HARINGEY COUNCIL

The Executive

WEDNESDAY, 18TH JANUARY, 2006 at *1800 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

MEMBERS: Councillors Adje (Chair), Lister (Vice-Chair), Canver, Diakides, Hillman, Meehan, Milner, Reith, Sulaiman and Wynne

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AGENDA

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13 January 2006

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Agenda Item 3

HARINGEY COUNCIL

Agenda Item

Executive

On 18 January 2006

Report title:	**The Annual Audit and Inspection Letter 2005**

Report of:	**Director of Finance and Interim Chief Executive**

Wards affected: **All**	Report for: **Non-key decision**

1. Purpose

1.1 To consider the Council's response to the issues set out in the Audit Commission's annual audit and inspection letter.

2. Introduction by Executive Member

2.1 In response to the external auditor's recommendations, Haringey Council has put together its areas for action at 8.6.

2.2 The council believes strongly that this response focuses on the right areas required to continue the improved performance seen in the current CPA score recently achieved.

3. Recommendation

3.1 To agree the response and actions as set out in the report.

Report authorised by:

Andrew Travers
Director of Finance

Max Caller
Interim Chief Executive

Contact officer:	**Gerald Almeroth**	**Eve Pelekanos**
Telephone:	**020 8489 3743**	**020 8489 2508**

4. Executive summary

3.1 This report sets out the Council's response to the Audit Commission's Annual Audit and Inspection Letter for 2005 and considers the actions required to secure further improvement in the Council's performance.

5. Reasons for any change in policy or for new policy development

5.1 The proposed actions in this report are in accordance with existing policy.

6. Local Government (Access to Information) Act 1985

6.1 The following papers were used in the preparation of this report:

- Comprehensive Performance Assessment (CPA) for 2005
- Annual Audit and Inspection Letter London Borough of Haringey, Audit Commission, December 2005

For access to the background papers or any further information please contact Gerald Almeroth on 020 8489 3743

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7. Background

7.1 The Annual Audit and Inspection Letter from the Audit Commission is an important external assessment of the council's position. Proposals for responding to the issues raised are included in this report for consideration.

7.2 The Annual Audit and Inspection Letter is compiled by the council's external auditor. It summarises the conclusions and significant issues arising out of the audit and inspection work for the council in the preceding year. It includes information from the Direction of Travel statement and from the Comprehensive Performance Assessment (CPA) scorecard.

7.3 Appendix 1 contains the Audit Commission's Annual Audit and Inspection Letter for 2005.

8. Annual Audit and Inspection Letter

8.1 Haringey council has worked positively with District Audit and the Audit Commission during the last year. The good progress made by the council has been recognised in the improved overall CPA score in December 2005, with the council moving to up to 3 'stars' (good), and in the positive Direction of Travel statement and the Annual Audit and Inspection Letter.

8.2 The Direction of Travel Statement judgement states that the council is 'improving well' and recognises that there have been 'particular positive outcomes in services for children and young people and for vulnerable adults'.

8.3 It also states that nearly 75% of indicators have been maintained or improved, and similarly that user satisfaction is also improving. The challenge for the council will be to maintain the higher levels of performance in some services whilst improving other services where performance is less consistent.

8.4 There is recognition that the council targets resources to its priorities and that business planning, financial governance and performance management have improved since 2004. It is also states that arrangements are in place to strengthen information, communication and technology, procurement and commissioning. A key challenge for the council is in respect of value for money where it is noted that we have adequate arrangements for managing and improving value for money and that we need to demonstrate that high spend is commensurate with the delivery of high quality services.

8.5 In the area of accounts and governance the comments are generally positive and this is reflected in the 3 out of 4 for the Use of Resources CPA score. Specific comments are as follows

- Audit of the 2004/05 accounts: the accounts were approved in advance of the statutory deadline, were well prepared with good supporting working papers and were subject to robust member review. The Council took action to resolve the accounting treatment in respect of

the Alexandra Palace long term debt. The auditor's opinion remains qualified in 2004/05 (because the 2003/04 comparative figures were not revised), however it means the the qualification will be removed in 2005/06;

- Financial standing: the Council's financial position remains sound, it has taken steps in recent years to provide a strong platform for financial management and improvements are being demonstrated in the collection of debt;

- Systems of internal financial control: the Council has a generally sound framework for managing internal financial control and has developed its risk management processes although these are not fully embedded yet, the Technical Refresh project being an example of this; and,

- Standards of financial conduct and the prevention and detection of fraud and corruption, and the legality of transactions; the Council has sound arrangements in these areas.

8.6 The key messages from the Audit and Inspection letter are set out in the table below, together with the council's response and proposed actions:

	Recommendation	Response
	The Council needs to:	
1	Sustain improvement in better-performing services, whilst developing its focus on those services where progress is less consistent	Business planning and monitoring will continue to focus on maintaining good performance and driving up performance where necessary. In particular there are specific initiatives and investments in housing management, streetscene and leisure services.
2	Demonstrate that high-cost services are delivering value for money, and embed the culture of challenge for value for money Council-wide	The Council will continue its drive for improving value for money. It is a key component of the business planning process and a rolling programme of value for money reviews has been instigated. Work will also continue through the CPA action plan to embed the value for money culture.
3	Maintain tight budgetary control to deliver financial balance for 2005/06 and the medium to longer term	The Council will continue to monitor closely its financial position and will ensure that the medium term financial strategy has a focus on delivering savings to maintain a balanced budget position.

4	As a priority, implement the action plan developed in response to our report on the Technical Refresh project	The Council will implement the recommendations (see concurrent report to this meeting).

9. Consultation

9.1 There is no wider consultation planned.

10. Summary and Conclusions

10.1 The response and proposed actions will positively contribute to the plans for continuous improvement.

11. Recommendations

11.1 To agree the response and actions as set out in the report.

12. Comments of the Head of Legal Services

12.1 The Annual Letter records that the Council's arrangements for maintaining the legality of transactions with financial consequences are adequate. There are no other specific legal implications raised by the report.

13. Equalities Implications

13.1 The new CPA in 2005 has a strong emphasis on user focus and diversity. The Council performs well in this area.

14. Use of Appendices

14.1 Annual Audit and Inspection Letter for 2005 – Audit Commission

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Annual Audit and Inspection Letter

Haringey London Borough Council

Audit 2004-2005

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

Audit in the public sector is underpinned by three fundamental principles:
- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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

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

Status of our reports to the Council

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

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Key messages

Council performance

1   The Council is improving well and has achieved an overall comprehensive performance assessment (CPA) of three stars. In particular, this year has seen positive outcomes in services for children and young people and for vulnerable adults. Nearly 75 per cent of best value performance indicators (BVPIs) have been maintained or improved, although performance is coming from a low base in some services. The Council is developing its focus on areas where progress is less consistent.

2   Spend is generally high in comparison to other near neighbours. Whilst the Council can demonstrate factors affecting its spend, such as demographic mix and the need to invest for service improvement, there is a mixed picture when assessing whether costs are commensurate with performance levels.

Accounts and governance issues

3   Action has been taken to address the ongoing qualification of the Council's accounts in respect of the accounting treatment adopted for the Alexandra Palace long-term debt. The general fund balance has been maintained in line with the Council's target level, although financial pressures are continuing in 2005/06 and the medium to longer-term. Standards of financial conduct and the arrangements to prevent and detect fraud and corruption and to maintain the legality of financial transactions are generally satisfactory. However, our review of overspending on the Technical Refresh project has highlighted serious failures in the Council's corporate governance arrangements in respect of that project.

Action needed by the Council

4   The Council needs to:

- sustain improvement in better-performing services, whilst continuing to develop its focus on those services where progress is less consistent;

- demonstrate that high-cost services are delivering value for money, and embed the culture of challenge for value for money Council-wide;

- maintain tight budgetary control to deliver financial balance for 2005/06 and the medium to longer-term; and

- as a priority, develop and implement an action plan in response to our report on the Technical Refresh project.

Performance

CPA scorecard

5   The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test, with more emphasis on outcomes for local people and value for money (VFM). We have also added a new dimension, a Direction of Travel judgement, which measures how well the Council is improving. Under the new framework, the Council is improving well and its overall CPA category is three stars.

Figure 1   CPA assessment

Overall performance for this Council

This is a council that is improving well and demonstrating a three-star overall performance.

improving well

★ ★ ★ ☆
3 star

Direction of travel against other councils

Performance against other councils
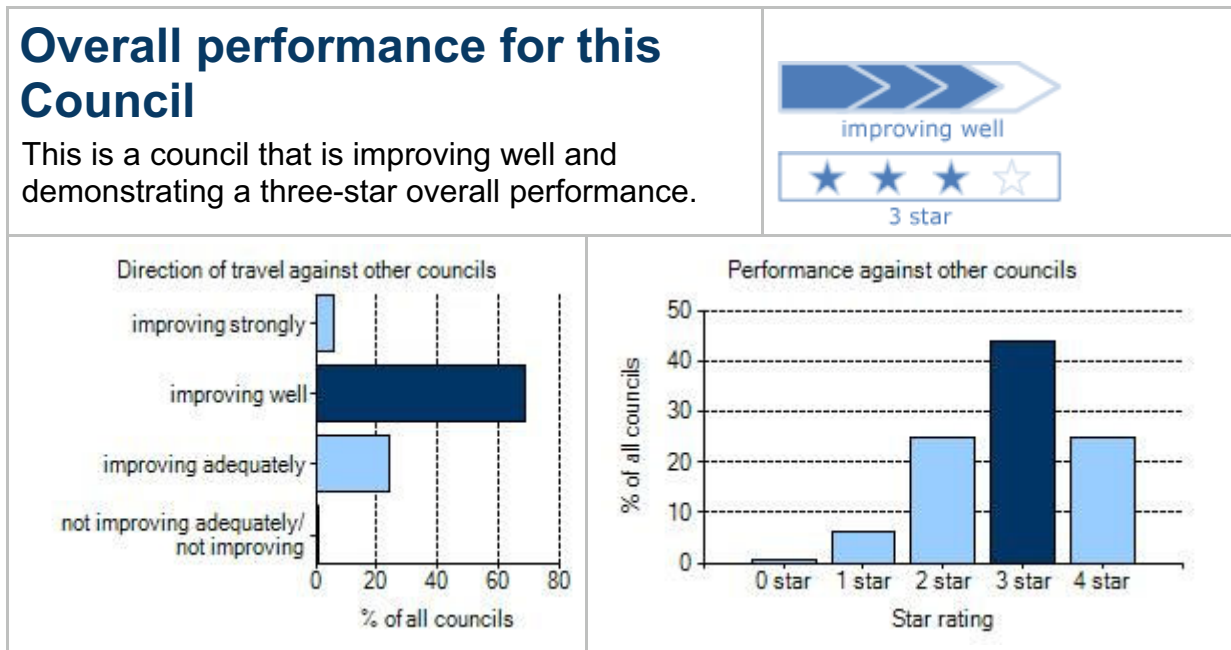
6   Further details of the individual assessments that support the Council's overall three-star assessment are set out in Table 1.

Table 1   CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	**3 stars**
Current performance	**3 out of 4**
Children and young people	3 out of 4
Social care (adults)	3 out of 4
Use of resources	3 out of 4
Housing	2 out of 4
Environment	2 out of 4
Culture	3 out of 4
Benefits	3 out of 4
Corporate assessment/ capacity to improve (not reassessed in 2005)	**2 out of 4**

(Note: 1 = lowest, 4 = highest)

Direction of Travel report

7   The Council is improving well. This year has seen positive outcomes in services for children and young people and for vulnerable adults. Planning and sustainable community indicators also improved. Nearly 75 per cent of indicators have been maintained or improved, although performance is coming from a low base in some services. User satisfaction is low, but improving. The Council is developing its focus on areas where progress is less consistent, for example, in housing management, leisure facilities and community safety. Resources are targeted to priorities and reflect local demographic challenges. However, some overall service costs are amongst the highest in London. Haringey performs well against equalities and diversity targets and is working corporately with partners to secure efficiencies. Business planning, financial governance and performance management have also improved since 2004. Arrangements to strengthen information, communications and technology, procurement and commissioning are also being developed. The Council is becoming more open to challenge and needs to embrace learning opportunities and increase its focus on value for money in order to sustain improvement.

Other performance work

8 We carried out performance management reviews in the following risk areas:

- value for money (as part of the use of resources judgement);
- IT strategy;
- children's integrated services; and
- customer services.

Value for money

9 The Council's services meet minimum requirements in relation to providing value for money. The Council has a number of good initiatives and some measurable improvements are evidenced in key priority areas. Spend is generally high in comparison to other near neighbours. Whilst the Council can demonstrate factors affecting its spend, such as demographic mix and the need to invest for service improvement, there is a mixed picture when assessing whether costs are commensurate with performance levels, and over 50 per cent of best value performance indicators (BVPIs) remain in the lower quartiles. The Council needs to demonstrate that its high spend on services is commensurate with delivering quality services, and more fully engage managers in understanding cost implications. Cost and activity information needs to be more closely integrated to enable greater challenge to be made for value for money.

10 The Council has adequate arrangements to manage and improve value for money. The Council has introduced new arrangements recently, such as business process reviews, which need to become embedded in order to evaluate their effectiveness. The Council now needs to embed the culture of challenge for value for money Council-wide.

IT strategy

11 The Council is part way through an ambitious technical IT and information management programme, which, when realised, should give the Council a good foundation from which services can improve. The Council has looked to deliver this programme through a series of work streams under the lead of programme boards. These boards need to be more closely integrated and have a greater input from service users. There also needs to be more focus on benefits realisations from the investments made in IT.

12 The Council has not prepared either an IT or an information strategy document. Whilst this does not mean there is not a strategic approach to these areas, the Council would gain clarity from formalising its approach.

13 The Council has opted not to establish a separate e-government stream of work, and instead has focused activities in this area under its customer focus workstream. The early focus on foundation and infrastructure has now evolved to encompass tactical solutions and the Council anticipates meeting its e-government targets at the close of 2005/06.

14 The Council has given priority to information governance. We have identified examples of good practice in this area, such as the role of the IT security officer and the Council's overall information-sharing protocol. Our survey of managers showed that there was a good understanding within the Council of the role which information plays in service provision.

Children's integrated services

15 The Children Act 2004 requires local authorities with responsibility for education and children's social care services to develop an integrated approach to service delivery, and to involve the health service and other local providers. By 2006, councils are required to have a single director and a single lead councillor for children's services, a single joint plan and a local safeguarding children's board, with senior representation from all partner agencies.

16 Our review concluded that good progress was being made locally in developing integrated services for children and that the Council's arrangements were on track to meet Government requirements within the required timescale. The Council now needs to:

- develop service commissioning and demonstrate that value for money is being achieved in the way services are being purchased;

- establish pooled budgets and embed risk assessment in partnership working;

- develop joint workforce planning and performance management, including complaints; and

- enhance information sharing.

Customer services

17 Our review of customer services was the third and final stage of our work on the Council's corporate performance management arrangements. We concluded that:

- the Council has a clear service vision in line with customer service industry standards;

- corporate business plan objectives and priorities are translated into measurable customer-focused outcome-targets;

- service plans and goals are clearly communicated to staff and there is a demonstrable commitment from staff to deliver excellent services;

- effective performance monitoring is in place; and

- the service is changing to meet better the needs of the diverse local population.

18   The service is still at a relatively early stage and we identified the following areas for the Council to develop:

- targets and timescales for the delivery of a number of business process re-engineering projects;

- targets that reflect different customer types and demands within different localities; and

- robust forward planning arrangements to balance demand levels.

Performance information

19   Our approach to the audit of performance indicators changed during 2005/06 to reflect the new Code of Audit Practice. We audited 12 indicators identified by the Audit Commission as high-risk and contributing directly towards the CPA scorecard, as well as a further sample of indicators based on a local risk assessment. All audited indicators were assessed as satisfactory.

20   We have also completed our compliance audit of the Council's 2005/06 best value performance plan and issued our report on 21 December 2005. The report did not contain any statutory recommendations.

Other Audit Commission inspections

21   We published the results our housing repairs and maintenance inspection in May 2005 following detailed on-site work during 2004. We concluded that the Council operated a fair, one-star service that had promising prospects for improvement. There were many good aspects to the Council's service, including:

- the service performed well against national performance indicators for appointments made and against local indicators such as speed in re-letting empty homes;

- the formal bi-annual estate inspection programme and estate improvements programme was delivering improvements to the quality of the environment for customers;

- services for customers, such as interpreting and translating, were improving and customer satisfaction was also improving, albeit from a low base; and

- systems for diagnosing and ordering routine repairs are effective.

22   However, we also noted that:

- the service was unable to demonstrate value for money;

- the proportion of repairs carried out correctly the first time was low, and customers faced a lengthy wait for the installation of aids and adaptations;

- the service achieves only 95 percent gas servicing; and

- leasehold income has not been maximised.

23 We considered that the Council had promising prospects for improvement because there is a strong corporate and departmental planning and performance framework. The Council has also demonstrated it has responded to issues raised in our previous inspection. However, some key challenges to further progress remain, in particular:

- making use of challenge to identify alternative service providers and to identify significant step change in delivery;

- ensuring key strategic plans are robust and that the Council can achieve the decent homes standard by 2010; and

- demonstrating improved progress against the Council's plans and prioritising and delivering sustainable change.

Working with other inspectorates and regulators

24 An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on the Council's performance and with whom we share information and seek to provide 'joined-up' regulation. These include:

- Ofsted;

- Commission for Social Care Inspection;

- Benefits Fraud Inspectorate;

- DfES; and

- Government Office for London.

Accounts and governance issues

Audit of the 2004/05 accounts

25 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 20 July 2005, in advance of the statutory deadline. The accounts were well prepared, with good supporting working papers, and were subject to robust member review.

26 We issued a qualified opinion on the Council's accounts on 31 October 2005. The qualification related to the accounting treatment adopted for the Alexandra Palace long-term debt. The Council took action during 2004/05 to review the accounting treatment for the debt by obtaining and applying a capitalisation direction. This allowed the £19.3 million outstanding debt to be charged to the consolidated revenue account as capital expenditure. This addresses the cause of the long-standing qualification of the Council's accounts. The 2005/06 accounts will not, therefore, be qualified on this issue. Our opinion remained qualified, however, for 2004/05, as the 2003/04 comparative balances were not restated on a similar basis.

27 We are required by professional standards to report to those charged with governance (in the Council's case, the General Purposes Committee) certain matters before we give an opinion on the accounts. We reported on 24 October 2005, highlighting the proposed qualification and the need to demonstrate in future that internal arrangements for quality reviewing the accounts of section 31 agreements are in place. Officers will also need to ensure that the accounts submitted for audit are prepared on the basis of the latest available outturn information on grants receivable, for example, for housing subsidy, from government departments.

28 Looking further to 2005/06, the Council needs to retain its focus to ensure the more onerous requirements of the 'whole of government accounts' initiative are met, as the deadlines again move forward, and to improve the consistency of working papers across the board. The Council should also produce an accessible and informative annual report which includes summary accounts and other important financial information.

Financial standing

29 The Council has identified target levels for reserves and balances. The actual levels have been maintained in line with those targets. The reserves' policy now needs to be updated, including a clear statement on how the Council has determined its reserves level.

30   The Council's financial position remains sound. The Council has taken steps in recent years to provide a strong platform for financial management. Its recent history demonstrates that overall spending generally remains within budget. The 2004/05 outturn shows that the general fund balance remains in line with its target of £10 million, after allowing for a planned reduction of £1.8m from the previous year.

31   The projected outturn for 2005/06 as at 31 October 2005 showed the Council forecasting overspending of £2.5 million on a net revenue budget of £345.9 million. The cost pressures arise from the delivery of only £0.2 million of anticipated savings from a £1 million target in respect of improved procurement arrangements, together with anticipated overspends within service budgets. The Council plans to draw on central contingencies to offset this overspending where necessary. In addition, the Finance and Performance report to the December 2005 Executive identifies that action needs to be taken to contain cost pressures and indicates where reviews are to be undertaken. On this basis, the Council is forecasting that the general fund balance will be maintained at the £10 million level. The Council needs to maintain tight financial control to ensure it remains within financial balance.

32   The Executive report of 20 December 2005 on the financial planning process for 2006/07 to 2008/09 makes it clear that the Council will continue to face a significant challenge in delivering its priorities within a tight financial environment. The report identifies key local pressures facing the Council to be addressed through the pre-business planning review process. The Council's increase for 2006/07 in the national financial settlement is expected to be two per cent, which is the floor level increase. As the increase is at the lower end of the settlement, this maintains the pressure on the Council to demonstrate it achieves value for money from its services.

Debt management

33   Our last letter commented that the Council was implementing procedures to improve the management of debt. The Council has established a debt management working group to improve debt collection, and the group demonstrates awareness of the costs of collection and the opportunity costs of holding debt. During 2004/05, these measures have begun to lead to reductions in the overall level of Council debt. The Council's accounts contain significant provisions for bad and doubtful debts. As performance in collection is improving, the Council now needs to review the level of provisions maintained.

Financial management

34 The Council's overall financial management arrangements are sound. The medium-term financial strategy (MTFS), annual budgets and capital programme are based on sound assumptions and are aligned to deliver strategic priorities. This provides an effective framework for the Council to identify its financial targets and reserve levels. Some significant weaknesses were identified in the operation of financial management controls on the Technical Refresh project, and the Council is seeking to learn the lessons. It should also look to strengthen its business plan, including links to partners and external stakeholders, and model cashflow and the balance sheet over a three-year period in the MTFS.

35 The Council's arrangements for managing its capital assets are good. It has a capital strategy which links to the MTFS and an up-to-date asset register and asset management plan. The Council has an annual programme of planned maintenance based on a rolling programme of property surveys. It has identified the level of backlog maintenance and has an approved plan to address it. The Council can enhance asset management through continuing to develop the use of performance indicators and benchmarking, identifying its stakeholders for reporting on performance and continuing to integrate asset management and mainstream financial information.

Systems of internal financial control

36 The Council has a generally sound framework for managing internal financial control. There are good arrangements for preparing the Statement on Internal Control (SIC) and Internal Audit is effective. The Council has had an Audit Committee for several years. Training is available to Audit Committee members, although this has not been consistently taken up and has also not kept pace with the changes to the membership.

37 The Council has developed its risk management processes, including the recently updated risk policy and the new corporate risk register. Risk registers are in place at directorate level, and these are being extended to business unit level. These arrangements are not, however, embedded and processes for updating risks on an ongoing basis need to be developed. This is evidenced in the Technical Refresh project, which demonstrates a failure to manage and report risks effectively, resulting in a significant financial and operational impact. Risk management arrangements are not yet adequate.

Technical refresh

38 The Council is currently implementing a significant IT project to update its IT infrastructure. The Council views the project as key to achieving its business objectives. The project was planned to be implemented over a three-year period at a capital cost of £9 million. During 2005, the Council identified that significant slippages had occurred, and the projected outturn was £10 million in excess of the original budget.

39   Our review of the Council's arrangements for managing this project has identified two key areas - change management and variation orders - which contributed to additional costs being incurred, reflecting inadequate project specification and project management. We concluded that there was limited evidence of:

- regular attendance by some project board members at project board meetings, which impacted on continuity and ownership;

- sufficiently senior project sponsorship;

- adequate staffing resources being allocated to deliver the project;

- robust challenge to additional costs arising during the project implementation;

- adequate input from corporate finance to either budget setting or budgetary control;

- clear thresholds for authorisation of variations to costs of the scheme;

- application of appropriate budgetary control mechanisms, including provision of suitable financial information;

- timely, transparent and accurate reporting of the project slippages and overspends; and

- clear audit trails.

40   Our review indicates that the original budget was inadequate and therefore the Council was always likely to incur additional costs. However, the weaknesses identified above mean the Council cannot demonstrate that the full additional £10 million costs represent value for money, and also reflect significant failures in the Council's corporate governance arrangements in respect of this project.

41   The Council is now taking action to exercise greater control over this project. It is taking action to learn the lessons arising from our conclusions, including tightening project management and enhancing financial information. The Finance and Performance report to the December 2005 Executive suggests further potential slippage and additional costs over budget are likely to be incurred on the project in 2005/06. The Council needs to exercise tight financial control over the remaining life of the project, as well as applying the lessons arising to both this and other schemes. We will undertake a follow-up review to assess the robustness of the Council's remedial action as part of the ongoing audit.

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

42   The Council maintains sound arrangements to combat fraud and corruption and encourage good standards of conduct. It has appropriate codes of conduct, and registers of hospitality and interest in place. The Council is proactive in responding to potential fraud and has been effective in investigating NFI data matches. A whistleblowing policy is in place and is publicised.

Haringey London Borough Council

National Fraud Initiative

43 In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000. Progress against the data matching is reported regularly to the Audit Committee and the Council has demonstrated its commitment to pursuing potential frauds and overpayments.

Legality of transactions

44 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

45 Our last letter identified that the 2002/03 and 2003/04 audits remained open pending the decision on an objection. That decision was issued in April 2005. The objection was not upheld and there are no issues to bring to your attention. Following the decision, the certificates on the 2002/03 and 2003/04 accounts were issued on 20 April 2005.

46 We have received further correspondence from members of the public during the year. Whilst there are currently no significant issues arising from this correspondence to bring to your attention, our work remains ongoing in two areas concerning expenditure on mortuaries and the New Deal for Communities Scheme for the Bridge. As a result, we have not issued a certificate to conclude our audit for 2004/05.

47 During our audit, we reviewed the terms of the transactions stemming from the proposed termination of employment of the Council's former Chief Executive. We formed the view at that time that we would not exercise any of our formal powers in respect of the proposed payments.

Use of resources judgement

48 The use of resources judgement is a new assessment which focuses on financial management, which also links to the strategic management of the Authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.

49 For the purposes of the CPA, we have assessed the Council's arrangements for use of resources in five areas.

Table 2   Use of resources

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall	**3 out of 4**

(Note: 1 = lowest, 4 = highest)

50   In reaching these judgements, we reviewed the Council's arrangements against specific key lines of enquiry and drew on other recent audit work. Our findings are reflected in the earlier sections of this letter.

Other work

Grant claims

51 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims, but our ability to reduce further depends on the adequacy of the Council's control environment.

52 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. Our work on certifying the claims in respect of 2004/05 remains in progress. Whilst the Council has improved significantly again this year in terms of its submission of claims by the deadlines, we have noted a small increase in the number of audit reports which need to be submitted to the grant-paying departments alongside the certified claim. The Council should, therefore, consider whether its quality assurance arrangements could be strengthened to reduce the number of such reports. Other key issues arising to date are reflected below.

Table 3   Key issues

Claim	Matters arising
Housing benefits	This claim is the largest we audit, in terms of value (£205 million in 2004/05) and the audit resources required. Our previous letter highlighted problems on the audit of the claim, due in part to the implementation of a new system. The Council has worked hard to address many of those problems for the 2004/05 claim and there has been a significant improvement. Our audit, however, will not be completed by the deadline of 31 December 2005, as the Council is undertaking additional testing in response to issues arising from our sample testing and awaiting a required software update from the system supplier.
NNDR 3	The claim was required to be submitted for audit by 31 August 2005, with an audit deadline of 31 October 2005. We did not receive the claim until 24 October 2005 and we are still awaiting the provision of some supporting working papers. The audit remains in progress.

Looking forwards

Future audit and inspection work

53   We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and Local Services Inspectorates Forum websites.

54   We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

55   Under the Audit Commission's CPA framework, councils will undergo a corporate assessment, combined with a joint area review (focusing on children's services), during the period 2005-2008. The Council's assessment is scheduled to be undertaken in the period between June and October 2006.

Revision to the Code of Audit Practice

56   The statutory requirements governing our audit work, are contained in:

- the Audit Commission Act 1998; and
- the Code of Audit Practice (the Code).

57   The Code has been revised with effect from 1 April 2005. Further details are included in our 2005/06 Audit and Inspection Plan which has been agreed with the Audit Committee in May 2005. The key changes include:

- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
- a clearer focus on overall financial and performance management arrangements.

Closing remarks

58 This letter has been discussed and agreed with the Interim Chief Executive and Director of Finance. A copy of the Letter will be presented at the Executive on 18 January 2006 and to the Audit Committee on 30 January 2006.

59 The Council has taken a positive and constructive approach to our audit and inspection work. I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

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

Michael Haworth-Maden
District Auditor and Relationship Manager
January 2006

# Appendix 1 – Background to this letter

The purpose of this letter

1   This is our Audit and Inspection 'Annual Letter' for members, incorporating the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspection work.

2   We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.

3   The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

4   Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

5   Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

6   Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 2.

Figure 2   Code of Audit Practice

Code of practice responsibilities

Haringey London Borough Council
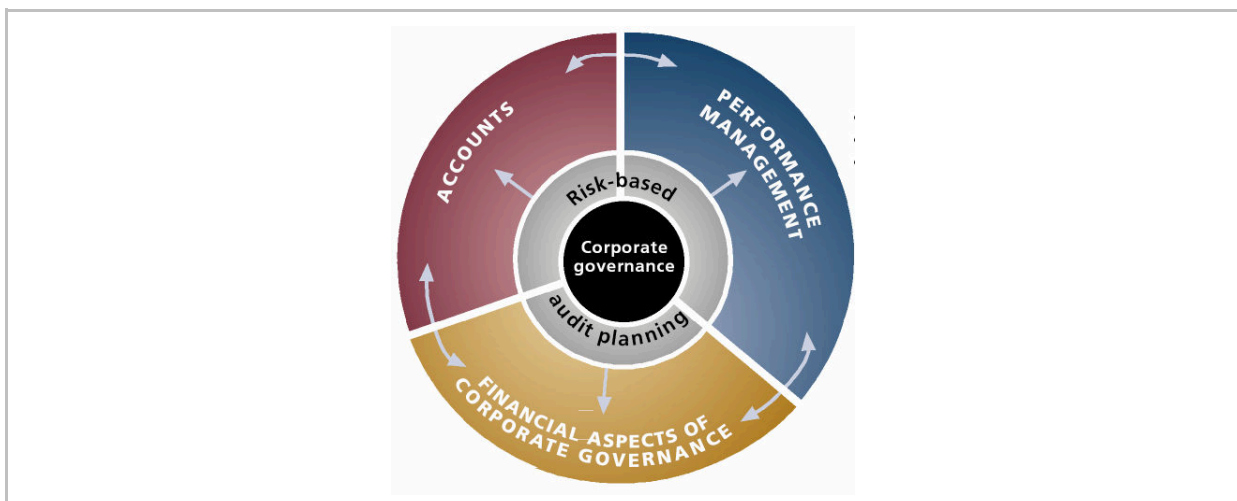
7   Our work in the three elements of these responsibilities comprises:

Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

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

Appendix 2 – Reports issued during 2005

Table 4

Report title	Date issued
Audit Plan 2005/06	March 2005
Certificate on the 2002/03 and 2003/04 Accounts	April 2005
IT Strategy	May 2005
Housing Repairs and Maintenance Inspection	May 2005
Report on the 2004/05 Accounts to Those Charged with Governance (SAS 610)	October 2005
Opinion on the 2004/05 Accounts	October 2005
Customer Services	November 2005
Children's Integrated Services	November 2005
Use of Resources	November 2005
Direction of Travel	December 2005
CPA Scorecard	December 2005
Report on the Audit of the Accounts	December 2005
Best Value Performance Plan	December 2005
Project Management (Technical Refresh)	December 2005

Appendix 3 – Audit and inspection fees

Table 5   Audit fee update

Audit area	Plan 2004/05	Actual 2004/05
Accounts	£133,000	£133,000
Financial aspects of corporate governance	£201,000	£201,000
Performance*	£204,000	£204,000
Total Code of Audit Practice fee	**£538,000**	**£538,000**

* - including planned £11,500 additional fee work (re Social Services PAF Data Quality reported in last year's Annual Letter)

Grant fee update

8   Our 2004/05 Audit and Inspection Plan included an estimate of £250,000 for the certification of grant claims. Our work in the area remains in progress, in particular concerning the completion of the housing benefits and NNDR claims. As at the end of November, we had invoiced the Council approximately £103,000. We currently estimate that the final fee will be significantly lower than the original estimate.

Inspection fee update

9   Our 2004/05 Audit and Inspection Plan included £63,000 covering inspection work. This included work relating to the Council's comprehensive assessment and an inspection identified as regeneration. We have not undertaken the inspection and have offset the related fee of £33,000 against additionally incurred costs of the 2002/03 Alexandra Palace objection to the accounts and other ongoing work regarding questions from members of the public.

Agenda Item 4

❋ HARINGEY COUNCIL ❋

Special Executive Meeting	On 18 January 2006

Report Title: Tech Refresh Project - Review of Project Management

Forward Plan reference number (if applicable):

Report of: Max Caller, CBE**, Interim Chief Executive**

Wards(s) affected: **All**	Report for: Non-key Decision

1. Purpose

1.1 To receive the report [at Appendix 1] of the Audit Commission on the Review of the Tech Refresh Project Management, which was commissioned by the Interim Chief in consultation with the Leader of the Council and the Executive Member [Organisational Development and Performance].

2. Introduction by Executive Member

2.1 This report was commissioned last year when the scale of spend on Tech Refresh (TR) was first made known to members.

2.2 The district auditor's report contains considerable learning points for the way in which the council commissions, manages, evaluates and assures large scale IT projects. This learning will need to be embedded into the daily work of the council as a matter of urgency. The Interim Chief Executive will be producing an action plan asap and we may wish to review existing IT projects to ensure good project management practices are being followed.

2.3 Since the change of supplier last year the Tech refresh project has been managed and delivered in-house. This has resulted in Tech Refresh being rolled out to over 94% of IT users to date. It is worth noting that TR has successfully enabled the meeting of our Priority Service Outcomes (as set down by government) and the requirements of BV157. Residents of the borough will experience improved service levels as a result of this project.

2.4 Finally, reporting of viral project information to members did not take place. This must be of great concern to the council and colleagues will want to be reassured that this was an isolated case.

3. Recommendations

3.1 Members are asked to note and consider the report of the Audit Commission.

3.2 That Members instruct that the Interim Chief Executive produce a detailed action plan and report it back to the Executive.

Report Authorised by:

Interim Chief Executive

Contact Officer: Max Caller, CBE
Interim Chief Executive – 020 8489 2649

4. Executive Summary

4.1 The Tech Refresh project commenced in June 2003, with a [then] planned finish in October 2004. Following a number of problems with the project, the Interim Chief Executive was asked to commission a review of the project management for Tech Refresh.

4.2 The Audit Commission was appointed to carry out this review in August 2005 following consultation with the Leader of the Council and the Executive Member [Organisational Development and Performance]

4.3 The scope and objectives of the review are set out at paragraph 5. of the appendix to this report.

5. Reasons for any change in policy or for new policy development (if applicable)

5.1

6. Local Government (Access to Information) Act 1985

6.1   Audit Commission Report:Tech Refresh Project - Review of Project Management, which is provided as an appendix to this report.

7. Background

7.1 The Council commenced the Tech Refresh programme in 2003. During the last 12 months significant overspends were reported compared to the original approved budget. In consultation with Members the District Auditor was commissioned to undertake a review, the outcome of which is attached.

7.2 Members will see that there were a number of systematic failures in managing a programme of this size.

7.3 The Interim Chief Executive considers that the review provides a helpful agenda to significantly improve the Council's performance in this area for the future. He recommends that the recommendations be accepted and that officers produce a detailed action plan for consideration by the Executive.

8. Comments of the Director of Finance

8.1 The report notes the need for a detailed action plan to be prepared in response to the recommendations. The Director of Finance has been consulted and has no further comments at this stage.

9. Comments of the Head of Legal Services

9.1 As the report notes significant failures in the Council's corporate governance arrangements in respect of this project, it is important that the report is considered and the lessons learnt are applied to all projects. The Council's constitution and procedures may need to be reviewed in the light of the findings of this report.

10. Equalities Implications

10.1 The provision of high quality technology is essential in enabling staff to carry out their work and deliver high quality services to all our residents.

11. Use of Appendices

11.1 Audit Commission report on the Review of Tech Refresh Project Management.

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audit commission

Review of Project Management

Haringey London Borough Council

Audit 2005/2006

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

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

- Auditors are appointed independently from the bodies being audited.

- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.

- Auditors may report aspects of their work widely to the public and other key stakeholders.

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

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

Status of our reports to the Council

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

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www.audit-commission.gov.uk

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4 Review of Project Management │ Performance Summary Report

Introduction

1 With IT projects now encompassing high-profile business processes such as cross-cutting initiatives and integrated systems, success in these areas is essential to the success of the organisation as a whole, and its impact on other stakeholders and on the public. The larger the project, the greater the potential for problems to occur, such as user needs changing, timescales and budgets growing and key staff leaving the project.

2 In order to minimise the risk of project failure or problems, a combination of key success factors needs to be in place. Key success factors include the adoption of sound project management and financial management practices, and having a framework within which to manage inevitable changes as the project evolves.

Background

3 The London Borough of Haringey started the Tech Refresh project in June 2003, with the planned finish in October 2004. The project has been managed by an officer led project board, with senior executive membership from its two external partners.

4 The Council recognises that there have been a number of problems with the project. The project currently has a forecast overspend of £10.6 million over the amended project life against an original budget of £9 million. A new project manager has been appointed recently.

Scope and objectives

5 We have carried out a review of the Council's arrangements for managing the project, in particular to:

- determine whether the appropriate project management controls and procedures were set down at the start of the project, and whether the controls and procedures were being complied with;

- review the effectiveness of project management, such as project documentation, change control, risk management, quality assurance and reporting mechanisms;

- review the effectiveness of financial management, including compliance with Council Standing Orders and Standing Financial Instructions, project budgetary/cost management, and reporting; and

- identify lessons learned so that improvements for the future can be implemented both for this project over its remaining life, as well as for future projects.

The review was undertaken solely in our role as the Council's appointed auditor and in accordance with the Audit Commission's Code of Audit Practice.

Audit approach

6   This review was carried out through:

- a review of key documents; and

- interviews with key officers involved with the project. This did not include former employees or external partners or consultants.

Key findings

7   We have identified two key areas - change management and variation orders - that have contributed to the additional costs of £10 million, reflecting inadequate project specification and project management.

8   We concluded that there was limited evidence of:

- regular attendance by some project board members at project board meetings, which impacted on continuity and ownership;

- sufficiently senior project sponsorship;

- adequate staffing resources being allocated to deliver the project,

- robust challenge to additional costs arising during the project implementation;

- adequate input from corporate finance to either budget setting or budgetary control;

- clear thresholds for authorisation of variations to costs of the scheme;

- application of appropriate budgetary control mechanisms, including provision of suitable financial information;

- timely, transparent and accurate reporting of the project slippages and overspends; and

- clear audit trails.

9   Our review indicates that the original budget was inadequate and therefore the Council was always likely to incur additional costs. However, the weaknesses identified above mean the Council cannot demonstrate that the full additional £10 million costs represent value for money, and reflect significant failures in the Council's corporate governance arrangements in respect of this project.

10   The Council is now taking action to exercise greater control over this project. Actions include commissioning this review in order to learn the lessons both for managing this project to its conclusion, as well as for other significant schemes, tightening project management and enhancing financial information. The Finance and Performance report to the November 2005 Executive suggests that there is further potential slippage and additional costs over budget to be incurred on the project in 2005/06. The Council needs to exercise tight financial control over the remaining life of the project, as well as applying the lessons learned to both this and other schemes.

Learning the lessons and the way forward

11 On the basis of its experience with the Tech Refresh project, the Council needs to improve its procedures in a number of areas. In particular, the Council needs to:

- ensure that budgets, in particular the revenue costs associated with large capital projects, are realistic from the outset, and subject to adequate challenge during preparation;

- ensure that project budgets are coherent and that monitoring arrangements are robust at the day-to-day management level, with financial management roles and responsibilities clearly defined and allocated;

- review its procedures for authorising and controlling change requests for all projects;

- ensure that major revisions to project budget estimates are reported, reflected in formal virements and appropriately authorised. It would be appropriate for the Council to review its delegated authorisation levels to ensure that adequate reporting to members is undertaken;

- establish the costs expected to be incurred against key deliverables, and monitor these against actual costs;

- provide for the representation of Corporate Finance on the project boards of major schemes;

- consider the use of subject matter experts to challenge the design of future projects and give independent external challenge;

- ensure that a robust project board is established with those nominated being able to commit the time and having the appropriate skills;

- introduce a robust mechanism for quality and project assurance which is independent of the project;

- ensure that project board reports cover project costs against budget for project staff, meetings, expenses, overtime, QA staff, user testing, consultancy, hardware, software, installation, infrastructure, licenses and temporary workers;

- ensure that a clear audit trail exists for decision making within projects; and

- consider whether a programme or project management approach is most appropriate at the outset of significant future projects.

12 The Council needs to consider the issues raised in our report and formulate its own action plan to address the issues both in relation to the Tech Refresh project and other major projects. We will undertake a follow-up review (provisionally late February/early March 2006) to assess the robustness of the Council's remedial action as part of the ongoing audit. The Council will also need to undertake a post-implementation review to identify any further learning opportunities from the completion of the project and to assess the benefits delivered against costs/expectations.

Project structure and resources

Project structure

13   Standard project management methodologies (SPMM) should substantially reduce the risk of project failure. While essential to the good running of projects, such SPMMs cannot take the place of experience and good judgement, adoption of sound management practices, and having a framework within which to manage inevitable change. It is clear from our work that an appropriate methodology (PRINCE2) was adopted at the start of this project, with the best intentions regarding its application. However, we have identified a number of key weaknesses and lack of compliance with the adopted methodology, which have impacted upon the overall delivery and management of the project to date.

14   The Project Board and Extended Project Board structure (see Figure 1 overleaf) failed to function as anticipated. From a very early stage, the Extended Project Board was dissolved and was absorbed into the Project Board. As a consequence, levels of management responsibility and accountability appear to have moved downwards and overall strategic guidance over the project has been lacking.

Figure 1   Project board structure
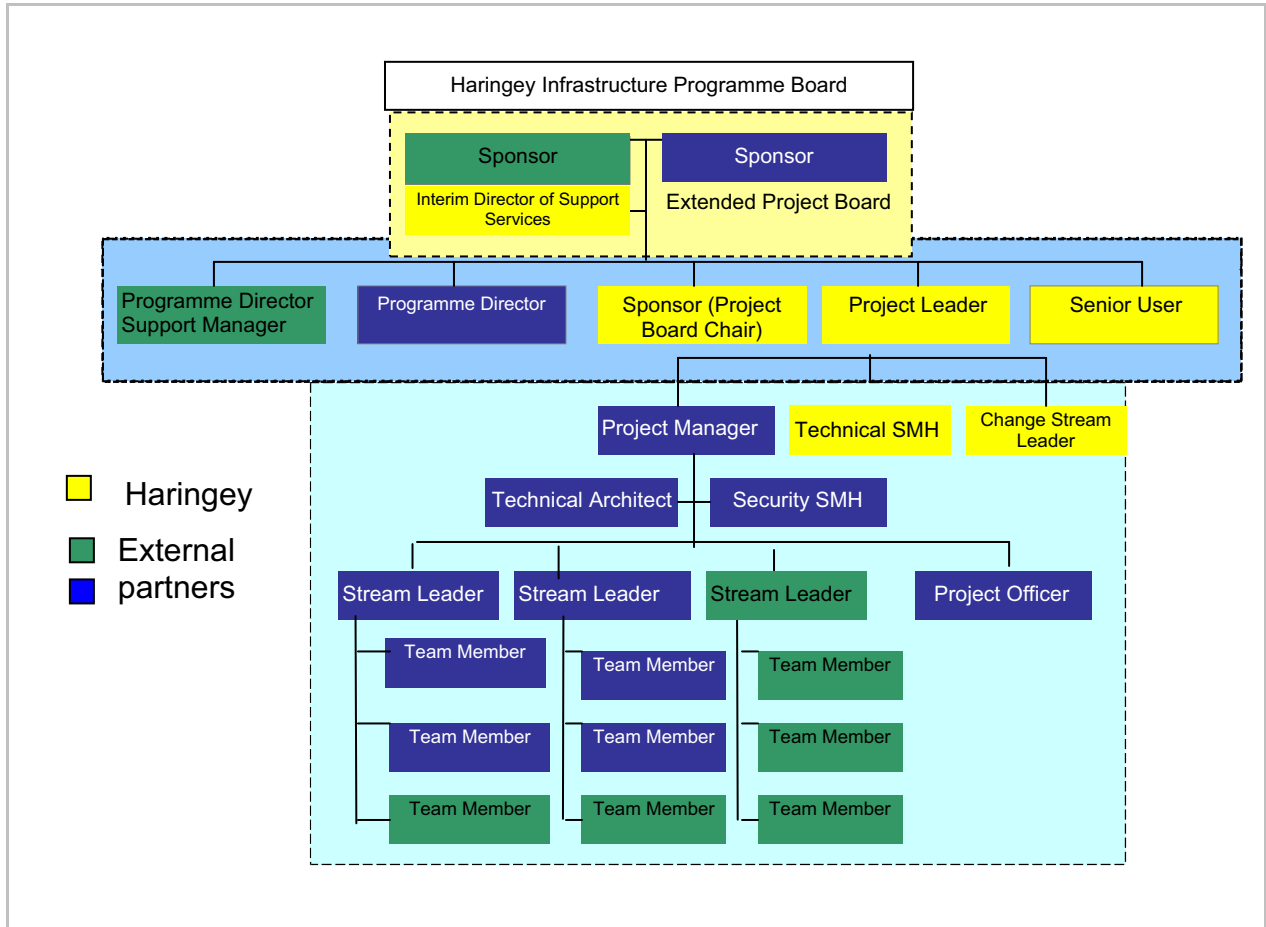
Source: Project initiation document July 2003

15 An essential requirement of project board members is regular attendance at board meetings to ensure a robust decision making process is in place. Strong commitment from all members of the project board is essential to ensure that the appropriate lines of responsibility, accountability and reporting structures are in place and effective. This has not been the case, with poor attendance by some board members whose remit was to represent the Council's interests.

16 The Tech Refresh project was and remains a significant risk for the Council. The project sponsor is the ultimate Senior Responsible Officer for project approval and support and for ensuring that the overall strategic direction of the project is maintained. It would be expected that with a project of this size and risk the project sponsor would have been an executive board member of the Council. However, this was not the case, the project sponsor being the Head of ICT, a second tier officer.

17 It is considered good practice within the PRINCE2 methodology that the designated project manager is not directly line managed by the project sponsor, in order to facilitate open and honest communication. This was not the case within the Tech Refresh project where the entire Haringey project management structure was the same as the line management reporting chain. During our review, it has been reported to us that a blame culture has existed within the Council. Alongside the structure of the project management, this has acted as a barrier to open and honest communication.

18 The estimates for the human resources required were inadequate for this project. From a very early stage, a number of issues were identified as a direct consequence of a lack of resource input from the Council.

19 Project Management, Change Management and Project Support have all incurred significantly increased costs through the use of external consultants. For example, the project estimates included a total of 338 days for change management across the project life cycle. However, in one month alone (April 2005), the Council paid for 214 days, at a cost of some £220,000. The overall cost to the Council for change management consultancy is in excess of £2 million.

20 There is a view by those involved in the project that the work completed by external consultants in May 2003 provided an adequate level of assurance that the project plan and initiation document were robust. However, the terms of reference for the work completed by the external consultants only covered:

- providing an independent review of the strategic appropriateness of the proposed move to a thin client infrastructure;

- identifying the trends for thin client for the next three to five years;

- highlighting the strengths and challenges of a thin client infrastructure;

- providing information on thin client infrastructures currently operating in the UK; and

- identifying the benefits of adopting a Thin Client approach and risks involved.

There is therefore no documentary evidence to support the further assurance officers have sought to rely on.

Project costs

Original project budget

21 The original project for the budget was reported to the Council's Executive in June 2003, with capital costs of £5.3 million and 'upfront project costs' of £3.7 million, funded from a mixture of capital and revenue sources.

22   There is no evidence that the Project Initiation Document (PID), on which the budget was based, was prepared with appropriate input from Corporate Finance. In addition, reliance appears to have been placed on the review carried out by external consultants, referred to above, as an independent validation of the original budget. However, there is no documentary evidence that the review commented on the robustness of the Council's costing of the project, nor indeed had such assurance been commissioned in the terms of reference for the review.

23   It would appear, therefore, that the initial budget for the project was not subject to adequate challenge. The finance comments in the June 2003 report to the Executive did not provide a view as to whether the costings were soundly based, but noted that savings of £1 million per annum had been assumed in financial plans.

Revised estimates

24   Once under way, the project suffered from major cost overruns. As reported in the Executive Member Briefing of 10 May 2005 by the ACE, by August 2004 the overall project budget had increased from £9 million to £12.7 million, and the overall estimate stood at £24.6 million by April 2005. The external partners absorbed some £5.5 million, resulting in a revised estimate of £19.1 million, still more than twice the original budget.

25   According to the ACE briefing, the increased expenditure primarily occurred in the 'people costs' of the project, specifically:

- the decision to engage external consultants as providers of change management resource given the inability of Council officers to provide the inputs assumed in the PID;

- additional complexities identified during detailed planning, leading to further expenditure on design; and

- original and material poor scoping of the work.

26   Our audit has identified additional people costs incurred through change management and change requests as the two areas resulting in significant additional costs to the project. It is clear that the original budget was based on incorrect assumptions as to the cost of the change management requirement, and the overall complexity of the scheme.

27   In November 2005, the Council identified further potential slippage and subsequently additional costs on the tech refresh project. There remain concerns, therefore, that the current budget may not yet be sufficiently robust.

Project control

Project assurance

28 Project assurance is the independent monitoring of the project progress and management on behalf of the Project Board to ensure the project is being well managed. The three main areas of project assurance are as:

- business: monitoring the business case, business risks and expenditure;

- technical: monitoring the use of standards and the quality of products; and

- user: monitoring that the end product continues to meet the user's specification throughout its development.

29 There has been little project assurance to date and it is not clearly defined within the project initiation document. As a consequence, it is unclear how the project board has ensured an ongoing robust independent overview of the project.

Change requests

30 'Scope creep' is a change or growth to the original project and within large complex projects an element of this is reasonable. Should this occur, the project manager and board should work effectively to manage changes so as not to affect the project timelines and budget. From an early stage, there has been little challenge to scope creep within the Tech Refresh project. There is no clear audit trail of robust challenge through questioning of needs and wants, for example through the Project Board minutes, nor identification of the business benefit of change and the underlying issue making the change necessary.

31 The process for managing and authorising project change requests gives rise to a number of concerns. It is unclear what level of challenge was provided on behalf of the Council. Whilst the project board does not need to see all change requests, it needs to be aware of the overall quantum of changes and key individual items. It is clear that the Council's Project Leader was able to authorise a significant amount of change requests before any form of scrutiny was applied. A number of change requests do not have a business sponsor. This suggests that the level of segregation between request and authorisation was not adequate. A significant weakness identified in this area is that a number of change requests have been submitted and approved retrospectively.

32 The lack of clarity around the status and control of change requests appears to have been a factor behind the cost overruns incurred by the project. The PID states that 'any changes or deviation to the project that will impact on project timescales or budget will require a change request to be authorised before work will be scheduled or undertaken or curtailed.' Change Request Forms are to be submitted to the Project Leader or Project Board 'as appropriate', without clear definition of what the 'appropriate' circumstances are.

33   To date, some 140 change requests have been raised on the project, with a cumulative value of some £7.1 million (excluding £113,000 of cancellations). Our review of a sample of the change requests provides evidence that the appropriate control was not exercised. Examples we identified included:

- four requests account for £4.7 million of the changes, including £2.6 million for additional external support and £1.9 million for additional change management resources. It would be reasonable to expect changes of this magnitude to be considered at Project Board level, but the audit trail for any such discussions is lacking; and

- retrospective requests, for example, £32,000 for the costs of running an information stall at the Council's 2004 Summer Event.

34   It is essential to establish tolerance levels from the outset of the project - no project ever goes fully to plan and the project manager needs to have a clear understanding of when to escalate issues to the Project Board. Even with a good plan, elements will go astray. Tolerance is the permissible deviation from the plan without bringing the deviation to the attention of the next higher authority within the management structure. The two elements to tolerance are most commonly time and cost.

35   No clear predefined limits or tolerance levels have been laid down within the project. As a consequence, escalation of problems and issues appears to have been taken in an informal way or not at all. It is not clear whether a number of these issues were hidden, ignored or just not acted upon appropriately at an early stage or most probably a mixture of all three.

36   The status of change requests in terms of their impact on the project budget is also unclear. Finance officers have indicated that any additional costs arising from such changes need to be covered from existing allocated budgets, unless a virement is authorised by the Chief Accountant. However, the scale of additional costs arising from Change Requests, coupled with the absence of any reported virements to the project up to April 2005, would suggest that project staff were not sufficiently aware of this procedure.

Control and review of costs

Budget monitoring - project

37   Responsibility for controlling the project budget rested with the ACE, the Head of ICT and the Project Leader. The Project Leader, who has left the Council, had day-to-day control of budgets. From the documents available to us, it is unclear how budgetary control was exercised.

38   Until recently, the Highlight Reports adopted as the primary mechanism for reporting to the Project Board lacked any financial information, with budgets being reported only in terms of days used. That being the case, where budgeted days were reported as overspent, there was no acknowledgement of the financial implications of this within the accompanying notes. By September 2004, the Highlight Reports had ceased to provide even the information on days spent.

39   The project has also suffered from a lack of profiling of costs, to enable the budget to be monitored against key deliverables and stages. There is no evidence of a coherent process for 'sign off' of budgets at pre-determined milestones. As a result, although actual expenditure could appear at times to have been in line with the current estimate, it was not sufficiently clear what had actually been delivered for the spend to date.

40   Highlight Reports now provide summary financial information clearly setting out the actual spend to date against the authorised budget, along with a forecast of the final position. Arrangements have been further strengthened by the inclusion of a representative from Corporate Finance on the Project Board. Had this been the case from the outset, the weaknesses in financial monitoring information in Highlight Reports may have been addressed at an early stage.

Budget monitoring - corporate

41   As noted above, the ACEs May 2005 briefing for Members identified that 'people costs', largely funded from revenue budgets, were the primary area of cost overrun. The Council has well established procedures for monitoring performance on revenue budgets, involving the compilation of monthly reports by business unit managers, which are independently reviewed by Corporate Finance before the production of summary reports for discussion at chief officer level and the bi-monthly Finance and Performance (F&P) Reports to Members.

42   From these reports, it became apparent that the project was experiencing significant difficulties in containing costs within the original budget. However, as these costs were associated with a one-off, major capital project, the discussion of the issues arising appears to have occurred outside of the standard budgetary control procedures, at the level of the Chief Executive's Management Board.

43   The existence of a substantial earmarked reserve, the IT Sinking Fund, provided a contingency which could be drawn upon. Also, at the same time as the extent of the overspend on the project was becoming clear, the Council was recording an underspend on its other revenue budgets against. The overspend of £2.9 million was offset against the IT sinking fund and the expected revenue underspends.

44   In addition to the changes to Highlight Reports, greater clarity has now been introduced to budget monitoring at the corporate level. This is reflected in the current forecast of additional spending on revenue costs which, while of itself an indication of continuing issues with the realism of the budget, is also indicative of greater transparency in the financial management of the project.

Financial reporting

45   It is essential that, for a project of this scale and strategic importance, financial reporting at the corporate level provides the Council's leadership with clear and concise financial information. The primary sources through which Members could be updated on the financial position of the project were the F&P Reports and reports to the E-Government Advisory Committee (EAC).

Haringey London Borough Council

46   Review of the financial content of a sample of EAC reports found that:

- at the early stages, a brief comment that expenditure was being contained; and

- at the later stages, when the difficulties were apparent to officers, no mention of the financial position of the project.

47   The reports prepared in 2005, such as F&P reports and the May ACE briefing, demonstrate confusion over the true picture of costs, with varying levels of over and underspends being reported. F&P reports also provided inadequate information about the Tech Refresh. As late as February 2005, the report stated that the Chief Executive's department, which hosts the revenue element of the project budget, had a projected underspend of £0.4 million (as reported in April 2005). As noted above, the June 2005 outturn report identified a £2.6 million overspend for the department, including £2.9 million additional Tech Refresh costs.

48   As noted above, the Council's overall underspend on the General Fund enabled the Tech Refresh overspend to be absorbed within the overall Consolidated Revenue Account for 2004/05. This was reported to Members via the 2004/05 annual accounts and the June 2005 outturn report. However, major increases appear to have occurred in the project estimates without formal virements being made or reported, and the Council needs to review its procedures in this regard.

Haringey London Borough Council