The key issues to report to those charged with governance are set out below.

Accounts adjustments

There were a number of adjustments arising from our audit that impacted on the income and expenditure account. The most significant was the overvaluation of schools assets by £143m which resulted in an overcharge to the income and expenditure account for depreciation of £7.8m. We note that this adjustment does not impact on General Fund balances, although it had reduced the reported Income and Expenditure deficit from £28m to £20m. Details are included in Appendix D.

Management has not agreed to process the accounts adjustments described in Appendix E, and we would ask the Committee to record if they agree, or not with management on this matter.

Other presentational and disclosure adjustments have been proposed to improve the presentation of the accounts, however these are trifling adjustments, that in our view, do not warrant separate mention in the report as they do not impact on the reported financial position.

Control issues identified

We have also made recommendations in respect of a number of control issues identified from the accounts audit. The most significant of these are again in relation to the £143m overvaluation of school assets which resulted as a consequence of the circumnavigation of control processes in place when uploading figures into SAP (financial system) from spreadsheets used by the valuations team. Control checks should have been carried out to ensure that the correct column value as per the spreadsheet had been correctly input to SAP, however this ordinary check was bypassed on this instance.

We note that the Council under spent against the budget by £1.5m in 2006/07. Included within this under spend are a number of large positive and negative variances against the budget, the most significant of these were through Adult and Social Services (£0.8m adverse), Housing (£1.9m adverse), and Resources (£2m adverse).

As a result of this under spend the Council has further contributed to general fund balances, which now total £12.1m We have continued our focus on the adequacy of these general fund balances, we are pleased to note that these balances have increased however we noted that these balances are considered low when compared to other neighbouring Councils.

We were able to reach the planned level of assurance from internal audit work on the key financial systems, this is in accordance with our managed audit approach. As such we did not perform any additional controls testing. In addition, we performed our annual review of the internal audit function against the CIPFA Internal Audit Code 2003 and found that Internal Audit were of a continuing high standard.

Overall, there are no significant concerns over the controls in place at the Council that we wish to draw to the attention of the Committee.

1.3 The VFM conclusion – current status and key issues

We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources.

At the date of writing this report, the only matter still outstanding relating to the Use of Resources conclusion is completion of a review to update our 2006/07 use of resources work for significant events up to the date of signing our conclusion.

Subject to satisfactory completion of the above work, we expect to issue an **unqualified VFM conclusion** by the 30 September deadline.

There are no significant issues we wish to draw to Members' attention. We did, however, make a number of recommendations in our November 2006 Use of Resources report. These recommendations have been followed up as part of our use of resources key lines of enquiry assessment (KLoE) for 2006/07. This work, which is nearing completion, confirms that arrangements, in each of the areas assessed remain at least adequate. Key messages can be found in Section three. Following national submission of scores and Audit Commission quality assurance we will write to the Council confirming 2006/07 KLoE scores, in November 2007.

1.4 Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards. This report should not be used for any other purpose or copied to third parties without our written consent. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of representation, which is appended to this report.

This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and use of resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix C) and other reports issued during the year (see Appendix F).

1.5 Independence

We are able to confirm our independence and objectivity as auditors and note the following:

- we are independently appointed by the Audit Commission
- the firm has been assessed by the Audit Commission as complying with its required quality standards
- the appointed auditor and client service manager are subject to rotation periodically. Richard Tremeer will replace Paul Dossett as engagement lead in 2007/08 in accordance with these requirements.
- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council (Appendix G)

1.6 Acknowledgments

We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management, officers and members during the course of our audit.

2 Accounts Opinion

2.1 Introduction

We summarise in this section matters arising from our audit of the Council's 2006/07 accounts which we are required, under auditing standards, to report to those charged with governance.

2.2 Approach to the Audit

Our approach to the audit was set out in our 2006/07 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include:

- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors
- we have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes. We do, however, draw the Audit Committee's attention to control weaknesses identified in the Statement on Internal Control, prepared by management. We provide details in Appendix C of recommended improvements to systems arising from our accounts audit
- we have been able to place reliance on the work of internal audit in respect of key accounting systems
- no significant changes have been made to our audit approach in the year.

2.3 Key audit findings

We summarise our key audit findings below:

Accounting policies and practices

We consider that the Council has largely adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted are in accordance with the 2006 Local Authority Statement of Recommended Practice (SoRP).

The SORP has been subject to much debate amongst practitioners as to the extent to which the Income and Expenditure Account fully meets the requirements of UK GAAP (recommended practice for accounting in the UK). The most contentious area relates to items that are capitalised for statutory purposes but which would normally be charged to revenue under UK GAAP. These particular items are relevant to the Council:

- redundancies capitalised as a result of orders as permitted by statute

- treatment of amounts spent on capital fixed assets that do not add value to the assets, which are immediately written off through reserves as non- enhancing expenditure

Whilst these issues would not ultimately affect the amounts to be collected from Council Tax (and hence the Council's General Fund) they could result in a significant change to the reported surplus or deficit on the Income & Expenditure account. We have accepted accounting treatments recommended in the Guidance Notes on a consistency basis for 2006-07. We are, however, currently discussing the audit approach to these areas with the Audit Commission and other external auditors to assess whether changes would be required to accounting treatments in 2007-08. We note that for 2006/07 capitalised redundancies were £1.1m and non enhancing expenditure of £2.7m was carried out at schools, however the spend on schools was taken into account in valuations carried out within the year

We would also draw your attention to one further matter in respect of accounting for the costs of Pensions under Financial Reporting Standard 17. In 2005/06 all UK actuaries (apart from Hymans Robertson, the Council's actuaries) made assumptions about the proportion of fund contributors who would commute pensions in exchange for additional cash payments. CIPFA recommended at this time that these assumptions be processed through as a direct credit against service costs charged under FRS17 calculations. Hymans have now calculated the impact and have recommended that the adjustment be treated as an actuarial gain rather than as a credit to the costs calculated under FRS17 and the Council has followed that advice. The sums involved is £6.9m. If this had been processed through the accounts it would have reduced the net cost of services and the FRS 17 pension fund deficit by this sum. The change in treatment from 2005/06 means that there has been inconsistent treatment of the same accounting issues by authorities with different actuaries. Given the ongoing uncertainty over the treatment we do not propose that this be treated as an unadjusted error but that it should be reconsidered as part of the 2007/08 in line with agreed guidance notes that will be produced later this financial year.

We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts.

Material risks and exposures

[The Council has confirmed in its draft letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts.]

Our audit procedures have not identified any significant risks and exposures to the Council, to date, which should be reflected in the accounts other than those agreed in the audit process.

This review will be updated on the date the Council signs the final letter of representation and we sign our audit opinion.

Audit adjustments

We recommended one significant adjustment to the accounts, in respect of the £143m over valuation of schools assets, and the resultant£7.8m over charge of depreciation. This adjustment does not affect the reported General Fund surplus, due to this adjustment being made to reflect the depreciation in the income and expenditure account, as required by United Kingdom generally accepted accounting practices. This adjustment would be reversed out in the General Fund Balance Reconciliation Statement.

We also recommended a number of presentational adjustments, being mainly to improve clarity of disclosure in the accounts.

Unadjusted errors

There were a number of recommended adjustments that management did not agree to adjust for. The unadjusted items do not have a significant effect on the accounts, and we are satisfied with management's decision not to adjust.

Details of the unadjusted errors are set out in Appendix E.

The Audit Committee should confirm that it is prepared to accept the unadjusted errors.

Other matters

The overall quality of the Council's working papers to support the 2006/07 accounts was good, and improved from last year. The only area of improvement would be to ensure that the arrangements letter supplied to the Council prior to the end of the financial year is reviewed to ensure that all of our requirements are met.

We were presented with draft accounts on 28 June 2007. The Audit Committee approved these draft accounts on 28 June 2007.

The appointed day for electors to ask the auditor questions on the accounts this year was 10 September 2007. We received no objections or questions in respect of the 2006/07 accounts there are however two objections relating to prior years which are still being considered and mean that the audit will not be certified closed at 30 September.

Having considered the Council's medium term financial strategy and 2007/08 budgets it is appropriate for the Council to account on a going concern basis. We would however recommend that the Council continue to maintain adequate levels of reserves as a cushion against unplanned expenditure in future years.

We have not identified any matters, that we have not already reported, that require the attention of the Audit Committee.

We have discussed these and other matters arising with the Head of Strategic Finance and his team and have reflected their responses to the matters raised in the Action Plan attached at Appendix C.

Next Steps

We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2007.

Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion on the Council's accounts**.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 30 September 2007 deadline.

The Audit Committee should monitor implementation of the recommendations arising from this report.

2007 SORP

We would like to draw attention to those changes in the 2007 SORP that are likely to impact on the Council's accounts for 2007/08:

- *Use of Lender Option Borrower Option Loans* - we note that the Council have considerable borrowing through the use of LOBOs. LOBOs are loans that are fixed (normally at a lower rate) at a rate of interest for an initial period, at the end of the fixed period the lender can change the interest rates but the borrower can repay the loan if the interest rate changes. The change in the SORP means that this type of borrowing need to be accounted for using the effective rate of interest spread over the likely whole life of the loan. In General Fund terms this change only applies to new loans. Treatment of existing LOBO's in terms of charges to the Income and Expenditure Account remain unclear. Our view is that for existing LOBOs the change to an effective rate of interest should be charged to the Income and Expenditure Account before being reversed out as a statutory adjustment below the line.
- *premia on early redemption on debt*- premia on the early redemption of debt will need to be charged to the Income and Expenditure Account - for Barnet this amounts to £2.35m
- *the creation of a revaluation reserve with a zero balance* - from 2007/08 on wards any downward revaluations can only be charge to the Revaluation Reserve to the extent that there is an existing credit balance, other such valuations will need to be debited to the Income and Expenditure Account

3 VFM Conclusion

3.1 Background

The Code of Audit Practice requires us to reach a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources ('VFM conclusion'). Our conclusion is supported by an assessment of arrangements against twelve criteria specified in the Code of Audit Practice ('Code criteria').

The following pieces of work have informed our assessment against the Code criteria:

- assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE)
- assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission
- statutory audit of the Council's 2006/07 Best Value Performance Plan (BVPP)
- review of relevant findings from the Council's Comprehensive Performance Assessment (CPA) corporate assessment, as updated by the latest Direction of Travel statement.

Our conclusions for each of the twelve Code criteria are set out in Table 1:

Table 1 – Use of resources conclusions

No.	Code criteria – arrangements required	Arrangements adequate?
1	Setting, reviewing and implementing strategic and operational objectives	Yes
2	Communication with service users and other stakeholders including partners, and monitoring arrangements to ensure that key messages about services are taken into account	Yes
3	Monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members	Yes
4	Monitoring the quality of published performance information, and reporting the results to members	Yes
5	Maintaining a sound system of internal control	Yes
6	Managing significant business risks objectives	Yes
7	Managing and improving value for money	Yes
8	Maintaining a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver strategic priorities	Yes
9	Ensuring that spending matches available resources	Yes
10	Managing performance against budgets	Yes
11	Managing the asset base	Yes
12	Promoting and ensuring probity and propriety in the conduct of business	Yes

A summary of our audit work, relating to the above Code criteria, is set out overleaf.

3.2 Overall use of resources findings

We reported Use of Resources findings and recommendations in our Use of Resources November report 2006. The overall report was positive, with the Council making good progress in improving its financial reporting, internal control and value for money arrangements.

The report included a number of recommendations and suggestions for action. We will update the Committee in November 2007 with our detailed findings in our updated work to be concluded in September 2007.

It is apparent that good progress has been made by the Council in implementing our use of resources recommendations from prior years. More detailed findings can be found under the key lines of enquiry judgements section below.

3.3 Corporate assessment, performance management arrangements and BVPP audit

We are required to review the Council's latest corporate assessment in order to satisfactorily conclude on Code criteria 1 to 3 (see Table 1). In completing this work we are not required to re-perform the work of the corporate assessment team and the relationship manager, rather we are looking to place reliance on this work.

Our assessment for criteria 1 to 3 has therefore been based on the latest Direction of Travel statement (December 2006),

Our 2007 KLoE assessment is almost complete. We are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are checked against our existing assessment of the Council's arrangements in these areas (reported most recently in our Use of Resources report of November 2006).

Based on this work, we assess the Council as having adequate arrangements for Code criteria one to three, based on well developed arrangements for objective setting, consultation and performance management.

3.4 Data Quality Audit Work

The audit work that we have used to reach our conclusion in respect of Code criteria 4 is our 2006 audit of the Council's corporate management arrangements for data quality.

Our audit concluded that the Council's management arrangements for data quality are adequate. We did, however, identify a number of reporting points for the Council to address and these were agreed in the Action Plan of the Data Quality report of November 2006.

We have recently completed our 2007 review of data quality management arrangements, which supports our conclusion that the Council's arrangements are adequate for Code criteria 4.

We will update this assessment, as required, following completion of our testing of a sample of the Council's performance indicators and will write to management with results of this work, in November 2007.

3.5 Next Steps

We will continue to work with the Council to ensure that outstanding work is completed in time for the Use of Resources conclusion to be formally signed in accordance with the statutory deadline of 30 September 2007.

Subject to satisfactory completion of the above work, we expect to issue an **unqualified VFM conclusion.**

The Audit Committee should monitor implementation of use of resources recommendations arising from this and other reports issued during the year.

The Council will also need to prepare for changes to the use of resources KLoE criteria in 2008 and the wider changes to the VFM assessment framework which will take effect from 2009, as part of the Comprehensive Area Assessment.

A Statement of Responsibilities - Accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions
- maintain proper accounting records
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:
- are free from material misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other applicable requirements
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources.

Auditors are not required to consider whether the statement on internal control covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

B Statement of Responsibilities - VFM / Use of Resources

It is the responsibility of the audited body 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 to 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 and 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
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements. Auditors of specified local government bodies (best value authorities) also have a responsibility to consider, and report on, the audited body's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type
- other risks that apply specifically to individual audited bodies
- the audited body's own assessment of the risks it faces
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work
- the results of assessments of performance carried out by the Commission
- the work of other statutory inspectorates
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission. Nor are auditors required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by those audited bodies that are required to prepare best value performance plans.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.

C Action Plan - Accounts

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility
Issues relating to adjustments processed				
<u>Tangible fixed assets</u> The Council, during the audit process, became aware of an error in their valuation upload figures for Schools. The £143m error was caused as a result of controls not being followed and checked following the subsequent upload of the revaluation.	Adjustment has been processed in Appendix D.	It is recommended that when uploading information to SAP (main accounting system) that control totals are checked to ensure that the values are as expected.	Agreed	Head of Property Services (Immediate)
Control issues identified during the audit				
<u>Long term debtors</u> There were several immaterial balances included within long-term debtors which have had no movement in the past two years.	None.	It is recommended that any long outstanding debt be reviewed to ensure recoverability.	Agreed	Income & Cash Manager (immediate)
<u>Debtors</u> During 2005/06 we identified an account 'unallocated cash suspense' that had a balance of £5,962k these had not been matched to the corresponding debtor balances. Whilst it is recognised that the level had reduced in year there remained a balance of £976k at the end of 2006/07.	None.	The Council should ensure that all cash is netted off against the correct debtor balance. Debtors will not carry the correct ageing and management will not be able to allocate a correct provision against each debtor if the ageing is not accurate. The Council should continue to reconcile this account.	Agreed. Work is ongoing and the figure has been further reduced. It is currently £27k	Income & Cash Manager (ongoing)
<u>Intangible and tangible fixed assets</u> The Councils policy in regards to intangible and tangible assets is that they will only be amortised/depreciated in their first full year of ownership. From our sample we found that some assets were being amortised/depreciated in the first year of purchase. We have found that this has amounted to £757k being over depreciated in the current year.	£757k has been included in unadjusted errors in Appendix E.	It is recommended that functions are investigated within SAP to ensure that the policy is complied with.	Agreed	Finance Manager (Closing & Monitoring)

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility
Intangible fixed assets Council policy is that grant balances are fully amortised within the year. Although the amount is immaterial it was found that in one case a grant balance had not been amortised within the year.	None.	It is recommended that all grant balances are amortised in line with the Council's policy.	Agreed	Finance Manager (Closing & Monitoring)
Prepayments Within our sample of prepayments we found two instances where the prepayment amount had been incorrectly calculated. *Housing capital allowance paid to Barnet Homes* A prepayment of £1,404k had been calculated based on the payments made to Barnet Homes for a capital allowance, in addition to this a creditor had also been included in the Council's accounts for £1,762k. Based on the amount of payments compared to the actual amount accrued by Barnet Homes the Council should have accrued £358k of capital rather than a prepayment and creditor balance, this error has overstated both prepayments and creditors by £1,404k. *Placement costs* A prepayment had been created for £1,413k for Adult and Social Services placements as it was thought that these related to 2007/08 expenditure. Upon closer inspection the costs where related to 2006/07 and as such should have been included in expenditure. It was also found that creditors had been included for these amounts, meaning that both assets and liabilities were overstated by £1,413k.	£2,817k has been included in unadjusted errors in Appendix E.	It is recommended that staff follow Council policy in relation to the recognition of prepayments in the accounts.	Agreed. The policy relating to pre-payments and other accruals will be emphasised in the closing guidance issued ahead of the 2007/08 closure.	All Finance Managers Finance Manager (Closing & Monitoring)
Leasehold debtors When reviewing leasehold debtors we found that control accounts used by the Council did not reconcile to audited opening balances from the previous year.	None.	It is recommended that the Council ensure that control account reconciliations are effective.	Agreed	Finance Manager (Community Services)
Creditors - Housing Revenue Account There are a number of old balances (over 1 year) owed from the Council to Barnet Homes which amount to £758k. It was found that these are still outstanding due to poor invoicing from Barnet	None.	It is recommended that invoices are paid and cleared promptly.	Agreed	Head of Housing

Finding	Action required for 2006/07 accounts	Other system improvement required	Management response	Implementation date and responsibility
Homes and a lack of communication from the Council.				
<u>Capital accruals</u> The Council completed works on the Arts Depot during the year. Taylor Woodrow (contractors) had additional claims to the Council to put right defects in the property. Since the approval of the accounts the Council have been summonsed to pay an the additional costs amounting to £696k. The nature of the expenditure is a non enhancing capital spend and was included in the 2006/07 accounts.	£696k included in unadjusted errors in Appendix E.	None.	Not required.	Not required.
<u>Housing Revenue Account</u> As noted in previous years the Council do not have a signed Service Level Agreement in place with Barnet Homes.	None.	We would suggest that all partnership agreements going forward have legal agreements in place and that copies of these are kept with the legal department.	Agreed where this is possible, e.g. the LSP has no a legal status.	Director of Corporate Governance & Policy & Partnerships Manager (March 2008)

D Accounts adjustments agreed

Finding	I+E account Dr £000	I+E account Cr £000	Balance sheet Dr £000	Balance sheet Cr £000
Accounting adjustments that affect the reported surplus/ deficit on the Income and Expenditure account				
Schools asset overvalued due to error in upload valuation. Over charge of depreciation as a result of the above.	 7,776		142,754	142,754 7,776
Accounting adjustments that do not affect the reported surplus/ deficit on the Income and Expenditure account				
A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.				

E Accounts adjustments not processed by management

Finding	I+E account Dr £000	I+E account Cr £000	Balance sheet Dr £000	Balance sheet Cr £000
Accounting adjustments that would affect the reported surplus/ deficit on the Income and Expenditure account				
<u>Intangible/tangible assets</u> Depreciation has been overcharged on assets included within the asset register mid year.		757	757	
<u>Prepayment</u> Overstatement of both creditor and prepayment for £1,404k.			1,404	1,404
<u>Prepayment</u> A prepayment had been incorrectly recorded for payments made in 2006/07 for 2006/07 related expenditure treated as 2007/08 expenditure. These amounts had not been paid however a corresponding creditor had been made.			1,413	1,413
<u>Accruals</u> A capital accrual for the settlement of the Arts Depot claim not included in the accounts.			696	696
	0	**757**	**4,270**	**3,513**
Accounting adjustments that would not affect the reported surplus/ deficit on the Income and Expenditure account				
None.				

F Reports issued

Report title	Date issued
Audit and inspection plan 2006/07	March 2006
Annual report to those charged with governance (accounts and use of resources)	September 2007
Use of Resources report 2006	November 2006
Grants audit report	January 2007

G Audit fees update

Audit Area	Plan 2006/07	Actual 2006/07
Accounts	£140,000	£140,000
Use of resources	£280,000	£280,000
Total Code of Audit Practice fee	**£420,000**	**£420,000**

Code of Practice audit

As shown in the table above, the 2006/07 actual fee equalled the planned fee.

Grant claims audit

Grant claim certification work will be completed between August and December 2007. The audit fee was originally estimated at £100,000.

Our work is charged to the Council based on the cost of auditing each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be audited, as well as the quality of claim compilation and supporting documentation.

We will update the Council on the final fee charged for 2006/07, in the grant claims report that we will produce in March 2008.

Non audit work

We have not carried out any audit work outside of the Code of Audit Practice audit and have not provided any non-audit services to the Council.