

MEETING

AUDIT COMMITTEE

DATE AND TIME

WEDNESDAY, 31 AUGUST 2005

at 7.00 PM

VENUE

THE TOWN HALL, THE BURROUGHS,

HENDON, NW4 4BG

TO: MEMBERS OF THE COMMITTEE (Quorum 3)

Chairman: Councillor Wayne Casey
Vice Chairman: Councillor Brian Coleman

Councillors:

Claire Farrier Daniel Hope Mark Langton
Malcolm Lester Leslie Sussman

Substitutes:

Councillors

Terry Burton Danish Chopra Jeremy Davies
Aba Dunner Alison Moore Monroe Palmer

You are requested to attend the above meeting for which an Agenda is attached.

John Marr
Democratic Services Manager

Committee Section contact Flick Heron 020 8359 2205

FACILITIES FOR PEOPLE WITH DISABILITIES

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Town Hall, Hendon NW4 4BG

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AGENDA ITEM: 6 Page nos. 1-18

Meeting Audit Committee
Date 31 August 2005
Subject Preparation of Statement on Internal Control (SIC)
Report of Chief Internal Auditor
Summary The Committee is asked to note the arrangements for preparation of the 2004-5 SIC and 2005-6 SIC

Officer Contributors Chief Internal Auditor
Status (public or exempt) Public
Wards affected N/A
Enclosures Appendix A – Draft Statement on Internal Control (2004-5)
For decision by Audit Committee
Function of Council
Reason for urgency / exemption from call-in (if appropriate) N/A

Contact for further information: Michael Bradley, Chief Internal Auditor 020 8359 7151

1. RECOMMENDATIONS

- 1.1 That the committee note the attached draft Statement on Internal Control (SIC).

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 9 June 2005 included in the work programme for 2005-6 a report on the preparation of the SIC.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The SIC is intended to be an essential feature of good corporate governance which is required to provide assurance that corporate priorities can be delivered.
- 3.2 There is a statutory requirement for the Council to publish a Statement on Internal Control annually, as detailed in paragraph 8.1 of this report.

4. RISK MANAGEMENT ISSUES

- 4.1 Failure to adequately comply with the statutory requirement to produce a meaningful SIC could result in the qualification of the Accounts. The SIC deals with the Council's risk management arrangements in detail.
- 4.2 Inability to produce a meaningful, accurate SIC could demonstrate weaknesses in management assurance processes.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including "ensuring that the Council's Statement of Internal Control....are balanced, fair, conform to accountancy standards and meet prevailing best practice".

8. BACKGROUND INFORMATION

Legislative framework

- 8.1 Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control each year with the authority's financial statements.

- 8.2 As permitted by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) proper practice guidance, we have opted to produce an interim statement for 2004/5 and will produce a full statement for 2005/6.

Purpose of the SIC

- 8.3 The purpose of the SIC process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management systems, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process. At its most effective, the process of preparing the SIC will add value to the corporate governance and internal control framework of an organisation.

Corporate Ownership

- 8.4 CIPFA's proper practice requires the most senior officer and the most senior member to sign the SIC – they must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues.

Assurance gathering process

- 8.5 We already have processes dealing with aspects of the SIC. The SIC seeks to bring them together and evidence them. The SIC process should be able to rely on existing processes and documents. The task may simply be to research and formally recognise things currently done across the authority and to record them. This coordination of existing evidence will strengthen consistency of approach across the authority and promote corporate awareness of good practice.
- 8.6 The draft SIC for 2004-5 is attached at appendix A to this report. The statement is still in draft and may change after further consultation with senior officers and external audit. It is envisaged that this will be finalised and signed off by the Chief Executive and Leader by 15 September.

9 LIST OF BACKGROUND PAPERS

- 9.1 2002/3 Statement of Accounts;
2003/4 Statement on Internal Control;
Internal Audit Annual Report 2004/5, and
External Auditor's reports carried out between 2002/3 and 2004/5
- 9.2 Any person wishing to inspect the background papers should telephone 020 8359 7151.

BS: JEL
BT: CM

STATEMENT ON INTERNAL CONTROL (DRAFT 2004-5)

INTRODUCTION

The Accounts and Audit Regulations 2003 require the publication of a Statement on Internal Control (SIC) with the financial statements. Although it is published with the financial statements the SIC is a broad reflection of the whole governance of the council, and must set out the controls in place that are designed to ensure:-

- the council's policies are put into practice and that values are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published information are accurate and reliable;
- human, financial and other resources are managed efficiently and effectively;
- services are delivered efficiently and effectively.

The SIC must be signed by the Leader and Chief Executive, after it has been approved by the council or relevant body. In considering whether to approve the SIC, the relevant body should seek to satisfy itself that it has obtained relevant and reliable evidence to support the disclosures made and should consider the reviews of the SIC by key officers within the council, including (but not exclusively) the Chief Financial Officer, Monitoring Officer and Chief Internal Auditor.

The SIC should explain the nature of control and material changes in control exercised throughout the whole accounting period. It should identify any weaknesses in control that have been identified and set out an action plan to address them. It is divided into five sections, as follows:-

- Section 1 Scope of Responsibility;
- Section 2 Purpose of the System of Internal Control;
- Section 3 Internal Control Environment;
- Section 4 Review of Effectiveness;
- Section 5 Significant Internal Control Issues.

Guidance on the production of a SIC was published by the Chartered Institute of Public Finance and Accountancy in April 2004, after the close of the financial year. An interim statement for 2003/4 was published. This statement evidences further progress towards full compliance with the process for SIC completion which will be achieved in 2005/6 by developing key indicators of internal control and documenting evidence to support the SIC.

2004/05 STATEMENT ON INTERNAL CONTROL

In line with the guidance an interim statement is being presented for 2004-5.

Section 1 – Scope of Responsibility

The council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, and used efficiently, economically and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way that its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of council functions and which includes arrangements for the management of risk.

Section 2 – Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Section 3 – Internal Control Environment

The key elements of the internal control environment are set out below.

Objectives

The council's objectives are detailed in the Community Plan, which are also reflected in the Corporate Plan. These are cascaded through service Performance Management Plans and targets for service teams and individuals. Monitoring is via the FirstStat programme, Finance and Performance Review meetings, Member Challenge events and performance management.

Policy and Decision Making

The Local Government Act 2000 and secondary guidance specify the local authority functions that are the distinct and quite separate responsibility of the council and the executive. Neither body can become involved with taking decisions on the functions of the other, with certain exceptions referred to below. The Act permits no other bodies in the formal decision-making structure other than those described below.

Council Functions

The council's functions are broadly as follows:-

- planning and enforcement;
- licensing and regulation;

- a limited number of highway matters mainly concerned with public footpaths and bridleways;
- appeals against decisions;
- staffing;
- electoral management;
- appointments to other bodies;
- some other minor functions.

These functions may be exercised by the full council meeting or be delegated to committees or officers. They cannot be delegated to an individual councillor. They are delegated to the Planning and Environment Committee and the Planning and Environment Area Sub-Committees, Appeals Committees, General Functions Committee and officers.

In addition, the full council has the power to approve the budget and statutory policy framework, but there are limitations imposed by the legislation and included in the constitution on how this can be exercised and how disagreements with the executive are to be resolved. This is the only control the council can exert over the functions of the executive. Part of each council meeting is set aside for debate on policy development, in which all councillors are able to take part. All councillors are permitted to serve on committees discharging council functions.

Executive Functions

All other functions of the local authority are the responsibility of the executive, which is the Leader and Cabinet – a total of 10 Members, which is the maximum permitted by the Act. Substitute or deputy Cabinet Members are not permitted.

Executive functions may be exercised by:-

- the Cabinet itself;
- Cabinet Committees (on which only cabinet members can vote or serve, although non-voting co-opted persons are allowed);
- individual Cabinet Members;
- Area committees (provided they are constituted on a ward basis);
- officers;
- joint arrangements with other local authorities.

The Leader is solely responsible for setting the executive delegation arrangements and limits. The executive is responsible for the preparation of the budget and the statutory policy framework for submission to the council. Otherwise, the executive is not subordinate to the council in discharging its functions and cannot be directed by the council how to discharge them.

Urgent and Emergency Decisions

Decisions taken by the decision takers set out above on both council and executive functions are subject to limitations and conditions imposed in the constitution, including financial restrictions. Some of those are relaxed for urgent decisions (e.g.

where urgent action is required but might be delayed by following the normal procedures). In an emergency (e.g. where immediate action is needed to protect life or property or to maintain a critical service) most of the restrictions are removed.

Overview and Scrutiny Committees

The functions of Overview and Scrutiny Committees are specified in the Act and are and can only be:-

- policy development and review to assist the council and the executive;
- scrutinising the decisions and performance of the executive and the council, and other public bodies in the area;
- calling-in for reconsideration key decisions taken by the executive but not yet implemented.

Key decisions are those significant in financial terms or in their effect on communities comprising two or more wards. The Constitution provides for the call-in process to be operated solely by the Cabinet Overview and Scrutiny Committee and all executive decisions taken by Members can be called in, not just key decisions. Members of the Cabinet cannot be members of Overview and Scrutiny Committees.

Compliance

Assurance on compliance with policies, procedures, laws and regulations is provided, in part, by Internal Audit, that conducts risk based audits on the highest risk areas. Other sources of assurance on compliance come from external audit, other external inspectors (e.g. OFSTED, CSCI) and from service management's own internal control arrangements.

Risk Management

There has been further progress in implementing risk management in the council in 2004-5. Combined with the further development of monitoring and reporting routines, this will provide the basis for an effective risk management process.

In February 2005, the Chief Internal Auditor was delegated responsibility for risk management by the Chief Executive. An appropriate amendment has been made to the council's constitution to reflect this. This development does not remove the primary responsibility for risk management from service managers and the Internal Audit unit will continue to review and report on risk management arrangements in their interim and annual reports. This arrangement will be reviewed towards the end of 2005-6. External Audit will increase the amount of work they do in this area as a consequence of this arrangement.

The corporate risk management group was disbanded, as it had fulfilled the requirements of its terms of reference chiefly the production of a formal Risk Management Strategy and Toolkit, which was approved by Cabinet

Heads of Service are required to establish and complete risk registers, with progress being monitored through the Finance and Performance Review process. These meetings also encompass close monitoring of draft budget reductions, to minimise the chances of unachievable savings being incorporated in the budget. This work is also taken into account by the Borough Treasurer when providing statutory advice to council on the appropriate level of balances and reserves, as now required under the Local Government Act 2003.

The Borough Treasurer is developing a corporate financial risk register in tandem with work on financial forward planning. This register will also highlight financial uncertainties and opportunities.

All reports to committees continue to include a section on risks, which contributes to Members being better informed prior to deciding on policy and making decisions and increases officer understanding and awareness of risk issues.

Heads of Service incorporate risks associated with delivering service priorities in their Performance Management Plans.

A list of corporate risks is presented to Directors' Group for evaluation and reporting to Cabinet. These are closely monitored throughout the year by officers and Cabinet.

Progress on implementing risk management is monitored by the Audit and Resources Overview and Scrutiny Committee.

The council's key corporate risks were taken into account in the Corporate Plan for the year to which this statement relates and have again been identified for the first year of the subsequent version of the Corporate Plan (2005/06 – 2008/09.)

Risk Management was included in the portfolio of the Cabinet Member for Performance, Partnerships and Best Value.

Internal Audit provide a statement in all their interim and annual reports on the adequacy of risk management arrangements. Generally, they undertake an independent review of this annually. In 2004/5 they have relied on the work of external audit in this area. External Audit's final report came to the conclusion that:

'the current arrangements and processes form a good foundation for further developing risk management so that the areas for improvement identified during our review can be addressed.'

All Internal Audit reports published in 2005-6 will have a revised format that will require management to deliver the action required by the risk identified in the report i.e. Internal Audit will no longer construct recommendations in reports. However, as experts in risk and control, Internal Audit will provide advice and guidance on construction and design of controls. Internal Audit's focus will be to ensure that the identified risk has been adequately and cost-effectively addressed.

Use of Resources

Effective and efficient use of resources is achieved through a range of review processes linked to the annual service planning cycle. Best Value reviews have been conducted across a range of council services in accordance with legislative requirements. Business and service planning is well established but under constant review for improvements.

Base budget reviews are undertaken at Finance and Performance Review meetings, as part of preparing annual budget proposals to Cabinet. These meetings were convened on a bi-monthly basis for all services in 2004-5. They will be quarterly in 2005-6.

Cabinet member challenge is also undertaken on budget proposals.

All procurement activity across the council is overseen by the Strategic Procurement Team.

All Internal Audit reviews consider the use of resources as part of the scoping exercise for each review.

A self-assessment for the 2005 assessment of 'Use of Resources' will be completed in line with deadline set by the ODPM.

The 'external auditor scored judgement' gave an overall score of '3' (of a possible '4') in November 2004.

Financial Management

Financial management of the authority is organised through a wide range of processes and procedures which are being improved to deliver stronger financial control arrangements. Central to all this is Financial Regulations, which form part of the council's constitution.

Corporate financial control is also exercised through Finance and Performance Review meetings, with core membership comprising the Chief Executive, Borough Treasurer, Chief Internal Auditor, Assistant Chief Executive and Head of Human Resources. The outcome of these meetings is reported to Management Board and Cabinet Resources Committee.

Beyond this there are individual schemes of control for specific areas, e.g. Treasury Management Strategy.

A Best Value Review of Financial Management throughout the Council was carried out in 2003/04 which identified a number of actions that would improve financial management. Progress to date includes:

- Production of draft Financial Management Toolkits to be introduced to budget managers as they are trained in SAP;
- Audit of accounts for 2003/4 signed off 3 months earlier than previous year;
- Budget monitoring improved by use of standard template across all Services;
- Introduction of "Traffic light" monitors to track progress on achieving budget savings;
- Balances forecast to be £5m at 31 March 2005 having stood at £0.931 at 31 March 2004. Section 11 Notice issued following the audit of the 2002/03 accounts was lifted following the audit of the 2003/04 accounts and scrutiny of the monitoring of expenditure during 2004/05;
- Heads of Service, as an integral part of the budget preparation process for 2005/06, completed a risk assessment on all the items of budget growth or reduction,
- Financial Forward Plan presented to Council as part of budget report, and
- Capital investment proposals subjected to Option Appraisal and Capital Prioritisation by the Corporate Asset Strategy Management Group, prior to being recommended to Cabinet.

Further planned work, which is dependant upon the implementation of SAP includes:

- The transfer of roles and responsibilities between services and Corporate Finance to ensure Services take responsibility for managing their own budgets. SAP will facilitate Services undertaking some processes and being able to enquire and receive information direct from SAP.
- The completion of a new scheme of Cost Centre Management.
- The design of efficient business processes is being done through the SAP blueprint and realisation phases.
- Reduction of manual processes leading to creation of capacity for corporate finance to be proactive in supporting and advising services.

Performance Management

The Corporate Plan is the single improvement document for the authority. It contains all the key priorities and indicators by which achievement against corporate goals are measured. Progress against targets is monitored through a corporate performance management system based on regular meetings (FirstStat, Finance and Performance Review), regular data collection (monthly returns from service areas) and Member challenge (Overview and Scrutiny) as well as by the lead member for Policy and Performance.

CPO are currently revising performance management procedures with a view to further embedding a collaborative system based on robust data. As well as the frequency and level of service monitoring, new procedures will also consider arrangements for formally signing off actions at the appropriate level. An example of this best practice is the Chief Executive's recent agreement to receive quarterly FirstStat monitoring/action plans at Director's Group for review and sign off.

Section 4 – Review of Effectiveness

The council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit, which reviews the development, maintenance and implementation of internal control across the council.

The work of Internal Audit on key financial systems is quality assured by the council's external auditors, who also conduct some independent reviews of internal control. Other inspectorates also examine internal control as part of their work.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is set out below.

Council

The constitution is reviewed annually by the Special Constitution Review Committee, informed by an Officer Constitution Group and Corporate Governance work undertaken by Internal Audit.

Executive

Cabinet periodically reviews progress on key corporate risks.

The Cabinet Member for Performance, Partnerships and Value has risk management in his portfolio.

All committee reports include a section on risk.

The Audit and Resources Overview and Scrutiny Committee conducts an annual review of the budget process. In addition it reviews the Internal Audit Annual and Interim Annual Reports and the Annual (External) Audit and Inspection Letter, in addition to other key reports from Internal and External Audit during the year.

The Cabinet Overview and Scrutiny Committee is able to review all items on the Cabinet agenda and can call-in any decision taken by the Cabinet Committee or a Cabinet Member, this exceeds the statutory requirement to have arrangements for calling-in Key Decisions.

Audit and Resources Overview and Scrutiny Committee

The terms of reference of the Audit and Resources Overview and Scrutiny Committee were as follows:-

- to ensure that the council's financial report and, in particular, the annual financial statements are balanced and fair and conform to accountancy standards;
- to reassure the council that the scope and depth of external audit work is sufficient and conducted competently;
- to satisfy the council that the internal auditors carry out a sufficient systematic review of the internal control arrangements, both operational (relating to effectiveness, efficiency and economy) and financial reporting controls;
- to consider external finance management reports;
- to scrutinise the council's annual budget process, and review the council's performance in relation to budget management;
- to assist the council in developing the three year budget strategy;
- to review the management of resources made available to the council and scrutinise financial management, property and asset acquisition and disposal and capital programme;
- to review the development of a council-wide property and asset strategy;
- to review the independence and objectivity of the external auditors and matters relating to the provision of non-audit services;
- to consider communications with the external auditors on audit planning and findings and on any material weaknesses in accounting and internal control systems and to report as appropriate to the Cabinet;
- to consider the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response;

- to scrutinise the action taken by the council to fully implement a risk management system.

These were the terms of reference for this committee in 2004-5. A review of the scrutiny function has resulted in the establishment of a stand alone Audit Committee outside the scrutiny framework with a revised terms of reference which will have its first meeting in June 2005.

Internal Audit

The council's Internal Audit Service is provided predominantly by an in-house team supplemented by two external partners as follows:-

- ENPEYZ, who undertake all school audits;
- Deloitte and Touche, who provide between 150 and 250 days risk based systems audit a year.

All audit work is undertaken to the standards of the Institute of Internal Auditors and the CIPFA Code of Practice.

An annual audit plan is produced by the Chief Internal Auditor, in consultation with key stakeholders, based on a risk analysis of all of the council's auditable systems. In addition, the risks in each system are reviewed by the relevant Head of Service prior to the commencement of every audit review. The audit plan is agreed with our external auditors prior to finalisation to ensure that that plans are co-ordinated to add maximum value and avoid any duplication.

At the conclusion of each audit the recommendations are discussed with the appropriate head of service and an action plan is agreed. There is a follow-up review of every internal audit to ascertain progress being made by the head of service in addressing the agreed action plan. The Chief Internal Auditor publishes an annual report to the Management Board and Audit and Resources Overview and Scrutiny Committee.

The Chief Internal Auditor is a Chief Officer of the council, reporting to the Borough Treasurer and with direct access to the Chief Executive. The Chief Internal Auditor also reports to the Audit and Resources Overview and Scrutiny Committee on the following matters:-

- annual audit plan;
- regular progress reports on key findings and progress against the annual audit plan;
- annual report providing a final position on progress against the annual audit plan, a summary of all internal audit reviews completed, and an independent opinion of the Chief Internal Auditor on the adequacy and effectiveness of the overall control environment.

Corporate Anti Fraud Team

The Corporate Anti-Fraud Team (CAFT) is a specialist investigative unit that has been established to investigate allegations of Housing Benefit, Council Tax Benefit and general fraud within the London Borough of Barnet.

A key part of CAFT's role is to be raise fraud awareness corporately via training, publicity, enhanced intelligence gathering, effective and thorough investigation and prosecution where necessary.

Mission: CAFT's mission is to assist the council in protecting the public purse through the advancement of sound strategies, procedures and controls in the prevention, detection, investigation and deterrence of fraud and corruption.

Aims: CAFT aims to minimise fraud and loss through effective prevention and detection measures and is committed to supporting the community, employees and members in deterring fraud.

Where fraud is discovered and investigated, the Corporate Anti Fraud Team is dedicated to taking necessary action against alleged offenders and will prosecute in appropriate cases.

The council is also dedicated to reviewing all controls and systems in place and will take all reasonable steps to prevent recurrence of fraud, and to recover any funds lost through fraudulent behaviour.

Reporting: CAFT report summary findings with recommendations of all corporate fraud work to Management Board and are currently finalising arrangements for reporting to the Audit Committee. In 2005/6 CAFT will have a regular quarterly slot on the Management Board agenda.

In 2004-5 CAFT conducted successful investigations into a number of areas which has further raised the profile of anti fraud activity throughout the organisation.

All investigation reports are viewed by the Chief Internal Auditor to ensure that any risk/ control issues are identified and audit plans amended accordingly. Similarly Internal Audit discuss with CAFT any areas where they have identified control weaknesses which may have increased exposure to fraudulent activity.

In 2004-5 a serious fraud in the Cashiers office was uncovered and successfully investigated and prosecuted by CAFT. Internal Audit worked closely with CAFT on this exercise and appropriate management action was agreed to address the identified weaknesses including physical security aspects of the Cashiers office and CCTV.

CAFT will be seeking to increase the level of proactive anti-fraud work conducted in 2005/6.

CAFT's links with the Law and Probity service have been strengthened by it becoming part of this Service in July 2005.

Section 5 – Significant Internal Control Issues

When preparing the 2004-5 SIC, it is important that all the significant weaknesses in internal control are identified.

Update on Issues raised in the 2002/03 Accounts.

The 2002/03 Statement of Accounts included a Statement on Internal Financial Control (SIFC). The SIFC is now superseded by the SIC, which has a wider coverage than purely financial control, but it is important to ensure issues identified in that year have been adequately addressed. The remaining issues are:-

- Best Value Review of Corporate Financial Management - this has been completed and an improvement plan has been agreed by Cabinet. An update on the BVR action plan is included above under 'Financial Management';
- Modernising Core Systems -. The system is planned to go live on 1 August 2005. Given the opportunities this project presents and the impact if not successful, this remains a high risk area. Internal Audit involvement to date has provided satisfactory assurance statements on project management and governance. External Audit have also produced an interim report on the project and have identified the following risks:
 - Whether there is sufficient time available to complete all of the delivery tasks associated with such a major implementation project. Areas of particular concern include the delivery of UAT and data migration, change management action plans at a service level, the adoption of appropriate procedures, and the delivery of a major programme of training across the Council;
 - Whether there has been sufficient focus in the project and its execution on addressing weaknesses in the control environment identified by sources such as internal and external audit and in delivering best practice in financial stewardship recommended under the CIPFA Financial Management model;
 - Whether in the context of the above, there is sufficient time available to complete and more importantly address the outcomes of assurance reviews on the systems by the MCS project team, line management as appropriate and audit reviews. Of particular concern here are any issues arising from systems testing, internal audit reviews of both documentation and historic control weaknesses and how they will be addressed in such a tight timescale.

In addition, their review identified two specific issues that the Council will need to address following implementation of SAP:

- The need to embed improvements to the financial management and internal control regime across the Council. Whilst some progress on this can be made over the next 62 days via training and by addressing concerns from audit reviews it is a longer term issue which requires constant scrutiny and follow up; and
- The need to build upon the existing benefits realisation principles which have been set out as part of the project and to underpin them with detailed outcome based targets in areas such as the cost of processing, the quality of management and financial reporting and the degree of assurance that audit is able to give over key systems.

Update on Issues raised in the 2003/04 SIC

The internal control weaknesses that were identified in the 2003/04 SIC are detailed in the table below with an update on progress.

Issues around weak systems, in general will be addressed as part of the MCS project. As part of this process the Borough Treasurer will arrange for sound financial procedures to be set in place across the council, with clear accountability. Officers will be informed and trained on the procedures.

<u>2003-4 Issues</u>	<u>2004-5 Update</u>												
Payroll: Following the serious payroll fraud reported in 2002/3, the weaknesses which allowed the fraud to occur were revisited by Internal Audit and addressed by management within the payroll service. Further follow-up and systems work by Internal Audit has allowed them to raise the assurance level from 'none' to 'limited'. The Modernising Core Systems project offers opportunity to further raise the assurance level.	Payroll will be the subject of further Internal Audit work in 2005-6. This will be scheduled after MCS go-live.												
During 2003/04 a fraud was uncovered in building cleaning regarding 'ghost' employees that highlighted more shortcomings in the HR/Payroll systems. Following a review by the council's external auditors, these have been fully reported and a separate project team has been established to address the internal control problems.	Operation Windmill was initiated to address the internal control weaknesses which allowed this fraud to occur. The operation is ongoing and working with MCS team to ensure maximum benefit gained from the new systems.												
<p>The most recurring areas of control weakness across the council identified in the 2003/4 Internal Audit annual report are:</p> <ul style="list-style-type: none"> A lack of adequate policies and procedures – of the 87 recommendations made in this area, 17 related to weaknesses in policy arrangements. Recommendations in this area do not necessarily mean that policies and/or procedures do not exist, but that improvements or additions to existing policies and/or procedures may be 	<p>All Internal Audit recommendations are followed up as a matter of course. The 2004-5 annual audit report has shown the level of implementation of recommendations to be:</p> <table> <thead> <tr> <th>Risk Category</th> <th>No.</th> </tr> </thead> <tbody> <tr> <td>High to low/Medium to Low:</td> <td>22</td> </tr> <tr> <td>High to Medium:</td> <td>6</td> </tr> <tr> <td>Low to Low:</td> <td>4</td> </tr> <tr> <td>High to High/Medium to Medium:</td> <td>17</td> </tr> <tr> <td>Total</td> <td>49</td> </tr> </tbody> </table>	Risk Category	No.	High to low/Medium to Low:	22	High to Medium:	6	Low to Low:	4	High to High/Medium to Medium:	17	Total	49
Risk Category	No.												
High to low/Medium to Low:	22												
High to Medium:	6												
Low to Low:	4												
High to High/Medium to Medium:	17												
Total	49												

<p>required;</p> <ul style="list-style-type: none"> • lack of monitoring and administrative controls over the reliability and integrity of data; • inadequate monitoring of management information to ensure objectives are achieved; • inadequate monitoring of resources. 	
<p>Key systems - the 2003/04 Annual Audit Letter identified improvements that needed to be made to key systems for internal control and key systems for producing the accounts. An action plan for addressing these weaknesses has been agreed with the External Auditor.</p>	<p>Progress against the agreed action plan has been included in the external auditor's management letter for 2004-5</p> <p>The details of the recommendations in the letter are being reviewed by the MCS team to ensure that identified weaknesses are considered in the re-engineering of processes.</p>
<p>Best Value Performance Indicators: -</p> <p>The annual external audit of the 2003/04 Best Value Performance Indicators (BVPIs) has resulted in 25 reservations and 34 amendments. This was a substantial increase from 2002/3. In the light of this the council is working toward the implementation of more rigorous information management.</p> <p>The position for 2004-5 is ... <i>(to be inserted when final report received from External Auditor)</i></p>	<p>This remains an area of weakness. Further action has been planned to address. MCS will provide a significant opportunity to address some of the weaknesses</p> <p>As part of the ongoing process of improving data integrity the following actions have been put in place across the organisation: -</p> <ul style="list-style-type: none"> • CPO work with performance lead officers to raise awareness and understanding of data reliability and evidence • a central review of submitted audit sheets to verify compliance with statutory requirements; • 6 monthly collation of BVPI data, and • all BVPI lead officers are expected to complete planning sheets for all BVPIs by April of each year.

	Internal Audit have included further review of this area in 2005-6 and will seek to work closely with CPO and external audit to ensure that weaknesses are effectively addressed.
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New Issues - General Internal Control Weaknesses/ Issues that need to be addressed in 2005/06

HR weaknesses – A comprehensive project has been initiated by the Director of Resources which is being delivered by the Head of CAFT. The objectives of the project are:

- To conduct a rigorous assessment on the HR/Payroll procedures in the recruitment and payment of LBB staff.
- To review any revised/new process at draft stage for risk/control issues.
- To develop specific fraud awareness training for all HR/Payroll staff.
- To complete the NFI data-match reports with accurate findings.
- To complete the exercise within the specified timeline.

BVPIs – The Corporate Performance Office will continue to assist services to review and improve the data gathering and reporting processes around BVPIs to ensure that the identified weaknesses are effectively addressed.

Internal Audit annual report 2004-5

The most recurring areas of control weakness across the council identified in the 2003/4 Internal Audit annual report are:

- Either no or inadequate policies and procedures (26 instances out of a total 159 recommendations made).
- Recommendations in this area do not necessarily mean that policies and/or procedures do not exist but that improvements or additions to existing policies and/or procedures may be required.
- Inadequate monitoring of management information to ensure objectives are achieved (17/159) and
- Lack of monitoring and administrative controls over the reliability and integrity of data (15/159)

External Audit Reports 2004-5

In 2004-5, external audit issued reports on the following:

- BVPIs
- Grants certification
- Risk Management

- Contract Management
- HR and Payroll
- Community Care (as was)

Recommendations have been agreed and action plans drawn up to monitor implementation

SIC 2005-6

The process for production of the annual SIC can be improved. External Audit will present to a special Management Board meeting on the significance and requirements of the SIC.

Processes to ensure that all services effectively contribute to the process, probably via a 'mini-SIC' mechanism are being considered. We envisage that the mini-SIC or 'Management Assurance report' will link together work on risk management and assurances obtained from all other sources. Ultimately, this will feed into the annual statement prepared on behalf of the Chief Executive and Leader for the Annual Accounts, and will provide supporting documentation for internal and external audit.

Leo Boland
Chief Executive

Brian Salinger
Leader of the Council

AGENDA ITEM: 7 Page nos. 19-22

Meeting	Audit Committee
Date	31 August 2005
Subject	Internal Audit Performance Management Plan (PMP) Monitor
Report of	Head of Corporate Performance
Summary	This report summarises the Internal Audit Service's achievements against targets set in their 2004/05 PMP

Officer Contributors	Shahin Farjami, Corporate Performance Office
Status (public or exempt)	Public
Wards affected	N/a
Enclosures	2004/05 Internal Audit PMP Outturn Monitor
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/a

Contact for further information: Shahin Farjami (020 8359 7019)

1. RECOMMENDATIONS

1.1 That the Committee review

(a) the performance of Internal Audit against its improvement targets;

(b) The effectiveness and relevance of the monitored targets.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The 2004/05 Internal Audit PMP was agreed by Council on 2 March 2004 and sets out key performance indicators to measure the achievements of the service. Achievements against targets are also a guide to Internal Audit's contribution to improving Barnet by supporting corporate priorities.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Performance indicators measure service contributions to corporate priorities. The level of achievement against performance targets is a key contributor in determining policy decisions and informs a policy led budget process.

4. RISK MANAGEMENT ISSUES

- 4.1 The Internal Audit performance monitor includes indicators designed to manage issues identified as key corporate risks in the Corporate Plan.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None.

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including "Satisfying the Council that the internal auditor carries out sufficient systematic reviews of the internal control arrangements, both operational (relating to effectiveness, efficiency and economy) and financial".

8 BACKGROUND INFORMATION

- 8.1 The enclosed '2004/05 Internal Audit PMP Outturn Monitor' tracks the service's outturn against all PMP improvement indicators. This covers performance during the period between 1 April 2004 and 31 March 2005.

- 8.2 Internal Audit exceeded their target of completing 82% of the annual audit plan within the year. 84% of the plan was completed by the 31 March 2005.

- 8.3 Although the same number of follow up audits were completed in 2004/05 as

were in 2003/04 the number of follow ups started has dropped by 2%. It should be noted that the target for follow up audits is a very challenging 100%.

- 8.4 Service satisfaction scores remained the same for schools audits and improved in respect of system audits. Targets for service satisfaction have been exceeded.
- 8.5 Internal Audit activity around embedding risk management is on target and the Chief Internal Auditor is now responsible for corporate risk management.
- 8.6 Annual audit planning is risk based, but there remains scope for improvement. Specifically, all services need to develop effective risk registers that can be incorporated into the audit planning service.

9 LIST OF BACKGROUND PAPERS

- 9.1 None.

BS: JEL
BT: CM

Objectives	Key Measures	Outturn 2003/4	Target 2004/5	Outturn 2004/5	Traffic Light	Direction of Travel																		
Deliver sound opinion on level of assurance council can have on systems in place to effectively deliver corporate objectives	Measure 1 % of Audit Plan completed compared to what was planned.	2003/04: 100% of audits started, 88% completed. Note: At 30th June 2004 figures are 100% audits started, 96% audits completed.	82% completion of Audit Plan by end of March 2005.	2004/05: 100% of audits started, 84% completed.	Target Achieved	<table border="1"> <caption>Audit Plan Completion Progress</caption> <thead> <tr> <th>Quarter</th> <th>% Started</th> <th>% Complete</th> </tr> </thead> <tbody> <tr> <td>Quarter 1</td> <td>30</td> <td>0</td> </tr> <tr> <td>Quarter 2</td> <td>60</td> <td>10</td> </tr> <tr> <td>Quarter 3</td> <td>80</td> <td>40</td> </tr> <tr> <td>Quarter 4</td> <td>100</td> <td>75</td> </tr> <tr> <td>Outturn 04/5</td> <td>100</td> <td>84</td> </tr> </tbody> </table>	Quarter	% Started	% Complete	Quarter 1	30	0	Quarter 2	60	10	Quarter 3	80	40	Quarter 4	100	75	Outturn 04/5	100	84
Quarter	% Started	% Complete																						
Quarter 1	30	0																						
Quarter 2	60	10																						
Quarter 3	80	40																						
Quarter 4	100	75																						
Outturn 04/5	100	84																						
Improve corporate governance & risk management arrangements by ensuring maximum levels of implementation of agreed audit recommendations	Measure 1 % of audit reports followed up within 12 months of issue of final report.	2003/04: 100% of follow-ups started, 82% completed. Note: At 30th June 2004 figures are 100% follow-ups started, 92% completed.	100% of audit recommendations followed up.	2004/05: 98% of follow-ups started, 82% completed.	Significant Progress	<table border="1"> <caption>Audit Recommendations Follow-up Progress</caption> <thead> <tr> <th>Quarter</th> <th>% Started</th> <th>% Complete</th> </tr> </thead> <tbody> <tr> <td>Quarter 1</td> <td>25</td> <td>0</td> </tr> <tr> <td>Quarter 2</td> <td>50</td> <td>10</td> </tr> <tr> <td>Quarter 3</td> <td>80</td> <td>25</td> </tr> <tr> <td>Quarter 4</td> <td>100</td> <td>80</td> </tr> <tr> <td>Outturn 04/5</td> <td>100</td> <td>82</td> </tr> </tbody> </table>	Quarter	% Started	% Complete	Quarter 1	25	0	Quarter 2	50	10	Quarter 3	80	25	Quarter 4	100	80	Outturn 04/5	100	82
Quarter	% Started	% Complete																						
Quarter 1	25	0																						
Quarter 2	50	10																						
Quarter 3	80	25																						
Quarter 4	100	80																						
Outturn 04/5	100	82																						
Meet agreed requirements of audit clients in all audit projects	Measure 1 Average score from Quality Assessment questionnaires.	Schools: 1.7 Systems: 1.9 (1 = Excellent 5 = Unacceptable)	Achieve better than 3 average score from Quality Assessment Questionnaires	Schools: 1.7 Systems: 1.5	Target Achieved	<table border="1"> <caption>QAQ Score Progress</caption> <thead> <tr> <th>Quarter</th> <th>QAQ Score (Schools)</th> <th>QAQ Score (Systems)</th> </tr> </thead> <tbody> <tr> <td>Quarter 1</td> <td>1.0</td> <td>1.0</td> </tr> <tr> <td>Quarter 2</td> <td>1.5</td> <td>1.2</td> </tr> <tr> <td>Quarter 3</td> <td>1.6</td> <td>1.4</td> </tr> <tr> <td>Quarter 4</td> <td>1.7</td> <td>1.5</td> </tr> <tr> <td>Outturn 04/5</td> <td>1.7</td> <td>1.5</td> </tr> </tbody> </table>	Quarter	QAQ Score (Schools)	QAQ Score (Systems)	Quarter 1	1.0	1.0	Quarter 2	1.5	1.2	Quarter 3	1.6	1.4	Quarter 4	1.7	1.5	Outturn 04/5	1.7	1.5
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Quarter 4	1.7	1.5																						
Outturn 04/5	1.7	1.5																						
Provide accurate assessment to Audit Committee & Chief Executive of effectiveness of Risk Management procedures within the council. Use outcomes of Risk Management Initiative to refine audit planning & consultation process	Measure 1 Risk Management statement in the interim and annual audit reports.	Internal audit of risk management procedures finalised & emerging issues reported in March 2004.	Provide advice & guidance on development of risk management policy & procedures. Adequate, effective risk management policy & procedures implemented.	Risk Management embedding has moved further forward. The CIA is now responsible for corporate risk management. The risk management statement in the 2004/05 Annual Report (to be issued in June 2005) will reflect this.	Target Achieved	Appropriate action taken to provide the basis for the implementation of effective risk management and procedures.																		
	Measure 2 Annual audit plan derived from service and corporate risk registers.	Internal Audit planning for 2004-05 - minimal risk assessments available from services.		The 2005/06 Audit Plan was partly developed from some Service risk registers.	Significant Progress	Audit Plan has incorporated some service risk registers. All service risk registers to be included?																		

AGENDA ITEM: 8

Page nos. 23-29

Meeting	Audit Committee
Date	31 August 2005
Subject	Debt Collection
Report of	Borough Treasurer
Summary	This report provides an update on the aged debt analysis and other matters.

Officer Contributors	Borough Treasurer Chief Revenues Officer Principal Income Manager Head of Highways Head of Cultural Services
Status (public or exempt)	Public
Wards affected	None
Enclosures	Summary of arrears outstanding as at 31 March 2005, 31 March 2004.
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A
Contact for further information	
David Sharpe, Chief Revenues Officer (0208 359 2327)	

1. RECOMMENDATIONS

- 1.1 That the Committee review the position described in this report on debt recovery and its associated risk management.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit & Resources Overview & Scrutiny Committee on 27 October 2004 – resolved that the Heads of Customer Care and Highways and Design report to the Committee on the background issues, amounts outstanding and collection procedures for debts owed to their services related to library fines and parking fines respectively.

3. CORPORATE PRIORITIES & POLICY CONSIDERATIONS

- 3.1 Prompt recovery of debts is a key aspect of improving the Council's financial standing, as per the Borough Treasurer's Performance Management Plan.

4. RISK MANAGEMENT ISSUES

- 4.1 There are inherent risks in charging for services after they have been delivered, but despite working with services to maximise the income collected in advance or at point of service delivery it is inevitable that there will be circumstances where an invoice needs to be raised after the event.
- 4.2 Implementation of SAP is temporarily diverting resources away from debt recovery, but this has been compensated for in part by the backfilling of a post to undertake some of the data migration work (mainly data cleansing, catching up on write-offs) and undertake some specific debt recovery work (e.g. skip licences).
- 4.3 In defining the debt recovery specification under Modernising Core Systems (MCS) it was clear at an early stage that SAP lacked functionality in the latter stages of the debt recovery (dunning) process. Alternative solutions were reviewed and the opportunity is being taken to extend the licence for NORWELL, a new case management system being implemented in Legal Services. This system has the functionality required to manage hard to collect debts, including bankruptcy and liquidation processes. It has been demonstrated at another London Borough and will be implemented in Barnet as part of the overall MCS project.
- 4.4 With the demise of the mainframe after the implementation of SAP it will be necessary to replace the aging mortgages system. Again, this is not an area where SAP has the required functionality and a new stand-alone system is being procured to take this forward.

5. FINANCIAL, STAFFING, ICT & PROPERTY IMPLICATIONS

- 5.1 Under SAP, all services raise their own invoices, which some did previously. The Income Section within Borough Treasurer's will then focus entirely on debt recovery, with the objectives of improving the speed of

escalation through the recovery processes and extending the range of recovery options – e.g. greater use of bailiffs, bankruptcy and liquidation.

- 5.2 We are reviewing recovery procedures and are developing an overall debt management strategy, which will define what is required of services in collecting income and raising invoices, and what they can expect from the Debt Recovery Team.

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including “ensuring that the council’s financial reports...and the action taken by the council to implement fully a risk management system are balanced, fair, conform to accountancy standards and meet prevailing best practice.”

8 BACKGROUND INFORMATION

- 8.1 The value of invoices raised in recent years is as follows:-

2001/02	£23m
2002/03	£22m
2003/04	£60m
2004/05	£81m.

- 8.2 The increase in 2003/04 was due to the monthly billing of schools for the reimbursement of payroll payments. In 2004/05, the increase relates to the billing of Barnet Homes for the reimbursement of its payroll. These payroll reimbursement invoices to schools and Barnet Homes are large and each month 12 invoices account for around £4.2m.
- 8.3 Poor functionality within the existing debtors system on management reporting and automated recovery processes have been mentioned in previous reports. The specification for MCS is more comprehensive and the project team has worked to ensure SAP delivers the required functionality.
- 8.4 At the meeting of the Audit & Resources Overview & Scrutiny Committee on 27 October 2004, Members asked about debts that were over 2 years old. The position at 31 March 2005 (£4.20m) was a marginal improvement on the position at 31 March 2004 (£4.34m).
- 8.5 The figures for debt over 2 years old will fall over the coming months as a result of a concerted effort to catch up on write-offs. Irrecoverable debt has not been written-off on a regular basis, which is an issue the debt management strategy (see 5.2) will address. Debts mostly affected by this purge on write-offs will be home helps, residential accommodation, leaseholders and commercial rents.
- 8.6 In addition to catching up on write-offs, certain debts have been targeted for stronger debt recovery action, for example:-

- skip hire companies that have been running up large debts and have not responded to the usual recovery methods. Since March, £21,000 has been collected by threatening removal of skips. The sum collected amounts to 66% of the outstanding debt;
- provision of large waste bins. Since March, £57,000 has been collected out of a debt of £178,000 and payments are ongoing by monthly arrangement. Some of this debt goes back to 2002/03.

8.7 Direct Debit take-up continues to increase. It is one of the cheapest payment options for the Council and can improve collection, although in the first instance good payers are generally the ones who convert to direct debit first. Key statistics are shown below:-

	<u>Number</u>	<u>Value</u>
2002-03	20	£921
2003-04	2,425	£200,927
2004-05	6,407	£575,456

8.8 Management action by the Income Team has also been taken to improve business processes, for example:-

- vehicle maintenance invoices used to be raised for individual jobs, whereas now composite invoices are raised for each customer;
- from April 2003 the Income Team has increased its monitoring of low value invoices with a view to encouraging services to obtain payment in advance.

8.9 At the meeting of the Audit & Resources Overview & Scrutiny Committee on 27 October 2004, Members asked for a report from the Head of Highways and Design on parking debts and a report from the Head of Cultural Services on library fine arrears. These reports are set out below.

Parking

8.10 The parking service issues Penalty Charge Notices (PCN) by means of Parking Attendants (PAs) and by monitoring cameras for bus lane contraventions. For 2003/4 and 2004/5 figures are as follows:

	2003/4	2004/5
PA issued PCNs	£181,881*	£155,919
Bus Lane PCNs	£29,583	£16,425
Revenue (PA PCNs)	£5,961,832	£5,017,121
Revenue (Bus Lane)	£1,432,409	£614,924

* Note: historical inconsistency of reporting means that the "by PA" figure for 03/04 included voided penalties and warning notices so the actual figure issued is some £20,000 lower.

- 8.11 The reduction of PCNs issued by PAs in 2004/5 is attributed to recruitment and training issues (now addressed). The reduction of bus lane camera PCNs was partially due to the removal of a camera and partly to be expected as the introduction of camera enforcement - new in 2003 - led to drivers subsequently avoiding the bus lane when they found they were being penalised.
- 8.12 The "face value" of a PCN is £80 or £100 for bus lanes. A 50% discount applies if paid within 14 days of issue. The processing of PCNs is complex, and prescribed by the provisions of the Road Traffic Act 1991.
- 8.13 PCNs issued are not debts - they are allegations of contraventions and as such open to challenge and appeal. There are exemptions whereby on production of suitable evidence a penalty may be cancelled. Councils are also obliged to consider cancellation on mitigating circumstances. Unpaid PCNs are managed through a statutory process on a specialist computer system. Following the tracing of the keeper through the DVLA, a Notice to Owner is served by post. Bus lane PCNs are served by post using DVLA information, and an Enforcement Notice is then served in place of a Notice to Owner. If still unpaid a Charge Certificate is issued in either case and the penalty increased by 50%.
- 8.14 If still unpaid the Council registers the charge as a debt at the Traffic Enforcement Centre at Northampton County Court. This is a bulk automatic process. There is no hearing. Disputed penalties may be adjudicated on at an independent tribunal - the Parking and Traffic Appeals Service - after Notice to Owner/Enforcement Notice and before Charge Certificate.
- 8.15 If the debt is unpaid a warrant of execution is obtained and the case is passed to a bailiff to recover. The Council does not pay the bailiffs who are empowered to add charges in accordance with regulations. The bailiff is therefore incentivised in that if they do not recover the debt for the Council they will not recover their charges either.
- 8.16 The parking team now has four bailiff firms appointed to recover parking debts. Comparative data is being collected to review performance and an additional management resource will be actively discussing performance management issues with each bailiff in the third quarter of this year covering their successes, their proposals, complaints made, and to set targets for future service delivery. Should a bailiff fail to perform adequately, fewer cases will be referred, and if performance fails to improve an alternative bailiff may be appointed to replace them.
- 8.17 The use of several bailiffs is good practice in the recovery of parking debts.
- 8.18 In 2003/4, 37,872 penalty charges were registered as debts and 34,927 passed to bailiffs
- 8.19 In 2004/5 the figures were 36,438 and 33,731 respectively.
- 8.20 Comparison of debts registered in a given year and PCNs issued in the same year is inappropriate because of the time taken to process.

Generalising, the above figures equate to approximately 22% of the PCN issue being registered as debts. Comparisons with other boroughs are hard to make, but the indications are that this is of a similar order of magnitude as neighbouring authorities.

- 8.21 Current monitoring indicates that bailiffs recover in the range of 10% to 12% of the debts passed to them. Whilst this information is not readily available from other authorities, initial informal feedback indicates it is a typical recovery rate. When the performance management work is under way, a pro-active effort to seek comparable benchmarking data from similar and neighbouring authorities will be undertaken.
- 8.22 A data analyst has been brought into the service to explore in greater depth the data held and identify trends and patterns that can inform the process and drive change with the aim of varying process or implementing new initiatives that might improve recovery rates.
- 8.23 For example, it is to be expected that people who, for whatever reason, cannot be traced at the address at which their car is registered will increasingly park unlawfully in the knowledge that a bailiff will not be able to trace them so the proportion of unrecoverable penalties will increase.

The aim is to build a picture of the scale of this problem and to see if any persistent evaders are parking in consistent locations at certain times and thus send the bailiff to those sites in addition to targeting the supposed home address.

Unrecoverable debts will be written-off. The write off process is to be reviewed on the appointment of an interim Parking Process Manager in September 2005 to ensure that all unrecoverable debts have been properly accounted for, in line with Council procedures.

Libraries

- 8.24 Library fines are charged for the late return or late renewal of borrowed items. Items are charged at the rate of 15p per item per day up to a maximum of £9. Anyone who fails to pay fines has a block placed on their use of the library until the account is cleared. This block is currently activated at £3.
- 8.25 There is currently a total debt of £146,691, made up of 18,564 individual debts, of which 97.8% are for less than £50. The average debt is £7.90.
- 8.26 The majority of the debt on the system at any given time is expected to be paid when the customer next visits the library. There is a strong incentive to pay as customers are otherwise prevented from borrowing library stock and other services such as hiring a PC.

9 LIST OF BACKGROUND PAPERS

- 9.1 None

BS - JEL

BT - CM

Debts over 2 years old - as at 31 March

	2004	2005	Increase/ (Decrease)	% of 2005 Total
	£	£	£	
Meals at Home	16,712	24,562	7,850	
Home Helps	277,282	350,693	73,411	
Residential Accommodation	1,913,952	1,826,152	(87,800)	@
Respite care & adaptations to property	99,558	112,063	12,504	
Piper lifeline service	1,437	2,678	1,241	#
ADULT SERVICES	2,308,941	2,316,148	7,207	55%
Court costs awarded and rechargeable	667	4,995	4,328	#
Major Works - charges for non-routine work to Leasehold props	836,207	541,304	(294,903)	#
Service Charges - routine maintenance charges	539,248	382,896	(156,352)	#
Equity Share - routine maintenance charges	2,444	2,383	(61)	#
Tenant Recharges - rechargeable repairs to council houses	17,729	69,512	51,783	#
Charges for caretakers private phone calls	1,600	1,630	30	#
HOUSING	1,397,895	1,002,719	(395,176)	24%
Building cleaning - schools	15,950	15,950	(0)	
Building maintenance - schools	6,603	6,650	47	
Other local authorities (e.g. SEN rescoupmnt)	156	148	(8)	
Professional Development Centre - training courses fees	2,191	(1,949)	(4,140)	
Building maintenance contract fees - schools	242	242	0	
EDUCATION	25,143	21,041	(4,102)	1%
Rechargeable Works - street furniture repairs, relocating st lighting etc	17,976	22,574	4,598	
Traffic surveys	59	3,646	3,587	
New Roads & Streetworks Act - inspections, utilities default notices	0	16,363	16,363	
PLANNING, HIGHWAYS & DESIGN	18,035	42,583	24,548	1%
Works in Default	102,489	97,400	(5,089)	
Removal of abandoned vehicles	885	133,927	133,042	
Drain cleaning / tree removal	3,517	15,105	11,588	
Catering charges for schools & private functions	0	1,957	1,957	
Commercial waste removal	21,777	40,548	18,771	
Pest disinfestation	222	282	60	
Charges for disposal of medical waste	216	178	(38)	
Licence renewal fees	910	858	(52)	
Rechargeable Works (inc. road maintenance for other authorities)	0	27,440	27,440	
ENVIRONMENTAL & NEIGHBOURHOOD SERVICES	130,016	317,695	187,679	8%
Hire fees multi-media centre at Hendon Library	770	770	0	
Fines & book replacement charges	594	609	15	
CULTURAL SERVICES	1,364	1,379	15	0%
Grounds maintenance - schools	284	300	16	
Grounds maintenance - other	2,467	2,812	345	
LEISURE & YOUTH SERVICES	2,751	3,112	361	0%
Mill Hill Depot Training Centre - training courses	6,578	8,988	2,410	
Schools payroll / CRB checks	1,054	804	(250)	
Recovery of overpaid staff salaries	25,235	41,677	16,442	
HUMAN RESOURCES	32,867	51,469	18,602	1%
Car loans - former employees	52,871	58,246	5,375	
Overpayments of education awards	26,906	23,922	(2,984)	
Overpayments of awards/grants	31,216	29,680	(1,537)	
Various - not allocated to services	119,034	120,536	1,502	
BOROUGH TREASURERS / UNALLOCATED	230,027	182,805	(47,222)	4%
Commercial rents	188,523	212,392	23,869	
VALUATION	188,523	212,392	23,869	5%
	4,335,561	4,176,131	(159,430)	100%

These debts are managed by Barnet Homes

@ Charges on property amount to around £1m.

AGENDA ITEM: 9 Page nos. 30-48

Meeting	Audit Committee
Date	31 August 2005
Subject	Annual Report of Corporate Anti-Fraud Team 2004-5
Report of	Head of Corporate Anti Fraud Team, co authors - Borough Treasurer & Borough Solicitor.
Summary	The Committee is asked to note the Annual Report of the Corporate Anti-Fraud Team.

Officer Contributors	Dorne Kanareck, Head of Corporate Anti Fraud
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Corporate Anti-Fraud Team Annual Report 2004-5
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Dorne Kanareck, 020 8359 7988

1. RECOMMENDATIONS

- 1.1 That the Committee note the contents of the report.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Corporate Anti Fraud Team (CAFT) was launched on 7 May 2004, after official authorisation on 2 March 2004 (delegated powers report, ref: BT/2004-05)
- 2.2 On 9 June 2005, the Audit Committee included in the work programme for 2005/6, that an annual report on the work of the Corporate Anti Fraud Team be produced.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council is committed to demonstrating that services represent value for money and that there is a continuous drive to improve quality, efficiency and effectiveness of services (Corporate plan). The work of the CAFT supports this.

4. RISK MANAGEMENT ISSUES

- 4.1 The CAFT has a duty to the Council in the protection of the public purse through prevention, detection, investigation and deterrence of fraud.
- 4.2 Based on current resources, the majority of CAFT's work is re-active, leaving little opportunity to develop a comprehensive proactive work programme. This represents a risk to the authority's overall internal control arrangements.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 In 2004/5 the CAFT budget was increased by £100,000, which has remained in the base budget ever since.
- 5.2 Detailed within the report is the total funding of the team, including subsidy income and identified potential savings.

6. LEGAL ISSUES

- 6.1 As referred to in the Annual Report

7. CONSTITUTIONAL POWERS

- 7.1 The Constitution, Part 3, Paragraph 2, details the functions of the Audit Committee including "Reviewing the major findings of any relevant internal council investigations by the Corporate Anti Fraud Team into control

weaknesses, fraud, whistle blowing or misconduct and the management's response".

8 BACKGROUND INFORMATION

8.1 The CAFT was officially launched on 7 May 2004.

8.2 The CAFT consists of five distinctive areas;

- Verification Team
- Intelligence Team
- Investigation Team
- Compliance & Standards Officer
- Support Team

8.3 The Team operates within the Counter Fraud Framework . The Framework consists of a set of comprehensive documents which details the Councils Fraud Response Plan, Fraud Reporting Toolkit, Prosecution Policy and the Whistle Blowing Policy.

8.4 Both the authority's internal and external auditors have expressed positive feedback, particularly in relation to the introduction of the Counter Fraud Framework.

8.5 As well as prosecutions for benefit fraud, the CAFT have successfully dealt with a number of corporate investigations during the last year. The report contains the results of all investigations and a short brief on some of the more interesting cases.

8.6 In the last year the CAFT have progressed with a number of the key drivers that were identified in the original work plan:-

8.6.1 A number of key partner protocols have been put in place with:-

- The Law & Probity Service
- The Borough Treasurers Service
- The Internal Audit Service
- The Human Resources Service
- The Housing & Council Tax Benefit Service
- Unison & GMB
- The Department of Work & Pensions
- The Metropolitan Police

8.6.2 CAFT has also developed key partner partnerships with Barnet Homes: - Sovereign House Pilot and have signed two Service Level Agreements, with Registered Social Landlords

8.6.3 One of the CAFT managers has joined the board of the Government's Identify Fraud Forum, and another has been invited on to the Executive Committee of the

Local Authorities Investigators group for the UK.

8.6.4 CAFT continues to provide Fraud Awareness Training and document verification training to all staff. Since its launch in May 2004 CAFT have held two staff open days, that have helped promote staff awareness of the work of the CAFT.

8.7 In July 2005 CAFT became part of the Law & Probity Service.

9 LIST OF BACKGROUND PAPERS

9.1 None

BS JEL
BT CM

London Borough of Barnet

CAFT

Corporate Anti Fraud Team

Annual Report

“Where the money goes matters. CAFT making a positive contribution to the economic well being of the Authority”



2004/5

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Background



The Corporate Anti Fraud Team (CAFT) is the first of its kind in the United Kingdom to operate completely independently of Internal Audit. The team was officially launched by the Leader and the Chief Executive on 7th May 2004.

The remit of the team is to provide a quality specialist investigation service based on high professional standards, integrity and creative strategies which are recognised by the Authority and the community as a valuable overarching tool in combating fraud and corruption in Barnet.

Within this the primary responsibility of the team is to assist the council in protecting the public purse through the facilitation of sound strategies, investigating all forms of suspected Fraud and Corruption, whilst also providing comprehensive and effective prevention, detection, intelligence and deterrent measures. This includes a Fraud Awareness Education program across the Authority.

The team is made up of multi skilled officers with specialist skills in Benefits, Visiting, Interviewing, Criminal Law, Investigations, Evidence and Intelligence gathering.

The investigators are all fully trained to prosecution standards and have all attained the Government recognised qualification Professionalism in Security (PINS). In addition all of the visiting staff have recently attained a BTEC qualification in Benefits Administration.

Both the authority's internal and external auditors (Robson Rhodes) have expressed positive feedback particularly in relation to the introduction of the Counter Fraud Framework

The work of the team is extremely complex which reflects the diversity of the services provided by the Authority. All staff on the team have a clear understanding of the corporate business and how that links into what they do.

The team has been structured, and the staff trained in a way that allows minimal disruption to our core business functions should we need to go off site for an investigation and equally where the services of the whole team are required on a large scale investigation. The team have demonstrated capability of being able to function either as one unit or as part of a smaller group for complex cases.

What we do



Within the umbrella of the Corporate Anti Fraud Team, there are five distinctive areas:

Verification Team

The officers are responsible for the verification of benefit claims. The team works to a target set by the Department of Work & Pensions (DWP). Visits take place in claimant's homes to confirm continued benefit entitlement, identity, national Insurance number and residency.

Key progress in this area includes:

- Department of Work & Pensions visit target of 4505 2004/5 met with 3460 successful visits resulting in:-
- 918 previously undeclared change of circumstances identified of these 73 had their benefit entitlement increased

Intelligence Team

This team is the special point of contact (SPOC) which co-ordinates the flow of all intelligence and data regarding suspected Fraud and Corruption to and from the Authority. The team work in accordance with guidelines set out in the National Intelligence Model ensuring effective data sharing within legal parameters. The team have developed a proven capability in this role on a national scale (see Operation Bangor page 11). In addition for 2005/6 they are also responsible for the co-ordination of the National Fraud Initiative data issued by the Audit Commission.

Key progress in this area includes:

- All referrals are risk assessed within 10 working days
- Membership of the Governments Identity fraud forum, the Government Agency Intelligence Network (GAIN) and the Public Sector Counter Fraud Partnership.

Investigation Team

Investigators deal with both Benefit and general fraud.

Key progress in this area includes:

- Work with Internal Audit on risk based investigation work
- A number of high profile Corporate Investigations plus 85 Benefit fraud cases have been prosecuted or issued with a sanction

Compliance & Standards Officer

This post was created (July 04) and is funded via the Department of Work & Pensions (DWP) Security Against Fraud & Error scheme. Part of the role is to ensure CAFT and Benefits Service are working towards full implementation of the Benefit Fraud Inspectorate's performance standards which feed in to Barnet's overall Corporate Performance Assessment score.

The role also requires promotion of best practice and joint working to reduce the level of benefit fraud and error across the authority and with external partners, as well as monitoring continued performance improvement across both the Benefits Service and CAFT.

Key progress in this area has included:

- Facilitation of rolling program of document verification training to all Benefits staff verifying Identity documents. Training is also provided to staff in HR, payroll, Library and Action points
- Development of a Benefit Fraud & Error Guidance Manual with an aide memoir to assist in fraud/error detection
- Service Level Agreements with Barnet Housing Aid & Stadium Housing on the verification of documents for the purpose of benefit claims, which we hope to extend to other Registered Social Landlords.
- Regular sample testing of assessed benefit claims to ensure compliance.

Support Team

The team provides full administrative support on CAFT. Each support officer has a distinct role i.e. Customer liaison, Evidence & Disclosure Officer, Intelligence Officer, Department of Work & Pensions, Benefits Liaison

Key areas of achievement:-

- The team have received and resolved 25,797 telephone calls relating to Benefits information, Investigations and visit enquiries.
- All support staff gained a BTEC in Benefits administration in 2004/5 and can assess benefit claims.

How we operate



The CAFT operates within a Counter Fraud Framework which was approved by Cabinet in 2004. The framework consists of a set of comprehensive documents which detail the authority's Fraud Response Plan, Fraud reporting tool-kit, Prosecution Policy, and Whistle Blowing policy.

The Counter Fraud Framework is available to all staff and is published on the Authority's web site. This also gives visitors to the site the opportunity to refer a case on line.

The framework and associated procedures within CAFT form the basis and the legal framework for all the work of the team.

The CAFT always seek to maximise confiscation, compensation and costs or in money laundering cases, provide evidence to help convict those involved in this crime. These aims are supported by the provisions contained within the Proceeds of Crime Act 2002, the Criminal Justice Act 1988, the Social Security & Administration Act 1992 Fraud Act (2001) and the Theft Act 1968.

In addition to this the CAFT also have key partner protocols in place with core business areas of the authority, as well as a number with external partners such as

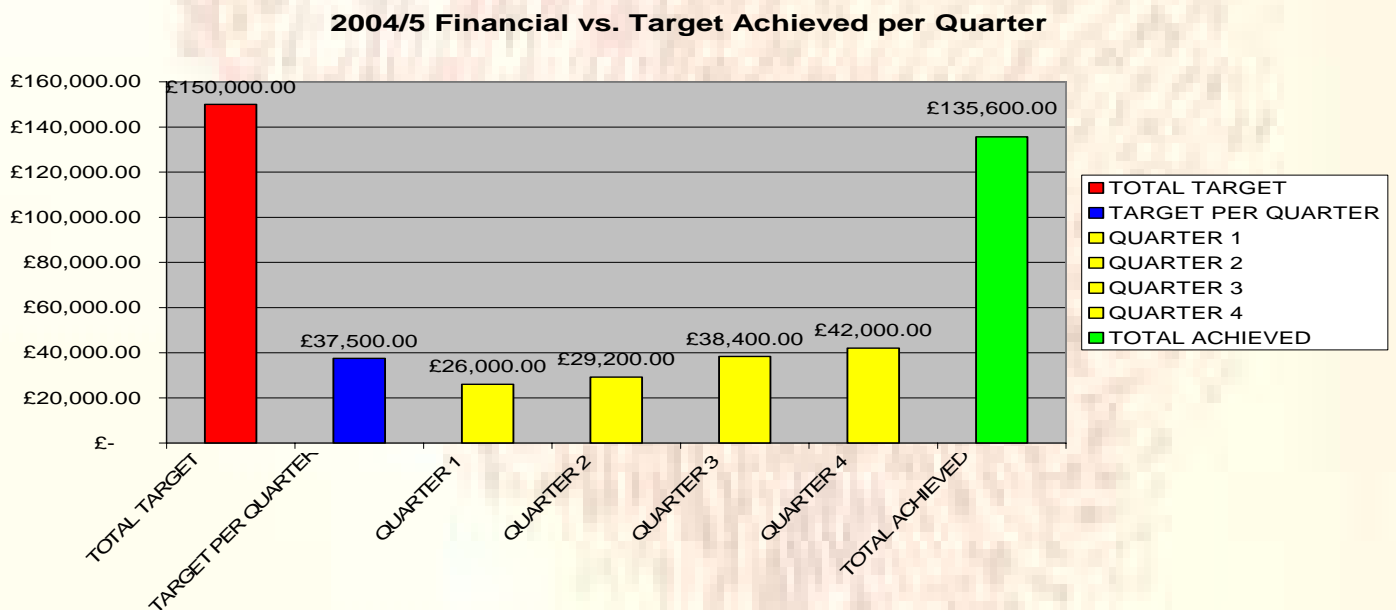
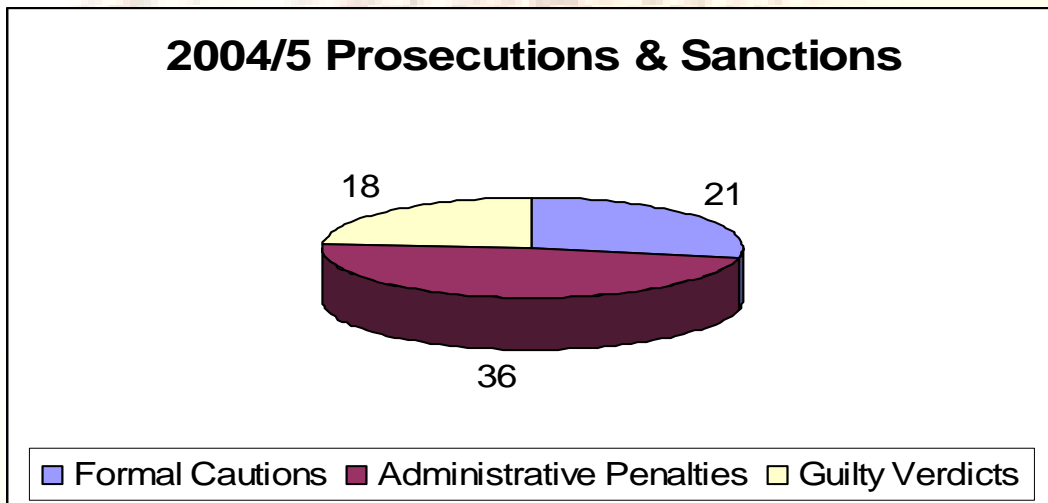
- The Law & Probity Service
- The Borough Treasurers Service
- The Internal Audit Service
- The Human Resources Service
- The Housing & Council Tax benefits Service
- Unison & The GMB
- The Department of Work & Pensions
- The Metropolitan Police

The Counter Fraud Framework and the protocols are designed to minimise bureaucracy and provide pro-active support. By adopting this approach CAFT encourages more individuals to seek the specialist skills developed by the team.

Results



CAFT have a series of performance measures, including significant financial targets. In the case of Housing & Council Tax Benefit Fraud, the Department of Work & Pensions pay Barnet an amount of subsidy for every successful prosecution, Formal Caution and Administrative Penalty issued by the CAFT for Benefit Fraud the tables below show what has been achieved in 2004/5. In addition approximately £347,000 has been identified in Benefit Fraud overpayments by CAFT.



The Barnet Community Perspective



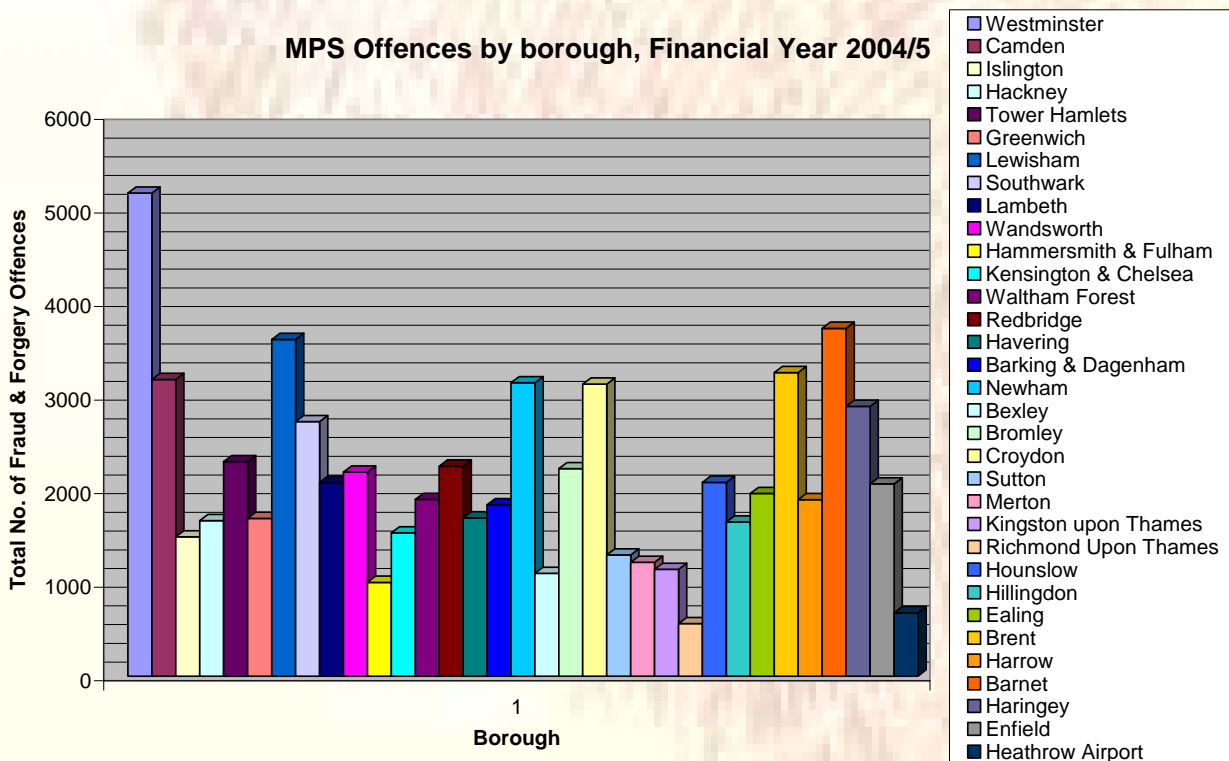
The official launch of the Corporate Anti Fraud Team (CAFT) was the first step in communicating to the community at large that London Borough Barnet has a zero tolerance policy towards fraud and corruption.

A launch event received enthusiastic support from all those who attended including members, the Metropolitan Police, community groups, local businesses and the general public. Those attending provided excellent feedback on how they felt CAFT could work jointly in combating fraud.

In the first year the CAFT have encouraged the community to share information and be confident that we are committed to protecting the public purse (see page 13). The community is generally more aware that fraud and corruption is on the increase globally, nationally and on a local level and that any loss to the public purse has a direct impact on service delivery to them.

A key strategy is the use of results achieved in court to generate publicity for CAFT activities. However we still have a long way to go. Figures for 2004/2005 from the Metropolitan Police website show that of all boroughs, Barnet has the second highest rate of fraud and forgery crimes reported.

MPS Offences by borough, Financial Year 2004/5



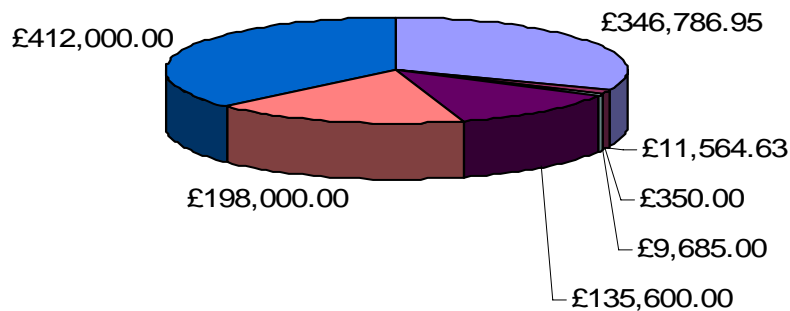
Payback



The work of the team in the last year has done much to improve the overall financial standing of the Authority. We have worked closely with Internal Audit and our External Auditors Robson Rhodes to ensure that the CAFT team continue to make a real contribution to the financial health of the organisation, whilst providing a performance driven value for money service.

Although we can clearly show from the chart table below that the team has been cost effective and made significant in roads into Fraud in Barnet, and we can also demonstrate clear value for money in relation to the losses and savings we have recovered. We will never be able to fully quantify exactly how much having a CAFT team in Barnet, has contributed to individuals being deterred from committing fraud here.

2004/5 CAFT Income



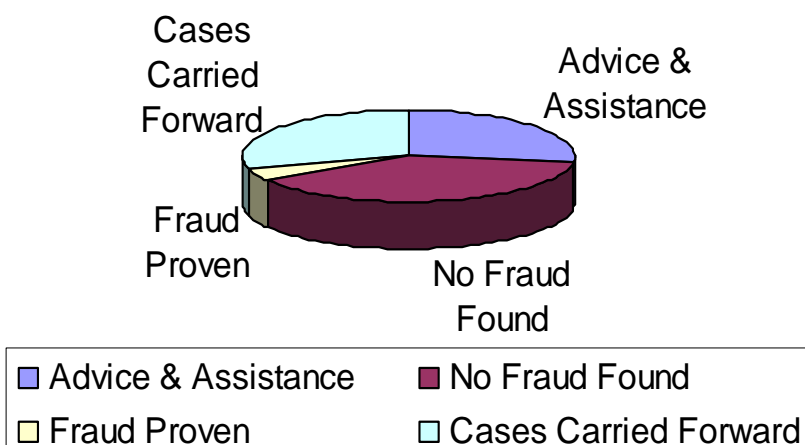
- | | |
|-----------------------------|--------------------|
| ■ HB/CTB Fraud Overpayments | ■ Admin Penalties |
| ■ Fraud Awareness Training | ■ WIB Cases |
| ■ Sanction Subsidies | ■ CAFT Base Budget |
| ■ DWP Funding | |

CAFT in action



As well as Prosecutions for Benefit Fraud, the Corporate Anti Fraud Team have dealt with a number of significant other cases during the 04/05 financial year. The chart below indicates how the Corporate cases were divided up and details of a few of the interesting cases we have dealt with.

2004/5 Corporate Results



Operation Onyx

In June 2004 an investigation was undertaken in cashiers resulting in the arrest and conviction of senior cashier Raymond Beer. Following a surveillance operation by CAFT, the Police were called to Hendon Town Hall where Beer was arrested. A search of his home revealed £29,532.75 in pound coins and approximately £52,625 in notes. Beer was interviewed by CAFT officers and Police where he made a full and frank admission. Beer was charged with two counts of theft and one count of money laundering. He appeared at Harrow District Court on Wednesday the 22/12/2004 and pleaded guilty to all counts. Beer was sentenced to nine months on each count of theft and 12 months for money laundering. He was ordered to pay back £29,532.75 to Barnet and £52,625 to the Crown. The money has been re-paid.



Operation Amethyst

In August 2004 CAFT investigated an allegation of a fraudulent claim for a death in service benefit for an employee. Maria Lule also known as Maria Luie and Rosa Nakiryia who was employed as a support worker for Valley Way House. Maria Lule was reported to have died in a road accident in her native Uganda by her daughter Rachel Mgabi-Nansikombi. Upon notifying Barnet of her mother's death, Mgabi-Nansikombi lodged a claim for the death in service and child pension. The investigation revealed that the death certificate and claim were fraudulent and our employee was in fact alive and well. Although no monetary loss to the council the investigation with Pensions and outside agencies has saved the council £36,000 and the employee has been dismissed in her absence. Her whereabouts is unknown.

Operation Pension

CAFT investigated the case of Mrs Florence Tozer, a retired employee, who began receiving a Barnet pension in January 1978. In May 2001 Mrs Tozer died. Barnet were not informed of her death and her monthly pension continued to be paid. Investigations revealed that Mrs Tozer's daughter, Mrs Jacqueline Gregory, had authority over her mother's bank account and had been withdrawing the pension payments each month. Mrs Gregory was arrested and interviewed by CAFT officers and Essex Police, where she admitted using the money. Mrs Gregory was charged and convicted on three specimen counts of Retaining a Wrongful Credit of £3,030. She was found guilty and sentenced to fifty hours Community Punishment Order and ordered to re-pay the money to Barnet in seven days. The money has been received.

Operation Giro

In Jan 2005 CAFT began an investigation into allegation of person(s), stealing, altering, and cashing Barnet Housing Benefit cheques in the North London area. The fraudulent use of these cheques dated back to 2003. Although "**stops**" were placed on the stolen cheques as soon as they were reported missing, 7 cheques were still cashed. The total loss being £4089.79 to the London Borough of Barnet. The investigation was unable to identify an offender, but some system recommendations have been made and implemented as a result. This case was discussed with the Police and it was revealed that this linked to a significant operation which they were about to mount "Operation Bangor". As a result CAFT investigators joined the police in the arrest of seven individuals from five Barnet addresses, so far one has pleaded guilty, one is with the CPS and three cases are still under investigation. The total loss for "Operation Bangor" UK wide is estimated to be in excess of £3m.

Initiatives



From its inception CAFT set about making sure that working in partnerships was one of the key drivers to the work of the team. Set out in the table below are some of the initiatives carried out and the results so far.

For 2006/7 a further set of key drivers will be developed.

<u>KEY DRIVER</u>	<u>RESULT</u>
Discuss a possible partnership with the Borough Commander the secondment of a Police Officer to CAFT	Agreed – Key partner protocol drawn up and a detective sergeant seconded to CAFT at no cost to Barnet
Discuss a possible partnership with the Department of Work & Pensions (DWP) secondment of a DWP Investigator to CAFT to work on National Fraud Initiative	Agreed – Key partner protocol drawn up. DWP Investigator seconded to CAFT for one year at no cost to Barnet
Provide Fraud Awareness Training to business partners	Community Care agency partners sent a number of staff. CAFT recharged £50.00 per person
Membership of Government recognised organisations dealing with fraud	CAFT Intelligence Manager now member of the board on the Gov. Identity fraud Forum. CAFT manager invited on to the Executive committee of Local Authority Investigators Group for UK
Partnership with Registered Social Landlords for the verification of Benefit Claims	Service level agreement signed with Stadium Housing and a further one with Barnet Housing Aid Centre
Partnership with Barnet Homes	Pilot working with Sovereign House on possible sub-letting cases which have previously been visited by the Verification Team

Publicity



The Corporate Anti Fraud Team has undertaken a program of Marketing & Publicity to promote the work of the team, in doing so this has increased both staff and public confidence and seen the number of referrals to the team increase.

Publication of a CAFT brochure and leaflets encouraging staff and members of the public to report fraud.

Posters identifying benefit claimants need to report a change in their circumstances to the authority. Placed in all Barnet buildings where the public have access and Department of Work & Pensions offices.

Two open days for staff & members encouraging them to come and see how CAFT operate.

Publication of a Whistle Blowing brochure & secure reporting telephone line

Rolling programme of Fraud Awareness Training across the authority

Regular press releases issued in appropriate cases to local papers and in Barnet internal publications

Regular advertising of the Fraud Hotline number on Barnet electronic bulletin boards



Working together for a safer London

DWP Department for Work and Pensions



The year ahead



Government reported figures show that reported fraud across the UK has increased from £331m in 2003/4 to £756m in 2004/5.

There is clear evidence nationally that this type of so called “White Collar Crime” does fund drugs, guns and terrorism. In addition there are proven links to other types of crime such as anti-social behaviour, theft, robbery and immigration offences can also be linked to benefit fraud.

Our biggest tool in the fight against fraud is knowledge. This in the fraud world is translated into intelligence, or in lay person terms knowing your business and its weakness, knowing the latest trends in the world of fraud, knowing your customers, employee’s partners and associates and the community.

Learning from experiences of past frauds is a key element in future prevention. On a quarterly basis CAFT provide the management board and members of the authority with information on cases dealt with. This assists Heads of Service and their staff to consider risks, introduce recommendations and inform staff in general of further preventative measures.

Although this report demonstrates that we can effectively deal with allegations of fraud which are brought to us, it does not demonstrate that we are pro-active enough in going out and uncovering fraud. Nor do we feel that we have yet sufficiently embedded a fraud awareness culture across the Authority.

This is largely due to the fact that CAFT have been very successful in raising the profile and getting individuals to refer cases to us and thus we have a good record of prosecuting offenders. However limited resources mean that almost all our work is re-active, which is a risk to the Authority of other frauds going undetected.

In the coming year the work of the team will attempt to concentrate on building intelligence and identifying fraud trends and working towards a more pro-active approach to fraud within Barnet.

Members will be asked to consider a request for additional funding for the remaining part of 2005/6 to maximise the potential for subsidy payments.

The CAFT became part of the Law & Probity Service in July 2005. This move will assist the work of CAFT.

Dorne Kanareck
Head of Corporate Anti Fraud

Contact details



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AGENDA ITEM: 10 Page nos. 49-89

Meeting	Audit Committee
Date	31 August 2005
Subject	Corporate Risk Management
Report of	Chief Internal Auditor
Summary	The Committee is asked to note the External Auditor's report on Corporate Risk Management

Officer Contributors	Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A: Corporate Risk Management report by External Audit
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Michael Bradley, Chief Internal Auditor 020 8359 7151

1. RECOMMENDATIONS

- 1.1 That the committee note the attached report from External Audit on Corporate Risk Management .

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 9 June 2005 included in the work programme for 2005-6 a report on Corporate Risk Management.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Corporate Plan details the priority to develop corporate capacity. Effective risk management arrangements will contribute to the effective delivery of this.

4. RISK MANAGEMENT ISSUES

- 4.1 Failure to have adequate and effective risk management arrangements could impact on the Council meeting its objectives efficiently, effectively and economically.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3, Paragraph 2 details the functions of the Audit Committee including “Ensuring that....action taken by the Council to implement fully a risk management system are balanced, fair, conform to accountancy standards and meet prevailing best practice”.

8. BACKGROUND INFORMATION

- 8.1 This report is presented to the Audit Committee as the Chief Executive’s response to a request from the chairman for him to review risk management.
- 8.2 The Council’s external auditors conducted a full review of risk management arrangements in March and April 2005 as part of their work programme for 2004-5. Their final report is attached as appendix A to this report.
- 8.3 The auditors have concluded that ‘the current arrangements and processes form a good foundation for further developing risk management so that the areas for improvement identified during our review can be addressed.’

- 8.4 All recommendations have been discussed with the relevant officers and agreed where appropriate. Agreed actions, timescales and officers responsible for implementation are detailed in the action plan attached to the main report.
- 8.5 Below is a summary of some of the key developments on risk management as reported in a recent self-assessment:
- Risk management strategy/policy in place which was approved by Cabinet. To be reviewed towards the end of 2005/6.
 - Corporate risks are identified annually and reported to Cabinet. Frequency of reporting will increase in 2005/06. Links to risks emerging from Finance and Performance Review (F&PR) meetings will be enhanced. These are all separately risk assessed with each sub-risk assessed in terms of impact and likelihood and mitigating controls identified.
 - All committee reports have a mandatory section on Risk Management and all key projects require risk assessments. Committee reporting of risks works extremely well and has led to considerable improvement in the quality of decision taking,
 - The process for making efficiency savings and budget reductions requires a risk assessment to be done on each item.
 - The Borough Treasurer has introduced a mechanism to identify future financial risks and uncertainties which is incorporated into enhanced forward planning. Financial risks are reviewed at F&PR meetings.
 - A dedicated Audit Committee has responsibility for monitoring Risk Management. The Chief Executive has presented reports on progress regularly to the former Audit and Resources Overview and Scrutiny Committee. The current Chairman is MIIA. The Cabinet member for Policy and Performance has responsibility for risk management.
 - Risk assessments on major projects are consistently sound and comprehensive
 - Annual review of risk management by either Internal or external audit. Policy and procedures will be reviewed in 2005/06.
 - The Financial Regulations within the Constitution state that “Before entering into a partnership with another organisation that involves pooling some of the council’s revenue and/or capital budgets, the Head of Service must undertake a risk assessment to ensure adequate controls are designed and embedded before finalising the partnership arrangements.”
 - All senior staff have received Risk Management training. It has been made clear at the Management Board and in the corporate policy that risk management is a management responsibility and that any requirements should be addressed through appraisals.
 - Our policy makes it clear that the risk of missed opportunity is an essential element of the risk management process.

9 LIST OF BACKGROUND PAPERS

9.1 None

BS: JEL
BT: CM

London Borough of Barnet

Risk Management - Corporate Arrangements

July 2005

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1 Executive Summary

Approach and Context

- 1.1 In accordance with our terms of reference, we have reviewed the overall risk management framework adopted by the London Borough of Barnet (the "Council") and undertaken a more detailed drill down review within the Education, Environment and Housing Services.
- 1.2 Our review of the overall risk management framework included:
- Evaluating the risk management strategy, policy and processes against good practice, including guidelines issued by CIPFA / Solace;
 - Assessing the maturity of risk management based on the Risk Management Assessment Framework published by the Treasury; and
 - Considering the arrangements in place for preparing the annual Statement on Internal Control.
- 1.3 Our review within the Education, Environment and Housing Services included an assessment of:
- The extent to which service managers had implemented the risk management strategy;
 - The processes followed to identify, assess, manage and review & report on risks; and
 - The extent to which risks linked through to key corporate and service objectives.
- 1.4 Detailed findings from our review within the Education, Environment and Housing Services have been issued as separate supplementary reports for each of the Services.

Risk Management Maturity Assessment - Summary

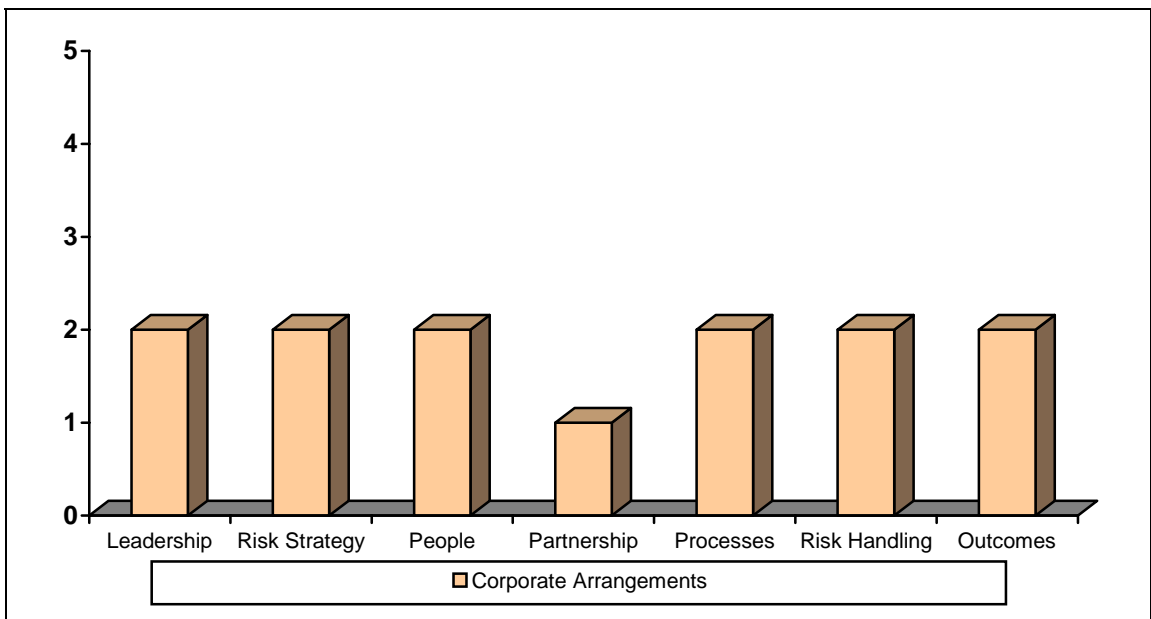
- 1.5 Our assessment of the risk management maturity considered risk management capability and the effectiveness of risk management. Risk management capability was assessed in terms of:
- Leadership – whether senior management support and promote risk management;
 - Strategy and policies – whether there a clear risk strategy and risk policies;
 - People – whether people are equipped and supported to manage risk well;
 - Risk management with partners – whether there are effective arrangements for managing risks with partners; and
 - Processes – whether the Council's processes incorporate effective risk management.
- 1.6 The effectiveness of risk management was assessed based on:
- Risk handling – whether risks are handled well; and
 - Risk management outcomes – whether risk management contributes to achieving outcomes.

1 Executive Summary

1.7 A risk maturity score of between 1 and 5 for each component was based on the following criteria:

Risk Management Capability	Effectiveness of Risk Management
1. Awareness and understanding	1. No evidence
2. Implementation planned and in progress	2. Satisfactory
3. Implemented in all key areas	3. Good
4. Embedded and improving	4. Very good
5. Excellent capability established	5. Excellent

1.8 The graph below summarises our assessment of the maturity of the corporate arrangements.



Summary of Key Findings – Good Practice Identified

1.9 Our review has highlighted a number of good practice points, including:

- A risk management strategy and risk management guidelines have been developed and approved by Cabinet;
- Key corporate risks have been identified enabling senior managers to have a good understanding of the key risks facing the organisation;
- Key corporate risks are included in Service risk matrices as appropriate;
- A lead member has been allocated responsibility for risk management (this has been allocated to the Cabinet portfolio holder for Performance, Partnerships and Best Value);
- All committee papers now include a section of the risk management implications of the paper; and
- Risk management forms part of existing planning and review processes. Heads of Service are challenged on their risk management processes through the quarterly Finance and Performance Review meetings (F&PR).

Summary of Key Findings – Significant Weaknesses and Areas for Improvement

1.10 The more significant weaknesses and areas for improvement include:

- Formal processes are not in place to incorporate key corporate risks identified as part of the F&PR challenge and review process into a corporate risk register and / or included in the key corporate risks updates given to Cabinet;
- Risk management forms a key part of the Statement on Internal Control (SIC) framework. The Chief Internal Auditor has taken over as the lead for preparing the SIC and he has set up a SIC group which will be taking forward the preparation of the annual SIC. At the time of writing this report, the SIC group has met once. From 2005/06 we understand that Heads of Service will be required to sign a “mini SIC”. We will be giving a presentation on the requirements of a mini SIC in August 2005, however, the Council needs to ensure that there is a robust member led process for addressing issues raised in the SIC.
- The risk management guidelines identify the framework for the ownership of the different categories of risk. However the level of risk that Senior Managers are willing for the organisation to take (commonly referred to as the risk appetite) has not been formally agreed. The risk appetite typically defines criteria for acceptable or unacceptable levels at the various management levels within the organisation. This provides middle and lower level managers with clear guidance on which of the risks they have identified that need to be managed by themselves and which need to be referred to more senior managers;
- The likelihood and impact of key corporate risks occurring has not been formally assessed and key risks have not been prioritised for action. Formally assessing the likelihood and impact of risks and regularly updating these during the year assists with prioritising and re-prioritising the risks. This may enable more focused senior management review of the key risks as if the likelihood and impact assessment falls below the level of acceptable risk senior management may no longer need to monitor these risks closely;
- Risk management has not been included in the Council’s managers’ competency framework nor has it been included in all managers’ job descriptions; and
- The Chief Internal Auditor has recently taken over as the lead officer for risk management. Whilst he may have the necessary skills to fulfil this role, we question whether the Director’s Group will take the necessary ownership and accountability for risk management if Internal Audit is perceived to be the lead.

Key Recommendations

1.11 We have made a number of recommendations, including:

- The key corporate risks identified as part of preparing the Corporate Plan should be updated to include any key risks identified as part of the quarterly F&PR review process;
- Implement the recommendations about MCS, Internal control and taking forward the SIC, made in our 2004 Annual Audit and Inspection letter;
- The Directors’ Group should formally define a corporate risk appetite;

1 Executive Summary

- The likelihood of key corporate risks materialising and the impact should they materialise should be formally assessed and documented and then regularly updated during the year;
- Risk management should be included in the Council's managers' competency framework and incorporated it into all job descriptions and person specifications for management posts across the Council; and
- The appropriateness of the Chief Internal Auditor as the lead officer for risk management should be reconsidered.

Overall Conclusion

- 1.12 We believe that the current arrangements and processes form a good foundation for further developing risk management so that the areas for improvement identified during our review can be addressed.

Acknowledgements

- 1.13 We would like to thank the members of staff who have assisted us with our review and in particular Michael Bradley (Chief Internal Auditor), Shahin Farjami (Business Improvement Manager), Steve Presland (Head of Service – Environment), Kathy May (Business Performance), Sarah Harty (Acting Assistant Chief Executive Officer Resources and Performance) and Paul Shipway (Housing Strategy and Business Support Manager).

2 Approach and Context

Approach

- 2.1 During the course of our review we identified the corporate risk management arrangements and processes in place at the Council through discussions with the Chief Internal Auditor and Business Improvement Manager and review of relevant supporting documentation including the Corporate Plan and the Council's risk management strategy and guidelines.
- 2.2 We have undertaken an assessment of the risk management documentation against best practice, including guidelines issued by HM Treasury¹ and CIPFA / Solace.
- 2.3 We followed up the extent to which the recommendations made in the March 2004 Internal Audit Report on Risk Management had been implemented.
- 2.4 Based on the risk management processes and arrangements identified and the assessment of the Council's risk management strategy and guidelines we performed a risk management maturity assessment based on HM Treasury's Risk Management Assessment Framework². Our assessment of the risk management maturity considered risk management capability and the effectiveness of risk management. Risk management capability was assessed in terms of:
- Leadership;
 - Strategy and policies;
 - People;
 - Risk management with partners; and
 - Processes.
- 2.5 The effectiveness of risk management was assessed based on:
- Risk handling; and
 - Risk management outcomes.
- 2.6 A risk maturity score of between 1 and 5 for each component was based on the following criteria:

Risk Management Capability	Effectiveness of Risk Management
1. Awareness and understanding	1. No evidence
2. Implementation planned and in progress	2. Satisfactory
3. Implemented in all key areas	3. Good
4. Embedded and improving	4. Very good
5. Excellent capability established	5. Excellent

¹ The Orange Book, Management of Risk – Principles and Concepts published in October 2004

² Risk Management Assessment Framework – A Toolkit for Departments published in December 2003

2 Approach and Context

- 2.7 We assessed the risk management arrangements against the risk management criteria included in the CIPFA / Solace publication Corporate Governance in Local Government – A Keystone for Community Governance.
- 2.8 The arrangements in place for preparing the annual Statement on Internal Control (SIC) were established and assessed against expected practice.

Background

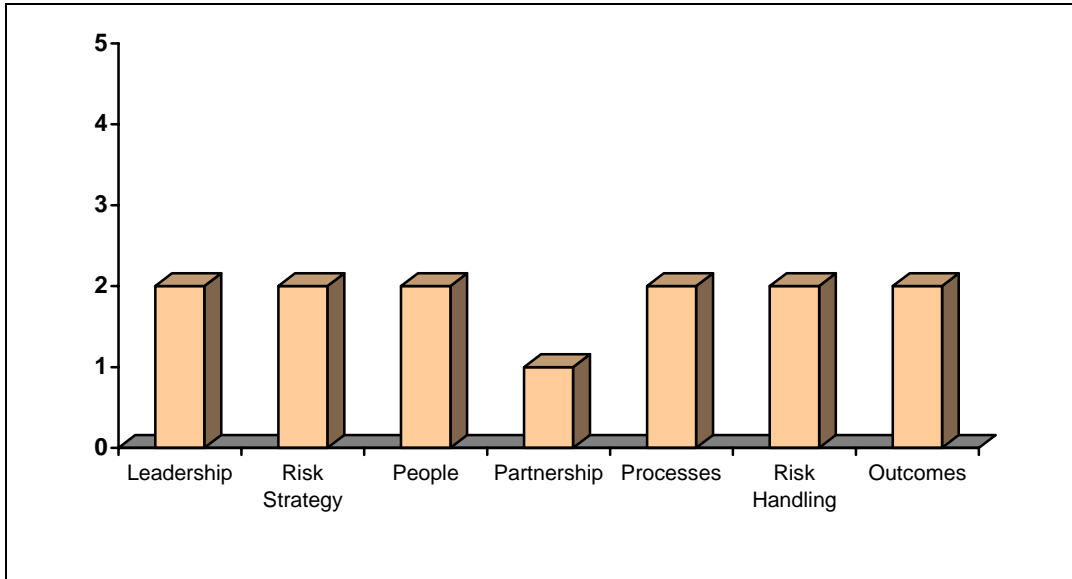
- 2.9 The Corporate Risk Management Group prepared a Risk Management Strategy and Risk Management Guidelines during 2003 (this group has now been disbanded as it was believed that its role in raising the awareness and profile of risk management has been achieved). The strategy and guidelines have been published on the intranet and are available to all staff.
- 2.10 Initially the Chief Executive took the lead for raising an awareness of risk management and ensuring that it had a high profile across the Council. The Chief Internal Auditor has recently taken over as the lead officer. The lead member for risk management is the Cabinet portfolio holder for Performance, Partnerships and Best Value. The Audit and Resources Overview and Scrutiny Committee have responsibility for monitoring the embedding of risk management.
- 2.11 Six key corporate risks for 2004-05 have been identified, agreed by Cabinet and included in the Corporate Plan 2004/5 – 2007/8. Updates on key corporate risks are provided to Cabinet during the year. Every Committee paper now has a section on risk management and the risk implications of the report which helps inform Members on the key risk issues.
- 2.12 The six key corporate risks were identified by the Directors' Group based on a list of the thirty highest risks highlighted by Internal Audit as part of their annual planning and risk assessment exercise. In addition to the key corporate risks, Services have been required to identify their key service risks as part of the process of preparing their Performance Management Plans (PMPs). Where relevant to that Service, the six key corporate risks have also been included in the risks identified in the PMPs.
- 2.13 The main forum for monitoring and challenging risk management within Services is through the Finance and Performance Review challenge meetings (F&PR). The F&PR meetings are led by the Chief Executive, a representative from the Corporate Performance Office, The Borough Treasurer and the Chief Internal Auditor and are attended by the relevant Head of Finance, Director and Head of Service. As part of the meeting the latest risk register will be considered and all high priority risks will be reviewed and discussed and mitigation actions assessed. A decision may be made to allocate additional resources to manage the risks if appropriate. F&PR meetings were initially held bi-monthly, but with the improved financial performance across the Council these are now being held quarterly. Risk management may also be considered during FirstStat sessions although this will be theme based rather than service based.
- 2.14 The Chief Internal Auditor has taken over as the lead for preparing the SIC and he has set up a SIC group which will be taking forward the preparation of the annual SIC. At the time of writing this report, the SIC group has met once. From 2005/06 Heads of Service will be required to sign a "mini SIC" but there has not been sufficient time to set up the process for 2004/05. RSM Robson Rhodes will be giving a presentation to Firststat on the requirements of a mini SIC in August 2005. The 2004/05 SIC will once again be formally signed by the Leader and the Chief Executive. The Chief Internal Auditor has identified the following sources of external and internal assurances:
- RSM Robson Rhodes as the external auditors;
 - Other Statutory inspections carried out during the year;

2 Approach and Context

- Internal management assurances through the Performance Management Plans;
- Internal Audit findings;
- The Directors Group and Management Board;
- Best Value Reviews; and
- Scrutiny Committees.

3 Detailed Findings

3.1 The summary of our assessment of the maturity of the corporate arrangements based on the criteria described in paragraphs 2.4 to 2.6 above is given in the graph below:



3.2 Table 1 below provides more detail on each of the components and levels of the assessment with full comments on the maturity assessment included in Appendix 2.

Table 1 – Maturity Assessment Criteria

1. Leadership - Do senior management support and promote risk management?				
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>
Awareness & understanding	Implementation planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established
Top management are aware of need to manage uncertainty & risk and have made resources available to improve	Senior Managers take the lead to ensure that approaches for addressing risk are being developed and implemented	Senior Managers act as role models to apply risk management consistently and thoroughly across the organisation	Top down commitment with embedding and integrating risk management as routine business practice	Senior Managers re-enforce and sustain risk capability, organisational & business resilience and commitment to excellence.

2. Risk Strategy and Policies - Is there a clear risk strategy and risk policies?					
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>	
Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established	
The need for a risk strategy and related policies has been identified and accepted	A risk management strategy & policies have been drawn up and communicated and are being acted upon	Risk strategies & policies are communicated effectively and made to work through a framework of processes	A separate risk strategy and policies are not necessary; Risk handling is an inherent feature of all policies and strategy making processes	Risk management capability in strategy and policy making helps to drive the risk agenda and is reviewed. Role model status	
3. People - Are people equipped and supported to manage risk well?					
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>	
Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established	
Key people are aware of the need to assess and manage risks and they understand risk concepts and principles	Subtle guidance is available and a training programme has been implemented to developed risk capability	A core group of people have the skills & knowledge to manage risk effectively	People are encouraged and supported to be more innovative. Regular training is available for people to enhance their risk skills	All staff are empowered to be responsible for risk management and see it as an integrated part of the Departments business. They have a good record of innovation and well managed risk taking	

4. Partnerships - Are there effective arrangements for managing risks with partners?				
Level 1: <input checked="" type="checkbox"/>	Level 2: <input type="checkbox"/> Implementation Planned & in progress	Level 3: <input type="checkbox"/> Implemented in all key areas	Level 4: <input type="checkbox"/> Embedded and improving	Level 5: <input type="checkbox"/> Excellent capability established
Awareness & understanding				
Key people are aware of areas of potential risk with partnerships and understand the need to agree approaches to manage these risks	Approaches for addressing risk with partners are being developed and implemented	Risk with partners is managed consistently for all key areas and across organisational boundaries	Sound governance arrangements established, partners & suppliers selected on basis of risk capability & compatibility	Excellent arrangements in place to identify and manage risks with all partners and to monitor and improve performance. Organisation regarded as role model
5. Processes - Do the organisation's processes incorporate effective risk management?				
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/> Implementation Planned & in progress	Level 3: <input type="checkbox"/> Implemented in all key areas	Level 4: <input type="checkbox"/> Embedded and improving	Level 5: <input type="checkbox"/> Excellent capability established
Awareness & understanding				
Some stand-alone risk processes have been identified	Recommended risk management processes are being developed	Risk management processes implemented in key areas. Risk capability self assessment tools used in some areas	Risk metrics are collected. Risk management standards applied in some areas	Management of risk & uncertainty is well integrated with all business processes. Best practice approaches are used and developed. Selected as a benchmark site by other organisations

6. Risk Handling - Are the risks handled well?				
Level 1: <input type="checkbox"/> No evidence	Level 2: <input checked="" type="checkbox"/> Satisfactory	Level 3: <input type="checkbox"/> Good	Level 4: <input type="checkbox"/> Very Good	Level 5: <input type="checkbox"/> Excellent
No clear evidence that risk management is being effective	Limited evidence that risk management is being effective in at least most relevant areas	Clear evidence that risk management is being effective in all relevant areas	Very clear evidence that risk management is being very effective in all areas and leading to the production of very good results	Very clear evidence of excellent results due to risk management being highly effective in all areas and that improvement is being pursued
7. Outcomes - Does risk management contribute to achieve outcomes?				
Level 1: <input type="checkbox"/> No evidence	Level 2: <input checked="" type="checkbox"/> Satisfactory	Level 3: <input type="checkbox"/> Good	Level 4: <input type="checkbox"/> Very Good	Level 5: <input type="checkbox"/> Excellent
No clear evidence of improved outcomes	Limited evidence of improved outcomes performance consistent with improved risk management	Clear evidence of significant improvements in outcome performance demonstrated by measures including, where relevant, stakeholders' perceptions	Very clear evidence of very significantly improved delivery of all relevant outcomes and showing positive and sustained improvement	Excellent evidence of markedly improved delivery of outcomes which compares favourably with other organisations employing best practice

3.3 Our follow-up of the implementation of recommendations made in the Internal Audit Report on Risk Management revealed that of the five recommendations made two were implemented, two had been partially addressed and one had not been addressed at all. Our detailed findings have been included in Appendix 3 below.

3.4 The assessment of the Council's risk management arrangements against the risk management criteria included in the CIPFA / Solace publication Corporate Governance in Local Government – A Keystone for Community Governance did not reveal any additional weaknesses that have not already been highlighted below.

3.5 The introduction of the mini SIC for 2005-6 is seen as an important step in raising the awareness that internal control is a responsibility of all managers' and should help embed the internal control framework

(including risk management) across the Council. When preparing the 2004-5 SIC, it is important that the SIC group identify all the significant weaknesses in internal control. We would expect the following to be considered:

- Any unresolved weaknesses raised in the 2003-4 SIC;
- Any significant frauds identified by the Corporate Anti-Fraud Team;
- Internal Audit's annual report and the impact of any "no assurance" assessments in respect of key financial systems
- External Audit reports issued during the year including the Annual Audit Letter, the results of the BVPI audit and grants certification, this report and other "ad hoc project" reports.

We have already made a recommendation in our Annual Audit and Inspection letter 2004 about implementing a robust member led process for assessing the Council's progress in terms of addressing key SIC issues. The MCS project offers a clear opportunity to improve aspects of Internal Control which must not be squandered. Whilst the new systems in themselves offer opportunities for improved control the main aspect of the change will be to inculcate a culture whereby compliance with procedures and internal controls is regarded as mandatory. To this end the Council must ensure that it places sufficient focus on control arrangements and can via closer monitoring and review address SIC weaknesses which have arisen through the ineffective operation of historic systems of control in key areas such as payroll, debtors and creditors. In addition RSM Robson Rhodes will be giving a presentation on the SIC at one of the Firstat sessions and we will continue to monitor the preparation of the SIC as part of our Accounts Audit.

Good Practice Identified

- 3.6 A risk management strategy and risk management guidelines have been developed and approved by Cabinet. The strategy and guidelines have been published on the Council's intranet and are available to all staff. Staff interviewed as part of this review were familiar with the contents of the strategy and guidance (refer to the Acknowledgements in the Executive Summary for a list of officers interviewed).
- 3.7 The benefits of risk management, risk management roles and responsibilities are defined in the strategy, including the structures for gaining assurance on the management of risk.
- 3.8 The guidance includes a definition of risk and categories of risk (strategic, operational, staffing & culture, financial, and compliance), easy to understand steps for performing risk management and five acceptable responses to identified risks.
- 3.9 Key corporate risks have been identified enabling senior managers to have a good understanding of the key risks facing the organisation. Service risk matrices include key corporate risks as appropriate. The key corporate risk areas identified are:
- Strengthening financial management;
 - Community care performance and financial management;
 - Corporate performance inspections;
 - Corporate asset strategy;
 - OFSTED actions; and
 - Payroll.
- 3.10 A register of financial risks, uncertainties and opportunities is in the process of being compiled.
- 3.11 Staff interviewed were generally aware of the importance of risk management, of the main risks facing the organisation as a whole and of the risks facing their Service.

3 Detailed Findings

- 3.12 A lead member has been allocated responsibility for risk management (this has been allocated to the Cabinet portfolio holder for Performance, Partnerships and Best Value). All committee papers now include a section of the risk management implications of the paper.
- 3.13 Risk management forms part of the existing planning and review processes and Heads of Service are challenged on their risk management processes through the quarterly F&PR meetings.

Weaknesses and / or Areas for Improvement Identified

Leadership	
3.14	Since the initial corporate training provided about two years ago, no additional risk management training has been provided, and risk management training has not been included in the Corporate Learning and Development Programme which limits the ability of other managers to gain the necessary risk management skills.
3.15	Our review of the key corporate risks published in the Corporate Plan and the process for identifying these risks revealed that the likelihood and impact of key corporate risks occurring has not been formally assessed and that key risks have not been prioritised for action. Formally assessing the likelihood and impact of risks and regularly updating these during the year assists with prioritising and re-prioritising the risks. This may enable more focused senior management review of the key risks as if the likelihood and impact assessment falls below the level of acceptable risk (refer paragraph 3.16) senior management may no longer need to monitor these risks closely. We also noted that generic criteria for informing an assessment of the likelihood and impact of risks and the definition of what constitutes a "key" risk are not included in the risk management guidance.
3.16	<p>The risk management guidelines identify the framework for the ownership of the different categories of risk. However the level of risk that Senior Managers are willing for the organisation to take (commonly referred to as the risk appetite) has not been formally agreed. The risk appetite typically defines criteria for acceptable or unacceptable levels at the various management levels within the organisation. This provides middle and lower level managers with clear guidance on which of the risks they have identified that need to be managed by themselves and which need to be referred to more senior managers. As an example, the Directors' Group may decide that:</p> <ul style="list-style-type: none">• all high priority risks need to be actively managed by the Directors Group with regular updates to Cabinet;• medium priority risks can be managed by Heads of Service and their management teams with regular updates to Cabinet;• low priority risks can simply be periodically reviewed by lower level managers to ensure that their significance has not changed. <p>In addition, the risk appetite will also assist managers in identifying risks which require additional mitigating action as all risks above the risk appetite will require active managing.</p>
3.17	Senior Management support and reward for well-managed risk taking is not explicit. Our review did not highlight any evidence of an organisational culture whereby managers and staff felt empowered to take well-managed risks, are rewarded for taking well-managed risks and are confident that they will not be blamed for failure when risks have been well managed.
3.18	Risk management has not been included in the Council's managers' competency framework nor has it been included in all managers' job descriptions.

Risk strategy and guidelines

- 3.19 The risk management strategy and guidelines have not been reviewed since being approved by Cabinet in December 2003. An example of where the strategy is now outdated is that the strategy defines the responsibilities of the Corporate Risk Management Group but the Group has been disbanded.
- 3.20 The materialisation of certain risks may have an impact on emergency / business continuity planning arrangements. However no link is made in the strategy between risk management and business continuity / emergency planning and guidance has not been given on the need to consider contingency arrangements should risks occur.
- 3.21 Other areas where the risk management guidance could be improved include:
- the management of situations where significant risks materialise;
 - the risk of fraud;
 - assigning a monetary or other numerical value to a risk where practicable to emphasise the potential loss or missed opportunity which could occur if risks are not well managed; and
 - a glossary of standard risk management terms.

Partnerships

- 3.22 Whilst reference is made in the risk management strategy to the responsibility of the Corporate Risk Management Group for providing guidance on partnerships, the Corporate Risk Management Group has been disbanded.

Processes

- 3.23 The Chief Internal Auditor has recently taken over as the lead officer for risk management. Whilst he may have the necessary skills to fulfil this role, we question whether the Director's Group will take the necessary ownership and accountability for risk management if Internal Audit is perceived to be the lead. In addition, Internal Audit will no longer be able to effectively fulfil its role in providing the Council with assurance on the effectiveness of the risk management arrangements as they are no longer independent of the risk management arrangements. The importance of Internal Audit being independent of the activities it audits is contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the "CIPFA Code") which sets the minimum standards that Internal Audit should meet. Should the Chief Internal Auditor remain as the lead officer for risk management, the Council will have to accept that RSM Robson Rhodes as their external auditors will perform the only independent review of its risk management arrangements. This may have an impact on the overall external audit fee.
- 3.24 Key corporate risks were identified by the Directors' Group from a list of key risks provided by Internal Audit as part of their annual planning and risk assessment process and not by directly considering the risks to achieving the Council's priorities and key objectives. The main purpose of risk management is to ensure that key risks to the Council's objectives have been identified and are being managed. By not directly considering the Council's priorities and key objectives there is a possibility that not all key risks have been identified.
- 3.25 A review of Cabinet minutes revealed that only one update on all key corporate risks had been presented to Cabinet during 2004/5. Whilst it is acknowledged that two of the papers presented to Cabinet in June and November 2004 provided Cabinet with updates on the Strengthening financial management and OFSTED actions corporate risks, it is unlikely that only one full update on all key

3 Detailed Findings

corporate risks will keep Cabinet adequately informed of progress in managing the risks.

3.26 Formal processes are not in place to incorporate key corporate risks identified as part of the F&PR challenge and review process into a corporate risk register and / or included in the key corporate risks updates given to Cabinet.

3.27

Risk Handling and Outcomes

3.28 During our review we were unable to obtain specific evidence of improved decision and policy making, better handling of cross cutting issues, improved planning and target setting, improved management of risks to the public or improved achievement of business objectives as a result of risk management.

3.29 Recommendations to address these weaknesses and areas for improvement have been included in the management action plan in Appendix 1.

4 Conclusion

- 4.1 We believe that the current arrangements and processes form a good foundation for further developing risk management so that the areas for development identified during our review can be addressed.

Appendix 1: Corporate Arrangements Management Action Plan

Priority Legend:

- 1 Fundamental Control
- 2 Expected Control
- 3 Best Practice Control

Reference	Recommendation	Priority	Management Response	Responsibility	Timescale
Paragraph 3.26	1. The key corporate risks identified as part of preparing the Corporate Plan should be updated to include any key risks identified as part of the quarterly F&PR review process.	1	<p>Agreed. This would have occurred in 2004/5 via Chief Executive action but a more systematic process will be put in place. This is likely to include monitoring by Directors' Group and more frequent reports to Cabinet.</p> <p><i>Additionally, the audit report does not mention the register of financial risks, uncertainties and opportunities that is in the process of being compiled (possibly because the BT was not interviewed)</i></p>	CPO/ A O'Brien	Ongoing

Reference	Recommendation	Priority	Management Response	Responsibility	Timescale
Paragraph 3.16	2. The Directors' Group should formally define a corporate risk appetite.	1	This needs further discussion. A complex organisation such as LBB cannot have one global appetite for risk. Different services, sub-services and projects will necessarily be more or less risk tolerant / averse than others.		
Paragraph 3.18 & Appendix 6 (3.2 & 3.4)	3. Risk management should be included in the Council's managers' competency framework and incorporated it into all job descriptions and person specifications for management posts across the council.	1	Not agreed. We are content that the guidelines and strategy have been adequately publicised and disseminated. We do intend to ensure that where mitigating actions to key ongoing risks are identified that these are added to relevant job descriptions.		
Paragraph 3.15	4. The likelihood of key corporate risks materialising and the impact should they materialise should be formally assessed and documented and then regularly updated during the year.	1	<p>This is already in place. Each identified key corporate risk has a separate risk assessment prepared which is monitored by Directors' Group and Cabinet. The frequency of this monitoring will increase in 2005-6.</p> <p>Also, the May Management Board considered corporate risks which meant chief officers had considered corporate risk issues twice during the 2004/5 municipal year.</p>	CPO/ A O'Brien	Ongoing

Reference	Recommendation	Priority	Management Response	Responsibility	Timescale
Paragraph 3.5	<p>5. When preparing the 2004-5 SIC, it is important that the SIC group identify all the significant weaknesses in internal control. We would expect the following to be considered:</p> <ul style="list-style-type: none"> • Any unresolved weaknesses raised in the 2003-4 SIC; • Any significant frauds identified by the Corporate Anti-Fraud Team; • Internal Audit's annual report and any significant areas of "no assurance"; • External Audit reports issued during the year including the Annual Audit Letter, the results of the BVPI audit and grants certification, this report and other "ad hoc project" reports. • Implement the recommendation about taking forward the SIC made in our 2004 Annual Audit and Inspection letter. • Implement the recommendations about MCS and Internal control made in our 2004 Annual Audit and Inspection letter. 	1	Agreed and in place – the format for the SIC and prior to that the SIFC have previously adopted this structure, largely mirroring CIPFA guidance. All bullet points are being addressed in the preparation of the 2004-5 SIC	BT/ Chief Internal Auditor	October 2005

Reference	Recommendation	Priority	Management Response	Responsibility	Timescale
Paragraph 3.15	<p>6. Generic guidance on criteria to consider when assessing the impact and likelihood of risks as high, medium or low should be developed. These criteria may include factors such as:</p> <ul style="list-style-type: none"> • A financial impact of x% of budget; or • Introduction of special measures; or • A significant impact of not achieving a corporate priority; or • Criticism in the national media; and • Is more than x% likely to occur in the next year. 	2	This appears confused and confusing. Needs further discussion		
Paragraph 3.23 & Appendix 6 (3.2)	7. The appropriateness of the Chief Internal Auditor as the lead officer for risk management should be reconsidered.	2	Agreed. This will be reviewed at Management Board.	AOB	By end July 2005
Paragraph 3.24	8. The Council's priorities and key objectives should be the reference point for identifying key corporate risks.	2	<i>Agreed. (suggest remove second sentence of recommendation.)</i>	CPO/ A O'Brien	Ongoing
Paragraph 3.25	9. At least six monthly and preferably quarterly updates on key corporate risks should be presented to Cabinet.	2	Agreed.	CIA	Ongoing

Reference	Recommendation	Priority	Management Response	Responsibility	Timescale
Paragraph 3.20	10. Guidance on the need to consider emergency / business continuity planning as part of considering the mitigating actions required to manage a risk should be issued.	2	Agreed. This will be considered when the strategy and guidelines are formally reviewed.	Borough Solicitor/ Director of Resources	Ongoing
Paragraph 3.14 & Appendix 6 (3.5)	11. Risk management training should form part of the Corporate Learning and Development Programme so that managers who require this training can attend.	3	<i>Not agreed. The appraisal process will identify those individuals who require further development in this area.</i>		
Paragraph 3.17	12. The risk management strategy and / or guidelines should be more explicit in encouraging well managed risk taking where it has good potential to realise sustainable improvements.	3	Covered under risk appetite section.		
Paragraph 3.19	13. The lead officer for risk management should ensure that the risk management strategy and guidelines are reviewed on an annual basis.	3	<i>Agreed. However, not convinced this is a priority 1 recommendation. The strategy and guidelines are only c18 months old and it is accepted that Risk Management is still a developing function.</i>	Lead officer for risk management	4 th quarter 2005/6
Paragraph 3.21	14. The risk management guidelines should be updated to include: <ul style="list-style-type: none"> • Advice on the management of situations where significant risks materialise; • Assigning monetary or other numerical value to risk where practicable; • A glossary of standard risk management terms; 	3	<i>Not accepted</i>		

Reference	Recommendation	Priority	Management Response	Responsibility	Timescale
Paragraph 3.28	<p>15. As part of implementing the mini SIC process, a review of the effectiveness of risk management should be performed to assess whether risk management has resulted in improved:</p> <ul style="list-style-type: none"> • Decision and policy making; • Handling of cross cutting issues; • Planning and target setting; • Management of risks to the public; • Achievement of business objectives. 	3	<p><i>Not agreed.</i></p> <p><i>The costs of undertaking a comprehensive study on this would outweigh any added value.</i></p> <p><i>Also, this is the fundamental reason for doing Risk assessment. Why priority 3?</i></p> <p><i>Risk sections in committee papers show that decision and policy making have been improved as a result.</i></p>		

Appendix 2: Maturity Assessment – Corporate Arrangements

1. Leadership				
Do senior management support and promote risk management?				
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>
Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established
Top management are aware of need to manage uncertainty & risk and have made resources available to improve	Senior Managers take the lead to ensure that approaches for addressing risk are being developed and implemented	Senior Managers act as role models to apply risk management consistently and thoroughly across the organisation	Top down commitment with embedding and integrating risk management as routine business practice	Senior Managers reinforce and sustain risk capability, organisational & business resilience and commitment to excellence. Leaders invited to speak at conferences about their success
Comments on the Maturity Assessment:				
<p>The Chief Executive initially took the lead on establishing and rolling out the risk management strategy and guidance. Heads of Service responsibility for identifying assessing and managing the risks in their area has been defined in the risk management strategy. All committee reports contain a section on the risk management implications of the report. Our review of risk management across three services and discussions with key officers however confirmed that risk management has not yet been fully implemented consistently and thoroughly throughout the organisation.</p>				
Strengths:				
<ul style="list-style-type: none"> – Key corporate risks have been identified enabling senior managers to have a good understanding of the key risks facing the organisation. – Mitigating actions have been identified for key risks. 				
Weaknesses:				
<ul style="list-style-type: none"> – The likelihood of key corporate risks occurring has not been formally assessed. – Key risks are not prioritised for action. – A corporate risk appetite has not been defined. 				

- Senior Management support and reward for well-managed risk taking is not explicit.
- Risk management has not been included in the Council’s managers’ competency framework.
- Risk management training has not been included in the Corporate Learning and Development Programme

2. Risk Strategy and Policies				
Is there a clear risk strategy and risk policies?				
Level 1:	Level 2:	Level 3:	Level 4:	Level 5:
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established
The need for a risk strategy and related policies has been identified and accepted	A risk management strategy & policies have been drawn up and communicated and are being acted upon	Risk strategies & policies are communicated effectively and made to work through a framework of processes	A separate risk strategy and policies are not necessary; Risk handling is an inherent feature of all policies and strategy making processes	Risk management capability in strategy and policy making helps to drive the risk agenda and is reviewed. Role model status
Comments on the Maturity Assessment:				
A risk management strategy and guidance have been developed. However whilst these contain some good practice areas a number of weaknesses have been identified. Discussions with key risk management officers and a review of risk management in three services confirmed that the strategy and guidance has not yet been implemented in all key areas.				
Strengths:				
<ul style="list-style-type: none"> – A risk management strategy and risk management guidelines have been developed and approved by Cabinet. – The strategy and guidelines have been published on the Council’s intranet and is available to all staff. All staff interviewed as part of this review were familiar with the contents of the strategy and guidance. – The benefits of risk management are included in the risk management strategy. – The guidance includes easy to understand steps for performing risk management. – A risk definition and categories of risk are contained in the guidance. – Five acceptable responses to identified risks are defined in the guidance. – Risk management roles and responsibilities are defined in the strategy, including the structures for gaining 				

assurance on the management of risk.

Weaknesses:

- The risk management strategy and guidelines have not been reviewed since being approved by Cabinet in December 2003. The strategy defines the responsibilities of the Corporate Risk Management Group but the Group has been disbanded.
- The strategy and / or guidelines could be more explicit in encouraging well managed risk taking where it has good potential to realise sustainable improvements
- Criteria for informing an assessment of the likelihood and impact of risks and the definition of what constitutes a “key” risk are not included in the guidance.
- Guidance on the management of situations where significant risks materialise is not provided.
- The guidance does not include a glossary of standard risk management terms.
- No guidance is given on the level of risk that is acceptable (commonly referred to as risk appetite).
- No link is made in the strategy between risk management and business continuity / emergency planning.
- Specific reference to the risk of fraud has not been made in the guidance.
- There is no guidance on considering assigning a monetary or other numerical value is not put to risks where practicable to emphasise the potential loss or missed opportunity which could occur if risks are not well managed.

3. People					
Are people equipped and supported to manage risk well?					
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>	
Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established	
Key people are aware of the need to assess and manage risks and they understand risk concepts and principles	Subtle guidance is available and a training programme has been implemented to developed risk capability	A core group of people have the skills & knowledge to manage risk effectively	People are encouraged and supported to be more innovative. Regular training is available for people to enhance their risk skills	All staff are empowered to be responsible for risk management and see it as an integrated part of the Departments business. They have a good record of innovation and well managed risk taking	
<p>Comments on the Maturity Assessment:</p> <p>The formation of the Corporate Risk Management Group has led to a core group of officers who have the skills and knowledge to manage risk which can now be transferred to their management teams, however we can not conclude that this has been implemented in all core areas.</p>					
<p>Strengths:</p> <ul style="list-style-type: none"> – Staff interviewed were aware of the importance of risk management, of the main risks facing the organisation as a whole and of the risks facing their Service. – Staff have access to risk management guidance and staff interviewed were aware of the guidance. <p>Weaknesses:</p> <ul style="list-style-type: none"> – Our review did not highlight any evidence of an organisational culture whereby managers and staff felt empowered to take well-managed risks, are rewarded for taking well-managed risks and are confident that they will not be blamed for failure when risks have been well managed. – Risk management has not been included in all managers' job descriptions. – Ongoing risk management training is not included in the Corporate Learning and Development Programme. 					

4. Partnerships				
Are there effective arrangements for managing risks with partners?				
<div style="border: 1px solid black; padding: 2px; width: 20px; margin: 0 auto;">√</div>	Level 2: <input type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>
Level 1: Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established
Key people are aware of areas of potential risk with partnerships and understand the need to agree approaches to manage these risks	Approaches for addressing risk with partners are being developed and implemented	Risk with partners is managed consistently for all key areas and across organisational boundaries	Sound governance arrangements established, partners & suppliers selected on basis of risk capability & compatibility	Excellent arrangements in place to identify and manage risks with all partners and to monitor and improve performance. Organisation regarded as role model
Comments on the Maturity Assessment: A more detailed assessment of arrangements for managing risks with partners has been undertaken in the Services reviewed. Limited corporate guidance of risk management with partners is available.				
Strengths: Weaknesses: – Whilst reference is made in the risk management strategy to the responsibility of the Corporate Risk Management Group for providing guidance on partnerships, the Corporate Risk Management Group has been disbanded.				

5. Processes				
Do the organisation’s processes incorporate effective risk management?				
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>
Awareness & understanding	Implementation Planned & in progress	Implemented in all key areas	Embedded and improving	Excellent capability established
Some stand-alone risk processes have been identified	Recommended risk management processes are being developed	Risk management processes implemented in key areas. Risk capability self assessment tools used in some areas	Risk metrics are collected. Risk management standards applied in some areas	Management of risk & uncertainty is well integrated with all business processes. Best practice approaches are used and developed . Selected as a benchmark site by other organisations
Comments on the Maturity Assessment:				
The basic risk management processes have been implemented in all areas reviewed, however a number of weaknesses in the processes have been identified. Self-assessment tools are not used in any of the areas reviewed.				
Strengths:				
<ul style="list-style-type: none"> – A lead member has been allocated responsibility for risk management (this has been allocated to the Cabinet portfolio holder for Performance, Partnerships and Best Value). – All committee papers now include a section on risk management implications. – Service risk matrices include key corporate risks as appropriate. – Heads of Service are challenged on their risk management processes through the quarterly Finance and Performance Review meetings (F&PR). – Risk management forms part of existing planning and review processes. – Internal Audit are responsible for examining and reporting on the adequacy and effectiveness of the Council’s risk management arrangements. 				
Weaknesses:				
<ul style="list-style-type: none"> – The Chief Internal Auditor being the lead officer for Risk Management results in an impairment of Internal Audit’s independence. – A review of Cabinet minutes for 2004/5 revealed that only one full update on key corporate risks had been presented to Cabinet. 				

- Key corporate risks were identified by the Directors’ Group from a list of key risks identified by Internal Audit as part of their annual planning and risk assessment process and not by directly considering the risks to achieving the Council’s priorities and key objectives.
- Since the initial corporate training provided two years ago, no additional risk management training has been provided.
- Formal processes are not in place to incorporate key corporate risks identified as part of the F&PR process into a corporate risk register and / or included in the key corporate risks updates given to Cabinet.
-

6. Risk Handling				
Are the risks handled well?				
Level 1: <input type="checkbox"/>	Level 2: <input checked="" type="checkbox"/>	Level 3: <input type="checkbox"/>	Level 4: <input type="checkbox"/>	Level 5: <input type="checkbox"/>
No evidence	Satisfactory	Good	Very Good	Excellent
No clear evidence that risk management is being effective	Limited evidence that risk management is being effective in at least most relevant areas	Clear evidence that risk management is being effective in all relevant areas	Very clear evidence that risk management is being very effective in all areas and leading to the production of very good results	Very clear evidence of excellent results due to risk management being highly effective in all areas and that improvement is being pursued
Comments on the Maturity Assessment:				
Review of the Finance and Performance Review minutes and discussions with officers with responsibility for risk management revealed that risk management is not yet effective in most areas.				
Strengths:				
<ul style="list-style-type: none"> – The Finance and Performance Review Meetings are used as a forum for challenging the effectiveness of risk management across the organisation. 				
Weaknesses:				
<ul style="list-style-type: none"> – During our review we were unable to obtain specific evidence that risk management has resulted in improved decision and policy making, better handling of cross cutting issues, improved planning and target setting or improved management of risks to the public. 				

7. Outcomes				
Does risk management contribute to achieve outcomes?				
Level 1:	Level 2: <input checked="" type="checkbox"/>	Level 3:	Level 4:	Level 5:

No evidence	Satisfactory	Good	Very Good	Excellent
No clear evidence of improved outcomes	<p>Limited evidence of improved outcomes consistent with improved risk management</p>	<p>Clear evidence of significant improvements in outcome performance demonstrated by measures including, where relevant, stakeholders' perceptions</p>	<p>Very clear evidence of very significantly improved delivery of all relevant outcomes and showing positive and sustained improvement</p>	<p>Excellent evidence of markedly improved delivery of outcomes which compares favourably with other organisations employing best practice</p>
<p>Comments on the Maturity Assessment:</p> <p>Risk management is still relatively new to a number of areas and it may still be a while until there is clear evidence of risk management contributing towards improved outcomes. There has been some improvement in the Council's financial position since the introduction of the Finance and Performance Review meetings which could be attributed to risk management.</p>				
<p>Strengths:</p> <ul style="list-style-type: none"> - There has been some improvement in the Council's financial position since the introduction of the Finance and Performance Review meetings which could be attributed to risk management. <p>Weaknesses:</p> <ul style="list-style-type: none"> - During our review we were not able to obtain any evidence of improved achievement of business objectives as a result of risk management or of improved management of risks to the public. 				

Appendix 3 – Follow-up of Internal Audit Report on Risk Management

Original Finding / Recommendation (and reference to the Internal Audit Report)	Original Management Response
<p>3.2 Monitoring and reviewing</p> <p>3.2.1 The current situation is that services have responsibility for risk management. However, there is no central control. Therefore there is a risk of inconsistencies and non-compliance with Council guidelines.</p> <p>3.2.2 A central monitoring and review process should be put in place to ensure that risk registers are completed by all services and submitted to an officer in the services designated with the responsibility for risk management. The risk forms (register) should be collated and reviewed centrally to ensure that risks identified are effectively managed. This may be achieved by appointing a Corporate Risk Manager (see 3.4).</p>	<p><i>Services are responsible for a variety of things that are not directly related to the provision of services, e.g. financial budget management, management of their staff, health and safety, contract monitoring etc. At one level, risk management is just one more skill that managers are expected to have in this modern age. It is acknowledged that some local authorities have responded to this new agenda by appointing a Risk Manager, but it is debateable how widespread this is and there is mixed pattern on where this post reports – some authorities, for example, see this as an extension of internal audit.</i></p> <p><i>Appointing a single Risk Manager would be an easy response to the audit recommendation, but there is a danger of this person being drowned in monitoring and not doing anything proactive in taking forward risk management within the authority. Appointing a larger team cannot be justified as a sufficiently high priority at this time, given the council's resource position.</i></p> <p><i>For the time being I consider it sufficient for risk management progress to be monitored at the bi-monthly Finance & Performance Review</i></p>

	<p><i>meetings. I also consider that internal audit has a role to play in commenting on the progress with risk management in service areas, in the same way as I would expect it to comment on the quality of devolved budget management, contract monitoring etc.</i></p> <p><i>Risk management should be incorporated into all job descriptions and person specifications for management posts across the council. It should also be added to the staff induction process and be added to the list of topics that form part of managers' appraisals. I will issue corporate instructions on these aspects.</i></p>
<p>Follow-up Findings</p>	<p>Additional Recommendations</p>
<p>The Chief Internal Auditor has recently taken over as the lead officer for risk management. Internal Audit has an important role in providing the Council with assurance on the effectiveness of the Council's risk management arrangements, and having the Chief Internal Auditor as the lead officer for risk management could impair the independence and objectivity this assurance.</p> <p>The Chief Internal Auditor being the lead officer for risk management is also in breach of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the "CIPFA Code"), which states that "Internal Audit should be sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgments and recommendations. Internal auditors should have no operational responsibilities".</p> <p>Risk Management has been added to the Finance & Performance Review meetings agendas and Service Managers are required to submit copies of their most recent risk registers.</p> <p>To verify whether risk management has been incorporated into all job descriptions</p>	<p>The appropriateness of the Chief Internal Auditor as the lead officer for risk management should be reconsidered (refer to recommendation 7 in the management action plan).</p> <p>Risk management should be incorporated into all job descriptions and person specifications for management posts across the council (refer to recommendation 3 in the management action plan).</p> <p>Risk management should be formally recognised as a manager's competency by including it in the Council's managers' competency framework (refer to recommendation 3 in the management action plan).</p>

<p>and person specifications for management posts, we reviewed the job description and person specification for the recently advertised post for Head of Strategic Development (a post where we would expect risk management to be an important component). Risk management was not included in the job description nor the person specification. In addition, we reviewed the Council's managers' competency framework.</p>	
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Original Finding / Recommendation (and reference to the Internal Audit Report)	Original Management Response
<p>3.3 Risk registers</p> <p>3.3.1 Senior officers responsible for up-dating the risk registers should report to senior management on a regular basis to ensure that risks are effectively managed and documented. The questionnaire exercise revealed most other London boroughs have service risk registers in place (see Appendix A).</p>	<p><i>Consideration will be given to extending the internal guidance on this point.</i></p>
Follow-up Findings	Additional Recommendations
<p>Service risk registers were in place for all the services reviewed, although the quality and completeness of the registers varied. Service risks are reported to and challenged by the Finance & Performance Review forum.</p>	<p>None.</p>

Original Finding / Recommendation (and reference to the Internal Audit Report)	Original Management Response
<p>3.4 Roles and responsibilities</p> <p>3.4.1 The Council should consider appointing a Corporate Risk Manager to ensure that risk management is effectively embedded in the organisation, for</p>	<p><i>See no. 3.2 above.</i></p>

<p>example carrying out the review and monitoring process identified above (3.2). The questionnaire exercise supported this issue in that a high number of other London boroughs have a corporate risk manager (see Appendix A).</p> <p>3.4.2 Roles and responsibilities of senior officers involved in risk management should be clearly detailed in their job descriptions. Also senior officers' job descriptions should require risk management as a core competency.</p>	
<p>Follow-up Findings</p>	<p>Additional Recommendations</p>
<p>Refer to follow up findings for 3.2 above.</p>	<p>Refer to recommendations for 3.2 above.</p>

<p>Original Finding / Recommendation (and reference to the Internal Audit Report)</p>	<p>Original Management Response</p>
<p>3.5 Training</p> <p>3.5.1 A regular programme of training and education of officers and members should be undertaken to ensure that the culture is willing and accepts risk management. This again could be the role of a corporate risk manager.</p>	<p><i>The risk management strategy and guidelines have only recently been core briefed across the council. Following on from this and comments made at 3.2, I would expect training requirements to be identified at managers appraisals.</i></p>
<p>Follow-up Findings</p>	<p>Additional Recommendations</p>
<p>Our review confirmed that no additional training has been delivered since the initial corporate training delivered as part of rolling out the risk management strategy. Whilst there was general consensus amongst the officers that we interviewed as part of our review that senior managers had the necessary skills and understanding of risk management, the availability of a training programme for line managers would be useful in assisting in further embedding risk management at across the organisation.</p>	<p>Risk management training should form part of the Corporate Learning and Development Programme so that managers who require this training can attend (refer to recommendation Error! Reference source not found. in the management action plan).</p>

Original Finding / Recommendation (and reference to the Internal Audit Report)	Original Management Response
<p>3.6 Forums and communication</p> <p>3.6.1 The Council have raised the profile of risk management in that there is a section on risk management in all committee reports and service performance management plans. However, this should be further improved by making risk management a standing agenda item in other areas, for example regarding review meetings, strategy reviews, budget approval meetings, performance reviews and project planning.</p>	<p><i>This is being addressed by making risk management a standard agenda item at Finance & Performance Review meetings.</i></p>
Follow-up Findings	Additional Recommendations
<p>Risk Management is now a standing item on the Finance & Performance Review (F&PR) meeting agendas.</p> <p>F&PR are held on a quarterly basis with the next round of F&PR meetings scheduled for June / July 2005.</p>	<p>None.</p>

AGENDA ITEM: 11 Page nos. 90-138

Meeting	Audit Committee
Date	31 August 2005.
Subject	Interim Report to Management 2004/05 audit
Report of	Borough Treasurer
Summary	This report summarises the key issues raised in the external auditor's interim report to management 2004/05 audit and sets out the authority's response to the Action Plan points within the report. The auditors report is attached at Annex 1, together with the completed Action Plan, which is included in the auditors report as Appendix A.
Officer Contributors	Borough Treasurer Head of Finance – Core Accountancy Chief Internal Auditor Corporate Anti Fraud Team
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Annex 1 External Auditor's Interim Report to Management 2004/5 Audit Appendix A within Annex 1 includes completed action plan
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Pam Kettle - Head of Finance – Core Accountancy on 020 8359 7249.

1 RECOMMENDATIONS

- 1.1 That the Committee note the contents of the external auditors' report at Annex 1 and agree the management response to the Action Plan set out in Appendix A, within Annex 1.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 It is important that Members review key reports from the External Auditor.

4 RISK MANAGEMENT ISSUES

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

5 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 The one area where financial implications might arise is in the strengthening of the Corporate Anti Fraud Team (CAFT) to enable it to undertake more proactive work. The level of referrals that currently need to be responded to leave proactive work as a lower priority when there are competing demands for resources.

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 This report falls within the responsibility of the Audit Committee to consider. Refer to Section 3 of the constitution (pages 89 and 90) which detail the Audit Committee's functions including "Reassuring the council that the scope and depth of external audit work and the annual External Audit Plan are sufficient and conducted competently".

8 BACKGROUND INFORMATION

- 8.1 The interim management report forms part of the external auditor's initial work programme prior to undertaking the final accounts audit. It also has a bearing on the Corporate Performance Assessment (CPA) - Use of Resources judgement. The report is attached as Annex 1.
- 8.2 The interim audit work covers Financial Aspects of Corporate Governance. This informs the approach to the annual accounts audit. It forms part of a continuing dialogue between ourselves and our external auditor.

- 8.3 In undertaking this work the external auditor Robson Rhodes has had regard to the wider issues facing the authority including, Modernising Core Systems (MCS), existing internal control issues in the key financial systems and the financial position at the start of 2004/05.
- 8.4 The detailed findings are set out in the report and the key issues are summarised as follows:

Financial Standing:

- Overall financial health of the Council has strengthened;
- Financial Challenges in 2005/06 and beyond, include delivering the budget and savings targets, realising longer term savings arising from the implementation of MCS, developing budget holders to monitor and manage their budgets effectively, strengthen balance sheet reporting, financial and risk management of contract with Barnet Homes; and effective capital monitoring within the prudential framework.

Systems of Internal Financial Control:

- The key financial systems within MCS need to gain satisfactory assurance by 2006/07.
- The need to take account of the 2004/05 audit assurances in the Statement of Internal Control and the CPA Use of Resources Assessment

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

- The Council has made good progress in prevention and detection of fraud and corruption, but some aspects need strengthening further to ensure overall framework is sound. This includes developing work of CAFT to be more proactive and preventative, clearer processes for officers on declaration of interests, gifts and hospitality; and internal control weaknesses addressed within systems.

Legality of transactions that might have a significant financial consequence:

- Arrangements remain sound in this area.
- Procedures are in place for taking forward new legislation, eg. Freedom of Information Act, the Civil Contingencies Act and the Proceeds of Crime Act.
- With regard to the Civil Contingencies Act the Council has considerable work to do in cascading the concept through the organisation as well as rehearsal and maintenance of its plan.

Key Systems for producing the Accounts

- Of the 12 systems reviewed 9 provide adequate assurance for annual accounts audit. This is an improvement of one on the previous year.

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

9 LIST OF BACKGROUND PAPERS

9.1 None

BS: Jeff Lustig
BT: Clive Medlam
Pam Kettle

Annex 1

London Borough of Barnet

Interim report to management 2004/05 audit

July 2005

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1 Executive Summary

Introduction

- 1.1 We have completed our interim audit visit at London Borough of Barnet ('the Council'). The interim audit visit is primarily concerned with reviewing areas of Financial Aspects of Corporate Governance and considering the impact of our findings on our annual accounts audit approach. In addition we have carried out work on aspects of performance management arrangements at the Council, which have been reported separately.
- 1.2 In planning and carrying out our interim audit work we have had due regard to the Statement of Responsibilities, issued by the Audit Commission, which sets out the respective roles and responsibilities of the Council and its auditors.
- 1.3 It is the Council's responsibility to ensure that its operations are conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that resources are used economically, efficiently and effectively. Our role is to give an independent opinion on the Council's financial statements and report on aspects of the Council's governance and performance management arrangements.
- 1.4 Our overall audit responsibilities are governed by the Audit Commission Act 1998, supported by the Code of Audit Practice (the Code) issued in 1998, which defines the scope of our audit to include:
- Financial Aspects of Corporate Governance;
 - Accounts; and
 - Performance Management.
- 1.5 This will be the last year we will be undertaking work under the 1998 Code. Our work from 2005-06 onwards will be governed by a new Code of Audit Practice, which was approved by Parliament in March 2005.
- 1.6 The purpose of this report is to summarise for management the findings of our interim audit visit. Key matters, and any which may remain unresolved, may also be reported separately to the Council in our Annual Audit and Inspection Letter upon completion of the financial statements audit.
- 1.7 This report is part of a continuing dialogue between the Council and ourselves and is not, therefore, intended to cover every matter which came to our attention. For this reason we do not accept responsibility for any reliance which third parties may place on it.

Scope and objectives

1.8 The scope of our interim audit visit was to undertake work on financial aspects of corporate governance, together with some preparatory work on the accounts opinion. The scope of our audit work including interim visit and further planned work is detailed in Table 1 below:

Table 1: Scope of audit work for 2004-05

Code Area	Interim Visit	Further Work Planned (April –October 2005)
Financial Aspects of Corporate Governance	– Systems of Internal Financial Control	– None
	– Review of the Council's arrangements for ensuring the legality of financial transactions	– Review of any significant transactions which may arise
	– Review of financial standing	– Ongoing review of financial position
	– Review of the Council's arrangements for standards of financial conduct, and the prevention and detection of fraud and corruption	– None
	– Review of Internal Audit on key financial systems	– None
	– Follow-up of last year's interim report	– None
Accounts	– Review of the financial ledger system	– Audit of the financial statements
	– Review of Internal Audit work on high level controls	– None
	– Planning for final accounts visit	– Follow-up of last year's key issues
Performance Management	– Reported separately	– BVPP & BVPI audit – Reviews of specific aspects of performance management
Grant Claims	– Report summary issues arising from audit of grant claims and returns in 2003-04	– Agree timetable for preparing and auditing specific claims
CPA	– draw on 2004/05 work to support overall conclusion on Use of Resources as part of CPA 2005	– Additional work on published UOR framework in August/September 2005

Context

1.9 We recognise that the interim audit has taken place in the wider context of a number of developments and challenges facing the Council, including:

- The Modernising Core Systems project (MCS) which is planned to go live from August 2005. MCS is designed to improve the efficiency of business processes and improve management information for decision-making;
- Significant internal control issues in key financial systems as identified in the Council's Statement on Internal Control (SIC) in 2003/04;
- A difficult financial position at the start of 2004/05 which has improved through a clearer focus on budgetary control, savings and efficiencies and which has left the Council well placed to address the Gershon agenda;
- A weak control environment which has contributed to several payroll frauds, although there is now a clear mechanism for taking forward suspected frauds following the establishment of a Corporate Anti-Fraud Team in May 2004, and
- Staff and management restructuring, which among other things has created a new post of Director of Resources which co-exists with statutory roles such as that of s151 officer (held by the Borough Treasurer) and that of monitoring officer (which sits with the Borough Solicitor).

Key matters arising from the audit

Financial Standing:

1.10 The overall financial health of the Council has strengthened in 2004/05 with a predicted outturn of over £5m in available general fund balances (subject to any changes in insurance provisioning). This represents a real and consistent improvement following the Section 11 notice issued in January 2004. In setting the 2005/06 budget and in planning for future years, the Council has recognised the need to continue to strengthen general fund balances.

1.11 There remains however a number of significant financial challenges in 2005/06 and beyond which include:

- Delivery of the 2005/06 budget including a package of £15m in further savings which is pivotal to both maintaining financial balance and delivering Gershon efficiencies;
- Realising the longer term savings inherent in the MCS project and controlling any unplanned costs which result from the new systems implementation;
- Ensuring that budget holders' capacity to monitor, manage and report their budgets is effectively enhanced by the MCS project;
- The need to strengthen balance sheet reporting so that there is an increased focus given to the management and recovery of debtors and overall treasury management arrangements;
- Ensuring that best practice financial and risk management is embedded into the contract management arrangements with Barnet Homes;
- Ensuring that arrangements to manage an effective capital programme with the framework of the Prudential Code continue to be strengthened.

Systems of internal financial control:

1.12 Our interim audit in 2003/04 identified that only 4 of the 12 key financial systems obtained satisfactory assurance from internal audit. The position has seen some improvement in 2004/05 in areas such as Council tax and treasury systems with other systems remaining with limited or no assurances. Some systems have not been reviewed in detail in 2004/05 prior to the implementation of MCS. Overall, arrangements were not adequate in 2004/05. The majority of the limited assurance systems are part of MCS implementation. This raises two specific issues for the Council:

- The vital importance of ensuring that the MSC project embeds a framework where all key financial systems are able to gain satisfactory assurance by the end of 2006/07;
- The need to take account of the 2004/05 audit assurances when considering its use of Resources self assessment and the reporting of internal control weaknesses in the SIC.

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

Overall arrangements

1.13 The Council has made good progress in respect of the prevention and detection of fraud and corruption. Our work has identified a number of strengths in the Council's arrangements. In particular the Council has:

- a dedicated Corporate Anti-Fraud Unit (CAFT) which has operated since May 2004, undertaking preventative and detective work in relation to allegations of fraud and corruption including housing benefit fraud;
- a Counter Fraud Framework and strategy which was approved by Members and has been in place since June 2004, and
- clear focus and commitment to taking forward the results of the National Fraud Initiative, with good joint working arrangements between CAFT, the Council's Benefits Investigation Team and designated NFI leads in other Council departments.

1.14 However to ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:

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

Legality of transactions that might have a significant financial consequence:

Overall arrangements

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

Key Systems for producing the Accounts

- 1.19 As part of our interim audit we reviewed the key controls within the 12 key systems used for the production of the accounts in order to determine the level of reliance that could be placed upon them.
- 1.20 Last year we concluded that 8 of the 12 systems reviewed provided adequate assurance for our annual accounts audit purposes. The remaining 4 systems provided no assurance. This year we are pleased to report that the overall position has improved with 9 systems reviewed providing adequate assurance for our annual accounts audit purposes, although as reported earlier, significant weaknesses remain in terms of the overall financial control framework in some systems.

The way forward

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

Acknowledgement

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

RSM ROBSON RHODES LLP
JULY 2005

2 Financial Aspects of Corporate Governance

Introduction

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

- financial standing;
- systems of internal financial control;
- standards of financial conduct, and the prevention and detection of fraud and corruption, and
- ensuring the legality of financial transactions.

Financial Standing

2.2 It is the Council's responsibility to implement appropriate arrangements to ensure that its financial standing is soundly based, having regard to:

- compliance with statutory financial requirements, targets and relevant codes and guidelines;
- the level of balances, reserves and provisions;
- financial reporting and monitoring arrangements, and
- the impact of planned future policies and known or foreseeable future developments.

2.3 It is our responsibility to consider whether the Council has put in place adequate arrangements to ensure its financial standing is soundly based. Our work in respect of financial standing included:

- review of overall arrangements to ensure sound financial standing;
- consideration of the Council's medium-term financial strategy, and
- review of progress in implementing the Prudential Code for capital finance in local authorities.

2.4 We set out below our findings in each of these three areas.

Overall arrangements

2.5 We have concluded that arrangements in place at the Council are sufficient to ensure that information produced in relation to its financial position is largely soundly based. In addition we have concluded that the Council has adequately designed budgetary control and management accounting arrangements.

2.6 Our work in respect of the Council's overall arrangements for ensuring financial standing involved:

- overview of budgetary control and management accounting procedures, and

2 Financial Aspects of Corporate Governance

- consideration of financial performance against budget and current year-end forecasts.

An overview of budgetary control and management accounting procedures

2.7 There is now more regular monitoring of the revenue and capital position at senior officer and Member level. This has been achieved through the monthly Directors' Group and a challenge event attended by 2 councillors with responsibility for financial monitoring with the Borough Treasurer.

2.8 As these monitoring processes continue to develop, the Council should consider the following:

- Monitoring of the Council's balance sheet position with respect to NNDR and Council Tax collection, debt management and treasury management (on borrowing and investment) which, although taking place at the operational level, is not currently reported to the same extent as the revenue and capital position. We consider that there is scope for these areas to be integrated into the current system for financial monitoring and reporting, and
- Although financial reviews prepared by individual service departments as part of the Monthly Revenue Monitoring Report are now prepared on a more consistent basis, there is scope to improve the commentary on significant variances by the time they reach the Core Team for consolidation (**Recommendation 1**).

Financial performance against budget

2.9 High level financial monitoring outturn reports are prepared using data derived from the ledger as well as services' best estimate of budget commitments to the year-end. This will be the last year financial monitoring will be prepared using this system with a new integrated system for recording expenditure and commitments due to be implemented as part of MCS. We will undertake a detailed review of financial monitoring as part of our 2005/06 audit work once the new system has bedded in.

2.10 At the time of our interim audit visit, there were no indications of significant issues around the current year's financial position with the Council projecting the following year end position:

- General Fund – projected outturn revenue balance of £4.941m based on financial monitoring information as at December 2004, updated for February 2005 movements. Early indications from the Council's latest drafts of General Fund outturn for 2004/05 (prepared in June 2005) are that revenue balances would be better than expected, at around £5.739m at year-end. The final figures are still being verified and will be presented to Members later in the summer.
- Housing Revenue Account - projected to break even at year-end based on financial monitoring information prepared by the ALMO as at December 2004.

2.11 Progress against the capital programme is slower than expected, particularly on the non-housing aspects of the programme. In summary the position based on capital monitoring information as at January 2005 is as follows:

- Non-Housing – there is an underspend of £24.704m against a budget of £67.366m. The majority of the underspend is related to Education (£11.800m underspend relating to capital expenditure directly managed by schools).
- Housing – there is a projected underspend of £2.129m against a budget of £25.055m, £1.111m of which relates to HRA and the other £1.018m relates to Housing General Fund.

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- 2.12 More up to date figures relating to the capital outturn for Housing and non-Housing were being finalised at the time we drafted this report, and so will be reviewed when we carry out our final accounts audit.
- 2.13 Overall the General Fund position appears to have improved in 2004-05. As summarised in the Table 2 below, this is mainly attributable to:
- planned contribution to balances of £3m in the revenue budget for 2004-05;
 - the Council having a clearer and more sustained focus on savings which is actively monitored through a traffic light savings plan;
 - more regular monitoring and reporting to Members of the revenue and capital position, with revenue reported every 2 months and capital reported every 3 months. As part of the MCS implementation the Council should ensure that robust arrangements for regular financial monitoring and reporting are fully embedded in the new processes, and
 - a release from provision into the General Fund of £1.1m which was approved by Cabinet Resources on 10 February 2005. This comprises £0.785m relating to unclaimed NNDR overpayments in prior years and £0.4m relating to the reversal of a debt previously thought repayable to Transport for London.

Table 2: Anticipated General Fund Balance movements

Element	As at Feb 2005	As at June 2005
	£m	£m
General Fund balance at 1 April 2004	(0.9)	(0.9)
Contribution to balances as budgeted for 2004-05	(3)	(3)
Add release from provision in 2004-05	(1.1)	(1.1)
Net impact of in year changes	0.1	(0.7)
Anticipated General Fund balance at 1 April 2005	(4.9)	(5.7)

- 2.14 The Council is in the process of finalising its outturn figures for 2004-05.
- 2.15 Our review of the Council's financial position is therefore still ongoing. We will conclude our review of the Council's year-end financial position as part of our final accounts audit. We will focus our work on a number of items which may have an impact on the reported financial position, in particular insurance liabilities (following a recent actuarial review), the release of provisions, debtors and creditors as well as capitalisation of expenditure.
- 2.16 We will formally conclude our comments on financial standing in the annual audit and inspection letter.

Medium-term financial strategy

- 2.17 The Council's financial settlement for 2005-06 was better than in the previous two years, with Barnet's settlement having increased by 5.9% (compared to a London average 5.8%). However, from the Council's perspective, the overall settlement has not improved significantly when viewed in the overall context of funding from central government and when taking into account income from grants.

2 Financial Aspects of Corporate Governance

- 2.18 The Council is forecasting pressures on the General Fund in the medium term arising from continuing service pressures and the need to keep Council tax increases at an acceptable level while improving the Council's underlying revenue reserves. As a result the Council will need to maintain a clear and continuing focus on savings in 2005-06 and beyond.
- 2.19 The Council's general fund revenue reserve as at 31 March 2005 is now projected to be around £5.7m. The Council plans to build this up by £3m every year for the next few years through further savings and efficiencies, which are yet to be fully identified.
- 2.20 The Council's medium term financial strategy envisages better performance on the HRA in the shorter term. However there is expected to be additional pressure on HRA balances in 2008-09 as a result of the anticipated rent loss of around £1m through vacated dwellings. Nevertheless, the Council expects to be able to keep HRA balances above the target of £4.3m to cover the risk of underwriting agreements for regeneration schemes. The summary HRA position over the medium term is outlined in Table 3 below.

Table 3: Projected HRA balances in the medium term

	2005-06	2006-07	2007-08	2008-09
	£m	£m	£m	£m
HRA balance at start of year	(6.0)	(6.6)	(7.457)	(7.096)
Required contribution from/(to) working balances	(0.634)	(0.857)	0.361	1.124
HRA balance at end of year	(6.6)	(7.457)	(7.096)	(5.972)

- 2.21 The Council will need to continue to apply prudent financial planning and management to ensure it is able to meet pressures arising in the medium term for which the full financial impact and deliverability will need to be identified.

Financial reporting and the ALMO

- 2.22 The Council established an ALMO to manage its housing stock from 1 April 2004. Financial performance of the HRA is currently monitored by the ALMO. The Council does not currently receive copies of these financial monitoring reports from the ALMO and during 2004-05, the financial position of the HRA was not reported to Members. This is an area of potential risk given that the ALMO has only been established from April 2004, and in view of the lack of continuity in the Head of Finance for Housing where the role of client monitoring resides. The Council went through a period where interim appointments were made to the role following the secondment of the previous postholder to the MCS implementation team.
- 2.23 There were however meetings between the ALMO and the Council (as client) arranged at regular intervals but the Council will recognise that with the appointment of a new Head of Finance for Housing since May 2005 brings fresh opportunities for arrangements to be strengthened ensuring that:
- contracts and SLA's document relationship and working arrangements with the ALMO;

2 Financial Aspects of Corporate Governance

- the Council receives regular financial and performance monitoring information
- regular liaison meetings with the ALMO include standing items on financial performance
- appropriate reporting on progress and financial performance takes place at Member level. **(recommendation 2)**

Progress in implementing the Prudential Code

2.24 As part of our work in 2003/04, we reviewed the Council's arrangements for implementing CIPFA's Prudential Code for capital finance in local authorities which came into effect on 1 April 2004.

2.25 Under the prudential code, local authorities are free to borrow and/or invest so long as their capital plans are affordable, prudent and sustainable. The objective of the prudential code is to provide a framework for capital finance to ensure that:

- capital expenditure plans are affordable;
- external borrowing and other liabilities are within prudent and sustainable levels;
- treasury management decisions are in accordance with professional good practice;
- the authority is accountable; and
- the risks from not appropriately considering the above are highlighted.

2.26 The prudential code provides the framework for the self-regulation of an authority's borrowing and capital investment plans and the financing and other revenue costs flowing from them. Within that framework, the prudential code specifies arrangements for authorities to:

- set estimated prudential indicators and impose limits for a 3 year period covering
 - affordability;
 - prudence;
 - capital expenditure, external debt and treasury management;
- monitor and revise the indicators; and
- report and publish details of actual performance.

2.27 The Council set its prudential limits in February 2004 as set out in Table 4 overleaf:

Table 4: Prudential Limits from 2004-05 to 2006-07 (as at February 2004)

	2003-04	2004-05	2005-06	2006-07
	probable outturn	estimate	estimate	estimate
	£m	£m	£m	£m
Projected capital expenditure (NON HRA)	50.899	57.842	24.184	11.816
Projected capital expenditure (HRA)	10.476	18.142	23.995	24.528
Projected capital expenditure (TOTAL)	61.375	75.980	48.179	36.344
Authorised limit for external debt ¹	35.000	137.780	212.080	280.600
Operational Boundary for external debt ²	30.140	82.200	113.200	145.200

2.28 The Council's performance against these limits has been monitored by officers during 2004/05 although progress has so far not been formally reported to Members. We understand that there are plans to report the outturn for 2004-05 to members later this year. The predicted outturn for 2004-05 was reported to Members in March 2005 as part of the Prudential Strategy for 2005-06 and beyond.

2.29 As summarised in Table 5 below, the likely outturn for 2004-05 indicates that:

- progress on non-housing capital schemes has been slower than expected, and
- the Council is likely to remain within the expected levels of debt.

Table 5: Likely outturn on 2004-05 Prudential Indicators

	2004-05	2004-05	Variance	Variance
	estimate	probable outturn	(Under)/over spend	(Under)/over spend
	£m	£m	£m	%
Projected capital expenditure (NON HRA)	57.842	47.155	(10.687)	(18.5)
Projected capital expenditure (HRA)	18.142	18.311	0.169	0.9
Projected capital expenditure (TOTAL)	75.980	65.466	(10.514)	(13.8)
Authorised limit for external debt	137.780	113.497	-	-
Operational Boundary for external debt	82.200	67.000	-	-

¹ The maximum level of debt the Council is expected to enter into.

² Estimate of the most likely level of borrowing and other long-term liability.

2 Financial Aspects of Corporate Governance

2.30 The Council's projections for 2005-06 and beyond, as outlined in Table 6 below, indicate that projected movements for the authorised limit for external debt and the operational boundary for external debt do not mirror those in projected capital spend especially around 2006-07 and 2007-08. The Council will need to ensure that capital planning especially in the medium term is robust to ensure that appropriate and relevant debt levels are set.

Table 6: Prudential Limits from 2005-06 to 2007-08 (as at March 2005)

	2005-06	2006-07	2007-08
	estimate	estimate	estimate
	£m	£m	£m
Projected capital expenditure (NON HRA)	62.642	28.427	18.446
Projected capital expenditure (HRA)	28.668	27.679	29.628
Projected capital expenditure (TOTAL)	91.310	56.106	48.074
Authorised limit for external debt	173.777	216.446	239.713
Operational Boundary for external debt	120.000	162.000	180.000

2.31 We consider that there are a number of areas where the Council will need to improve its processes in order to fully embed the Prudential Code and realise its full potential. In particular the Council should:

- further develop the capital strategy as part of medium term financial planning, ensuring that there is a robust system for devising a capital plan from individual investment proposals based on a proper system of option appraisal. Without an appropriate capital strategy, the Council will not be able to set or achieve robust prudential indicators;
- continue to improve planning for risk, recognising that good risk management for affordability is not just about robust financial modelling at the outset but equally robust financial monitoring and project management to ensure complex capital projects are delivered on cost and in time, and
- report regularly the actual performance against prudential indicators and integrate monitoring and reporting against Prudential Indicators into the existing financial reporting framework, to include treasury management performance (**Recommendation 3**).

2.32 We will review compliance with these limits as part of our financial statements audit and update any comments in this area in the Annual Audit and Inspection Letter.

Systems of Internal Financial Control

- 2.33 The Council has responsibility for developing and implementing systems of internal financial control, and for putting in place proper arrangements to monitor their adequacy and effectiveness in practice.
- 2.34 Under the Code of Audit Practice we are required to assess whether the Council has adequate arrangements to satisfy itself that its systems of internal financial control are adequate and effective in practice.
- 2.35 To address the requirements of the Code of Audit Practice, our work on the systems of internal financial control included an assessment of:
- the Council's overall arrangements for satisfying itself that systems of internal financial control are adequate and effective;
 - Internal Audit work on key financial systems,
 - the operation of high level controls over key financial systems, and
 - the Council's progress in implementing risk management. Our work on risk management has been reported separately.

Overall arrangements

- 2.36 Our overall assessment is that the Council has less than adequate arrangements in place to satisfy itself that its systems of internal financial control are operating as expected. The Council is aware that it needs to improve its overall financial control environment as part of the MCS implementation through the design and use of new financial systems. The Council also needs to ensure that adequate procedure notes are in place to support users for all systems (**Recommendation 4**). We will undertake a detailed review of the operation of the new financial systems as part of our 2005/06 audit.

Review of Internal Audit work on key financial systems

- 2.37 Under the 'managed audit' approach, we review work undertaken by Internal Audit on key financial systems where this has been completed and undertake further work as appropriate on areas not specifically covered by Internal Audit during the financial year.
- 2.38 Table 7 overleaf shows the assurance provided by Internal Audit for each of the key financial systems in 2004/05.

Table 7: Summary of Internal Audit assurance on key financial systems in 2004-05

System	Internal Audit Assurance 2003-04	Internal Audit Assurance 2004-05	New system part of MCS?
Financial Ledger	None	Satisfactory (1)	Yes
Fixed Assets	None	Limited	Yes
Stock	Limited	None	Yes
Debtors	Limited	Limited	Yes
NNDR	Satisfactory	See Note (5)	No (2)
Council Tax	Limited	Satisfactory	No (3)
Treasury management	Limited	Satisfactory	No
Cashiers	Limited	None	Yes
Creditors	Limited	See Note (6)	Yes
Housing Benefits	Limited	See Note (7)	No (4)
Payroll	None	Limited	Yes
Pensions systems review (investments)	Satisfactory	Satisfactory	No
Pensions Administration	-	Limited	No
Rents	Satisfactory	See Note (8)	No

KEY

- (1) This conclusion is being revisited following further follow-up work.
- (2) New system Pericles from January 2005
- (3) Planned for Pericles from October 2005
- (4) Currently being considered for Pericles
- (5) Audit deferred to June 2005 by agreement as a result of Pericles implementation
- (6) Follow-up audit planned for later following recent review around fraud-based controls
- (7) Follow-up audit planned for later following completion of prior year audit in August 2004
- (8) Work just completed – not yet reviewed by internal audit

2 Financial Aspects of Corporate Governance

- 2.39 We note from Internal Audit's reports completed to date that they have concluded that key controls on few systems provide at least satisfactory assurance that risks material to the achievement of system objectives are adequately managed. The key weaknesses and areas for improvement identified by Internal Audit in relation to key financial systems which they have reviewed are summarised in Appendix B.
- 2.40 We understand from Internal Audit that they will be revisiting the overall assurance for their report on Financial ledger following further follow-up work, in the context of some inconsistencies they have identified in the priority ratings assigned to some key recommendations within the report.
- 2.41 For 2004-05, we have also carried out our own enquiries to ascertain the operation of some high-level controls relating to NNDR, council tax, payroll, sundry debtors and creditors to the extent that these had not been specifically addressed by Internal Audit in their work for 2004-05.
- 2.42 Our testing of high-level controls over systems not reviewed by Internal Audit in 2004-05 relating to the NNDR and creditors systems identified that although there is a weekly reconciliation of NNDR income to the ledger, there has been some delay in inputting valuation changes on the system due to implementation of Pericles. The Council will need to ensure that the overall debit raised is reconciled to all relevant valuation reports as at 31 March 2005 (**Recommendation 5**).
- 2.43 There has been no detailed coverage of controls in the housing benefits system by Internal Audit in 2004-05 as their work in the prior year had been finalised in August 2004. In line with our risk-based audit approach, we plan to undertake a full substantive audit approach to the audit of housing benefits as part of our grant claim audit later this year.
- 2.44 There has been a lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase systems to the financial ledger during the year. The Council envisages that these issues will be addressed by the implementation of an integrated financial system. These systems must be fully reconciled to the ledger as at 31 March 2005 before data is rolled forward into new systems (**Recommendation 6**).
- 2.45 Internal Audit's testing of systems of internal financial control has identified a number of improvements with respect to the operation of financial systems which have already been identified and discussed with officers in their reports. The Council will need to ensure that significant control weaknesses as identified by Internal Audit are reflected as appropriate in the Council's Statement of Internal Control for 2004-05, and also taken into account in the design of new systems as part of MCS (**Recommendation 7**).
- 2.46 Overall we consider that Internal Audit continues to provide an important risk assurance service to the Council in challenging circumstances by reviewing the Council's business critical systems, a number of which are considered to be weak, and by reviewing the Council's response to new developments such as the Prudential Code and the Freedom of Information Act as well as responding to emerging risks on ad hoc projects such as MCS.
- 2.47 Based on our review of Internal Audit work as part of our 'managed audit' approach this year, we have identified and discussed with Internal Audit some scope for Internal Audit to strengthen their overall assurance role. Specific suggestions discussed include:

2 Financial Aspects of Corporate Governance

- clearer mapping of the high-level controls we consider to be key to the effective functioning of financial systems into internal audit coverage of individual systems. We have recently agreed with Internal Audit clearer protocols for addressing this issue going forward in 2005/06 under which Internal Audit would complete a self-assessment of our high-level controls checklist before we commence our interim audit, and
- a more consistent approach to the issue of sample sizes where detailed testing is undertaken, especially on systems considered to be high risk (**Recommendation 8**).

2.48 We will update our comments on the Council's system of internal financial control once we have completed appropriate audit work, as part of our audit of the financial statements and grants later this year, particularly in the following areas:

- Appropriate substantive audit as part of our accounts and grants audit around those systems found not to be operating satisfactorily either by Internal Audit or ourselves;
- Review of year-end control account reconciliations, and
- A detailed and substantive approach to the audit of housing benefits grants claims.

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

2.49 The Council has responsibility for ensuring that its affairs are managed in accordance with proper standards of financial conduct, and that it has put in place arrangements to prevent and detect fraud and corruption.

2.50 Our duties under the Code of Audit Practice are to consider whether the Council has put in place adequate arrangements to maintain proper standards of financial conduct, and to prevent and detect fraud and corruption.

2.51 We have discharged our duty under the Code by reviewing the:

- adequacy of the Council's overall arrangements for ensuring that its affairs are managed in accordance with proper standards of financial conduct;
- management arrangements for preventing and detecting fraud and corruption, and
- arrangements in place to follow-up the Audit Commission's National Fraud Initiative (NFI) results.

Overall arrangements

2.52 We understand there are also plans to develop the reporting and operational arrangements for CAFT, including:

- Raising the profile of CAFT successes on investigative work, through more regular reporting to Members and, adapted as appropriate to staff, in the Council. We understand that there are plans for CAFT to report quarterly to the Corporate Management Board and Audit & Resources Overview and Scrutiny Committee in 2005-06, which have now been agreed with a first report

from CAFT completed and due out shortly. In addition, CAFT has now been included in the Council's constitution;

- Further consideration of the preservation of the integrity and confidentiality of data as the complexity of investigative work grows. Examples include:
 - the security around the NFI spreadsheets could be improved through the use of password protection. We understand that the Council has taken this up with NFI directly as they do not protect the spreadsheets via the CD sent to local authorities, and
 - the integrity of information systems used to record and monitor progress of investigations. All benefits fraud investigations are held on the secure fraud investigation management system (FIMS) and CAFT have made a separate bid for a secure bespoke system to deal with corporate investigations.

National Fraud Initiative

2.53 The Audit Commission undertakes a data matching exercise on a two yearly basis, comparing payroll and benefits datasets provided by public sector bodies. Any suspicious matches are then forwarded to Local Authorities for further investigation. To ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:

- there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventive work as appropriate;
- there is a clearer system for officers to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas; and
- the relevant parts of the Constitution are regularly updated and tracked as such. For example, we observed that the Contract Procedure Rules on the intranet at the time of our interim audit were dated September 2003, while several key documents such as Standing Orders and Standing financial Instructions on the intranet do not appear to be dated in terms of when last prepared or updated (**Recommendation 9**).

2.54 We have reviewed the arrangements put in place by the Council to follow up the data matching results from the Audit Commission. The initial analysis of the data matches is undertaken by a designated lead within CAFT, and then handed to nominated service leads to decide what, if any, further investigation should take place before handing back to CAFT.

2.55 Discussions with officers and review of progress meeting notes to date indicate that there is not only a good awareness of NFI, but also a clear process for working through the implications of suspect matches across all relevant areas. As the work progresses, there may be further scope for improving the profile of work in this area through more detailed reporting to Members in the planned quarterly reports from CAFT (**Recommendation 10**).

Legality of Transactions that may have a financial consequence

- 2.56 It is the Council's responsibility to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations.
- 2.57 The Code requires us to consider whether the Council has put in place adequate arrangements to ensure the legality of transactions that might have significant financial consequences. We are not required to form our own opinion on the legality of transactions.
- 2.58 The work we have performed to discharge our responsibilities consisted of an overview of the Council's management arrangements with regard to addressing legal issues, and its procedures for implementing major new legislation.
- 2.59 There is also evidence that the Council has procedures in place for taking forward new legislation. The most recent examples include the Freedom of Information Act, the Civil Contingencies Act and the Proceeds of Crime Act.
- 2.60 The Freedom of Information Act (FOI) introduced new duties on public bodies from February 2005. It is early days yet in terms of implementation but the Council has put in place a Publication Scheme which is available to the public and has designated an officer with responsibilities for co-ordinating FOI requests.
- 2.61 The Civil Contingencies Act, which took effect from April 2005, introduces new duties on local authorities and other public sector bodies to have in place a Business Continuity Plan in the event of civil disasters or emergencies. The Council still has considerable work to do in terms of cascading the concept to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans. The Council needs to undertake further work to cascade business continuity to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans (**Recommendation 11**).
- 2.62 The Council has made progress in implementing the Proceeds of Crime Act which places new responsibilities on authorities for dealing with suspected money laundering. The Council has identified a dedicated Money Laundering Reporting Officer, a role held by the Head of the CAFT.
- 2.63 During the year, CAFT has undertaken some investigations in relation to suspected money laundering activities arising from overpayments of rent and council tax using stolen credit cards. These investigations have so far not uncovered any loss to the Council. There may be scope to strengthen the Council's framework for taking forward anti-money laundering procedures through:
- the introduction of clear strategies, policies and procedures on anti money laundering which may be incorporated into the counter-fraud policy;
 - appropriate training for staff working in areas most at risk of dealing with potential money laundering activities (e.g. those collecting rent, council tax, debtors and housing benefits overpayments), so that they may be more alert to the risk and be better able to identify it and report it when it arises; and

- establishing a clear corporate framework for passing any relevant intelligence or suspected cases of money laundering to the appropriate authorities such as the police and the National Crime Investigation Squad (NCIS) (**Recommendation 12**).

DRAFT

3. Accounts

Introduction

- 3.1 The Council has responsibility for maintaining proper accounting records and preparing financial statements that present fairly its financial position.
- 3.2 Under the Code of Audit Practice, we are required to audit the financial statements and to give an opinion on the accounts including whether they present fairly the financial position and whether they have been prepared in accordance with relevant legislation and applicable accounting standards.
- 3.3 In preparation for our audit of the Council's 2004-05 financial statements, we have:
- reviewed the Council's closedown preparation, in light of the earlier accounts approval and publication deadline for 2004-05, and
 - considered our findings in respect of systems of internal financial control on the reliance we can place on key systems and the impact on our final accounts audit approach.
- 3.4 Our findings in these areas are set out in further detail below.
- 3.5 We have provided officers with our Arrangements Letter in February 2005, which sets out our requirements in respect of final accounts supporting evidence. As with last year, we ask that all items set out in the Arrangements Letter are made available, cross-referenced, with a named contact at least a week before our final accounts audit visit which commences in August 2005.

Closedown

- 3.5 In preparation for the Whole of Government Accounts, the accounts approval and publication deadlines for local government are being brought forward according to the timetable in Table 8.

Table 8: Statutory timetable for accounts approval and publication

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

- 3.6 This is the third year of our appointment as the Council's external auditors. Arrangements to ensure the Council publishes its accounts on time appear to have improved since we first became the Council's external auditors in 2002-03. The Council closed down on time and had its accounts approved and certified according to statutory timescales in 2003-04. For 2004-05, the Council plans to present its accounts to the full Council for approval in July 2005.
- 3.7 The core officer team responsible for closure has been strengthened which should help provide a clearer focus on year-end statutory financial reporting in the context of other priorities and pressures, in particular MCS implementation.

3 Accounts

- 3.8 Working arrangements with the Council's new ALMO created on 1 April 2004 are still developing. We will review the impact of the new working arrangements when we undertake our audit of the financial statements and relevant housing grants later in the year.

Review of high level controls

- 3.9 We have reported the overall outcome of our work in detail under section 2. Details of our key areas of audit focus and weaknesses to be addressed are set out in Appendix C. We plan to tailor our audit approach at final accounts and grants audits, in the context of Internal Audit's findings this year and our knowledge of the Council's systems from our interim audit visit. In particular, we plan to:

- Undertake appropriate substantive audit as part of our accounts and grants audit around all systems found not to be operating satisfactorily either by Internal Audit or ourselves;
- Review year-end control account reconciliations where available and consider the implications of any unresolved discrepancies arising on our audit opinion; and
- Adopt a detailed and substantive approach towards the audit of the Council's significant grants and returns including the housing benefits grants claims, housing subsidy and NNDR.

Appendix A: Recommendations and Action Plan

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

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

Key to priority ratings

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

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
1	2.8	<p>Financial monitoring and reporting</p> <p>There is room to improve current arrangements for financial monitoring and reporting by:</p> <ul style="list-style-type: none"> ensuring clearer integration of the Council's debt management, NNDR and Council Tax collection as well as treasury management (on borrowing and investment) into the current system for financial monitoring and reporting. Improving the quality of commentary by individual service departments on variances on both capital and revenue expenditure by the time they reach the Core Team for consolidation. 	2	<p>Agreed</p> <ul style="list-style-type: none"> Reports on aged debt have been submitted to the Audit & Resource Committee for the past two years. Performance monitoring on the collection of local taxation and general debts has been part of the 1stStat return from 1 April 2005, which will be incorporated into regular reporting to Cabinet. This will be kept under review, with a view to enhancing the information provided where appropriate. Under SAP, budget monitoring reports will be prepared by budget holders and full explanation of variances will be required. This will be reinforced in the special budget management training to be provided by Accountancy, which commences on 5 September 2005. 	Ongoing
2	2.23	<p>ALMO arrangements</p> <p>the Council will recognise that with the appointment of a new Head of Finance for Housing since May 2005 brings fresh opportunities for arrangements to be strengthened ensuring that:</p> <ul style="list-style-type: none"> contracts and SLAs document relationship and working arrangements with the ALMO; 	2	<p>Agreed</p> <ul style="list-style-type: none"> SLAs for services provided to Barnet Homes are under discussion. The Head of Finance (Housing) will be undertaking a complete financial appraisal of the management agreement between the 	October 2005

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> The Council receives regular financial and performance monitoring information regular liaison meetings with the ALMO include standing items on financial performance appropriate reporting on progress and financial performance takes place at Member level. 		<p>council and Barnet Homes, and will make recommendations to the Head of Housing on any changes that are considered appropriate for inclusion in the agreements for 2006/07, or sooner if appropriate.</p> <ul style="list-style-type: none"> Regular financial and performance information is currently received by the Housing client function and is incorporated into regular reports to Cabinet Resources Committee. Following a review of the 2004/05 outturn, additional financial support has been organised to improve the modelling of temporary accommodation income and housing benefit subsidy. Regular liaison meetings are occurring between the Head of Finance (Housing) and Barnet Homes Head of Financial Services. Notes from this meeting go to the monthly BH/LBB Partnership Meetings. HRA revenue and capital monitoring information is incorporated in the regular reporting to Cabinet Resources Committee. 	<p>Ongoing</p> <p>Ongoing</p> <p>September 2005</p>
3	2.31	<p>Implementing the Prudential Code</p> <p>To take full advantage of the Prudential Code, the Council needs to:</p> <ul style="list-style-type: none"> Further develop the capital strategy as part of medium term financial planning, ensuring that the Council has a robust system for devising a capital plan from individual investment proposals based a proper system of option appraisal. Without a proper 	2	<p>Agreed</p> <ul style="list-style-type: none"> The Capital and Asset Group (CAG) has been setup with responsibility for all capital issues including the capital strategy, capital programme, capital resources and options appraisals. A Capital Strategy has been 	Ongoing

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<p>capital strategy, the Council will not be able to set nor to keep to robust prudential indicators.</p> <ul style="list-style-type: none"> Continue to improve planning for risk, recognising that good risk management for affordability is not just about robust financial modelling at the outset but equally robust financial monitoring and project management to ensure complex capital projects are delivered on cost and in time report regularly the actual performance against prudential indicators and integrate monitoring and reporting against Prudential Indicators into the existing financial reporting framework, to include treasury management performance 		<p>produced and capital funding statements are maintained on an ongoing basis.</p> <ul style="list-style-type: none"> Prudential Indicators were reported to CRC in November 2004. This will be developed further for 2005/06. 	November/December 2005
4	2.36	<p>Procedure notes for key financial systems</p> <p>The Council will need to ensure that adequate procedure notes are in place to support users for all key financial systems when MCS is implemented.</p>	1	<p>Agreed.</p> <p>Procedures for using SAP have been developed as part of the implementation of the system. These system procedures will be integrated into the wider financial processes of the Council. The existing Financial Toolkit will be updated.</p>	Ongoing
5	2.42	<p>NNDR – processing valuation updates</p> <p>There is a weekly reconciliation of NNDR income to the ledger but there has been some delay in inputting valuation changes on the system due to implementation of Pericles. The Council will need to ensure that the overall debit raised is reconciled to relevant valuation reports as at 31 March 2005.</p>	2	<p>The reconciliation has been completed.</p>	Actioned
6	2.44	<p>Control account reconciliations</p> <p>There has been a lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase</p>	1	<p>Agreed.</p> <p>As part of the closure process control accounts were reconciled as at 31 March 2005 by the</p>	

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		systems to the financial ledger during the year. The Council will need to ensure that appropriate action is taken to ensure that these systems are fully reconciled to the ledger as at 31 March 2005 before data is rolled forward into new systems.		<p>relevant service accountancy group or service manager. In addition, prior to the migration to SAP, these reconciliations have been done up to 31/7/05.</p> <p>The implementation of SAP will impact on these reconciliations in the future, e.g. debtors, creditors. Where third party systems remain, e.g. housing benefits, procedures for regular reconciliations are being put in place.</p> <p>For the migration of data from LAFIS to SAP, the data will be extracted for each week in specific blocks, e.g. balance sheet, capital etc. Each block will then be mapped to SAP with a control total for each block to ensure that all transactions are successfully migrated. Each load will then be reconciled with full documentation held by the MCS project team.</p>	Ongoing
7	2.45	<p>Impact of internal control weaknesses</p> <p>The Council will need to ensure that significant control weaknesses as identified by Internal Audit are reflected as appropriate in the Council's Statement on Internal Control for 2004-05, and also taken into due account in the design of new systems as part of MCS.</p>	1	Significant weaknesses in internal controls will be reported in the Council's 2004-5 Statement on Internal Control.	August 2005
8	2.47	<p>Internal Audit</p> <p>We have discussed with Internal Audit some scope for internal audit to further strengthen their overall assurance role. Specific suggestions include:</p>	3	Internal audit reviews of key financial systems will include assessment of high level controls identified by the External Auditor. IA will also complete a self-	

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> clearer mapping of the high level controls we consider to be key to the effective functioning of financial systems into internal audit coverage of individual systems. taking a more consistent approach to the issue of sample sizes, especially on systems considered to be high risk. 		<p>assessment of External Auditor's high-level controls checklist for key financial systems before commencement of an external audit.</p> <p>On the financial ledger audit the auditor tested 5 transactions, which confirmed that the control is not applied and we concluded that this was not a satisfactory situation. Having established that the control is not applied, extending the sample size would not have added value. Had we found from a limited sample testing that the control was being applied, then I agree that it would have been prudent to have continued to test on a slightly larger sample than 5 to gain confidence in the conclusion being drawn.</p> <p>In relation to fixed assets, reference was made to capital charges in T1 at section 03.04 which referred to working paper 45. T1 explains that the capital charges are calculated automatically by computer at 3.5% and working paper 45 confirms this for 29 items (highlighted on the working paper).</p>	<p>Immediately</p> <p>None</p>
9	2.53	<p>Anti-fraud framework</p> <p>To ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:</p> <ul style="list-style-type: none"> there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventive work as appropriate. there is a clearer system for officers to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas. the relevant parts of the Constitution are regularly updated and tracked as such. For example, we observed that the Contract 	2	<p>Agreed, but subject to resources being available.</p> <p>Agreed</p> <p>Agreed</p>	Ongoing

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		Procedure Rules on the intranet at the time of our interim audit were dated September 2003, while several key documents such as Standing Orders and Standing Financial Instructions on the intranet do not appear to be dated in terms of when last prepared or updated.			
10	2.55	<p>Reporting progress on National Fraud Initiative</p> <p>As the work on NFI progresses, the Council should consider improving the profile of work in this area through more detailed reporting to Members by encompassing NFI in the planned quarterly reports from CAFT.</p>	3	Agreed. CAFT will include in its planned quarterly reports to Management Board and members NFI progress information.	December 2005
11	2.61	<p>Embedding business continuity planning</p> <p>The Council needs to undertake further work to cascade business continuity to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans.</p>	2	A review of business continuity and emergency planning has been initiated by the Directors Group. This will be led by the Head of Internal Audit, with sponsorship from Robson Rhodes, and a report issued by the end of September.	September 2005
12	2.63	<p>Implementing anti-money laundering initiatives</p> <p>There is scope to strengthen the Council's framework for taking forward anti-money laundering legislation, through:</p> <ul style="list-style-type: none"> • the introduction of clear strategies, policies and procedures on anti money laundering which may be incorporated into the counter-fraud policy; • appropriate training for staff working in areas most at risk of dealing with potential money laundering activities (e.g. those collecting rent, council tax, debtors and housing benefits overpayments), so they may be more alert to the risk and be better able to identify it and report it when it arises, and • a clear corporate framework for passing any relevant intelligence or suspect cases of money laundering to the appropriate authorities such as the police and the National Crime 	2	Agreed. The Head of CAFT is the MLRO and is currently taking exams to become an accredited Financial Investigator which will provide her with increased powers under the Proceeds of Crime Act 2002. In addition discussions have taken place with the Home Office in relation to the role of Local Authorities and Money Laundering from which Barnet will develop a Policy, procedures for reporting and a comprehensive training programme for staff in the highest risk area's.	December 2005

Appendix A – Recommendations and Action Plan

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		Investigation Squad (NCIS).			

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APPENDIX B: Summary of Internal financial Control Weaknesses

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
Financial Ledger	Satisfactory (this conclusion is under review by Internal Audit)	1	<ul style="list-style-type: none"> o Detailed procedure notes need to be in place for all aspects of key financial systems. o Control accounts reconciliations need to be prepared on a timely basis. o Compliance with procedures will also need to be monitored.
Fixed Assets	Limited	2	<ul style="list-style-type: none"> o All assets need to be identified to ensure completeness of the fixed asset register relating to land & buildings in particular for which historical data is incomplete. o There needs to be a continuous process for updating details of capital expenditure relating to schools, infrastructure and vehicle plant & machinery.
Stock	None	9	<ul style="list-style-type: none"> o Detailed guidance needs to be developed in the Council's Financial Regulations and Accounting Manual to clarify the definition, treatment and process for the year-end valuation of stock.
Debtors	Limited	5	<ul style="list-style-type: none"> o Need to ensure proper segregation of duties so staff who raise debtors are not in a position to write-off debts. o More efficient and economic methods for debt collection should be pursued for low value or multi-service

Appendix B

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
			debts.
Council Tax	Satisfactory	0	<ul style="list-style-type: none"> o Priority should be given to developing detailed policy and procedure notes to support the implementation of new system Pericles.
Treasury management	Satisfactory	0	<ul style="list-style-type: none"> o None
Cashiers	None	9	<ul style="list-style-type: none"> o A future strategy as well as detailed procedure notes for the service needs to be prepared. o Fraud prevention measures need to be implemented as soon as possible including key staff undergoing fraud awareness training, implementing recommendations made by crime prevention officers, reviewing insurance levels and robust income monitoring particularly from parking machines. o Comprehensive risk assessment needs to be undertaken for the service.
Payroll	Limited	6	<ul style="list-style-type: none"> o Key controls need to be put in place including regular independent checking of payroll input, use of exception reports and reconciliation of payroll to HR information. o Monitoring procedures need to be improved to ensure fraud prevention and detection steps are regularly performed (e.g. duplicate account checks and overpayment invoicing)
Pensions investments	Satisfactory	0	<ul style="list-style-type: none"> o None
Pensions administration	Limited	3	<ul style="list-style-type: none"> o There need to be comprehensive documented procedures setting out the process to confirm correct payments to

Appendix B

System	Internal Audit Assurance 2004-05	No of Priority 1 recommendations	Key issues noted by Internal Audit
			<p>overseas pensioners and identify any deceased pensioners. The procedure should also address action to be taken in the event of no response by the set deadline.</p> <ul style="list-style-type: none"> o Management in the Payroll Section should ensure that all overseas pensioners are correctly identified for confirming status. o Management in the Payroll Section should ensure that the quality of evidence and information obtained from overseas pensioners reduces the risk of fraud.
NNDR	Audit postponed to July 2005	-	o N/a
Creditors	Follow-up due in 2005-06	-	o N/a
Housing Benefits	Follow-up due in 2005-06	-	o N/a

APPENDIX C: Financial Systems and their impact on the accounts

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

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

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Financial Ledger	✓	<ul style="list-style-type: none"> ○ Detailed procedure notes need to be in place for all aspects of the service. ○ Compliance with procedures will also need to be monitored. 	<ul style="list-style-type: none"> ○ There is overall project control process to ensure that key control accounts are reconciled throughout the year. 	<p>Our audit testing will focus on ensuring that:</p> <ul style="list-style-type: none"> - opening balances have been correctly brought forward in the ledger. - significant year-end journals are appropriately authorised. - suspense accounts are cleared appropriately at year-end. - key control accounts have been fully reconciled at year-end.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Fixed Assets	x	<ul style="list-style-type: none"> o All assets need to be identified to ensure completeness of the fixed asset register relating to land & buildings in particular for which historical data is incomplete. o There needs to be a continuous process for updating details of capital expenditure relating to schools, infrastructure and vehicle plant & machinery. 	<ul style="list-style-type: none"> o None 	<p>Our focus will be to ensure that:</p> <ul style="list-style-type: none"> - The fixed asset register has been reconciled to the ledger at year-end. - Depreciation calculations are reasonable and in accordance with SORP and the council's accounting policies.
Stock	✓	<ul style="list-style-type: none"> o Detailed guidance needs to be developed further in the Council's Financial Regulations and Accounting Manual to clarify the definition, treatment and process for the year-end valuation of stock. 	<ul style="list-style-type: none"> o None 	<p>Our work will include:</p> <ul style="list-style-type: none"> - analytical review of movements in stock compared to last year. - review of year-end valuation of stock to ensure that the basis of valuation is in accordance with SORP and the council's accounting policies. - review of year-end reconciliation of stock records to the ledger as appropriate. - assessing the completeness of stock identification at year-end, and the extent to which disclosure of stock is appropriate.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Debtors	x	<ul style="list-style-type: none"> o Need to ensure proper segregation of duties so staff who raise debtors are not in a position to write-off debts. o More efficient and economic methods for debt collection should be pursued for low value or multi-service debts. 	<ul style="list-style-type: none"> o At the time of our interim audit visit, debtor control accounts were last reconciled in December 2004. o Since July 2004, aged debtor reports have been prepared monthly and are presented to Member Challenge days. 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - review the year-end control accounts reconciliation. - assess whether significant debts raised at year-end, and those over 6 months old are collectable.
Council Tax	✓	<ul style="list-style-type: none"> o Priority should be given to developing detailed policy and procedure notes to support the implementation of new system Pericles. 	<ul style="list-style-type: none"> o None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - review the year-end control accounts reconciliation - consider performance on income collection
Treasury management	✓	<ul style="list-style-type: none"> o None 	<ul style="list-style-type: none"> o None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - consider governance and accounting issues arising from any unusual new loans or investments in the Council's financial statements.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
Cashiers	✓	<ul style="list-style-type: none"> ○ A future strategy as well as detailed procedure notes for the service needs to be prepared. ○ Fraud prevention measures need to be implemented as soon as possible including key staff undergoing fraud awareness training, implementing recommendations made by crime prevention officers, reviewing insurance levels and robust income monitoring particularly from parking machines. ○ Comprehensive risk assessment needs to be undertaken for the service. 	<ul style="list-style-type: none"> ○ None 	<p>As part of our final accounts audit, we will:</p> <ul style="list-style-type: none"> - review year-end cash/ bank reconciliations for all accounts held by Barnet.
Payroll	x	<ul style="list-style-type: none"> ○ Key controls need to be put in place regular independent checking of payroll input, use of exception reports and reconciliation of payroll to HR information. ○ Monitoring procedures need to be improved to ensure fraud prevention and detection steps are regularly performed e.g. duplicate account checks and overpayment invoicing. 	<ul style="list-style-type: none"> ○ None 	<p>In the absence of a high level reconciliation between HR and payroll data, we will:</p> <ul style="list-style-type: none"> - review year-end control accounts reconciliation for salaries and wages - carry out line by line analytical review for all salaries and wages codes and seek further corroboration of any unusual variances
Pensions	✓	<ul style="list-style-type: none"> ○ None 	<ul style="list-style-type: none"> ○ None 	<ul style="list-style-type: none"> - We will undertake an audit of the pension scheme accounts.

Appendix C

System	Adequate for annual accounts audit purposes	Exceptions noted by Internal Audit	Exceptions noted by RSM RR	Key areas of focus at final accounts audit
NNDR	✓	<ul style="list-style-type: none"> ○ Audit due to be undertaken in July 2005 	<ul style="list-style-type: none"> ○ NNDR income is reconciled to the ledger weekly but due to staff being diverted on implementation of new system, there has been a delay in inputting valuation changes into the system. There is a risk that NNDR income due for the year many not be identified and calculated properly. 	<p>In addition to our standard audit tests we will:</p> <ul style="list-style-type: none"> - follow-up progress made in processing all valuation changes for 2004-05 - review the year end reconciliation of NNDR systems.
Creditors	✓	<ul style="list-style-type: none"> ○ Audit due to be followed-up in 2005-06 	<ul style="list-style-type: none"> ○ As various purchase systems are currently not linked into LAFIS, creditors are manually raised by journals onto the ledger at year-end. 	<p>We will focus our audit work on the completeness of creditors.</p>
Housing Benefits	x	<ul style="list-style-type: none"> ○ Audit due to be followed-up in 2005-06 	<ul style="list-style-type: none"> ○ See left 	<p>We will undertake detailed substantive audit testing of the housing benefits grant claim.</p>
Housing Rents	To be assessed upon review of now completed IA work that assessed controls as satisfactory			<ul style="list-style-type: none"> - To be assessed upon completion of review of internal audit work

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
1	2.8	<p>Financial monitoring and reporting</p> <p>There is room to improve current arrangements for financial monitoring and reporting by:</p> <ul style="list-style-type: none"> ensuring clearer integration of the Council's debt management, NNDR and Council Tax collection as well as treasury management (on borrowing and investment) into the current system for financial monitoring and reporting. Improving the quality of commentary by individual service departments on variances on both capital and revenue expenditure by the time they reach the Core Team for consolidation. 	2	<p>Agreed</p> <ul style="list-style-type: none"> Reports on aged debt have been submitted to the Audit & Resource Committee for the past two years. Performance monitoring on the collection of local taxation and general debts has been part of the 1stStat return from 1 April 2005, which will be incorporated into regular reporting to Cabinet. This will be kept under review, with a view to enhancing the information provided where appropriate. Under SAP, budget monitoring reports will be prepared by budget holders and full explanation of variances will be required. This will be reinforced in the special budget management training to be provided by Accountancy, which commences on 5 September 2005. 	Ongoing
2	2.23	<p>ALMO arrangements</p> <p>the Council will recognise that with the appointment of a new Head of Finance for Housing since May 2005 brings fresh opportunities for arrangements to be strengthened ensuring that:</p> <ul style="list-style-type: none"> contracts and SLA's document relationship and working arrangements with the ALMO; 	2	<p>Agreed</p> <ul style="list-style-type: none"> SLA's for services provided to Barnet Homes are under discussion with a target completion of September. The Head of Finance (Housing) will be undertaking a complete financial appraisal of the management agreement between the council and Barnet Homes, and will make recommendations to the Head of Housing on any changes that are considered appropriate for inclusion in the agreements for 2006/07, or sooner if appropriate. 	September 2005

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<ul style="list-style-type: none"> The Council receives regular financial and performance monitoring information regular liaison meetings with the ALMO include standing items on financial performance appropriate reporting on progress and financial performance takes place at Member level. 		<ul style="list-style-type: none"> Regular financial and performance information is currently received by the Housing client function and is incorporated into regular reports to Cabinet Resources Committee. Following a review of the 2004/05 outturn, additional financial support has been organised to improve the modelling of temporary accommodation income and housing benefit subsidy. Regular liaison meetings are occurring between the Head of Finance (Housing) and Barnet Homes Head of Financial Services. Notes from this meeting go to the monthly BH/LBB Partnership Meetings. HRA revenue and capital monitoring information is incorporated in the regular reporting to Cabinet Resources Committee. 	<p>Ongoing</p> <p>Ongoing</p> <p>September 2005</p>
3	2.31	<p>Implementing the Prudential Code</p> <p>To take full advantage of the Prudential Code, the Council needs to:</p> <ul style="list-style-type: none"> Further develop the capital strategy as part of medium term financial planning, ensuring that the Council has a robust system for devising a capital plan from individual investment proposals based a proper system of option appraisal. Without a proper capital strategy, the Council will not be able to set nor to keep to robust prudential indicators. Continue to improve planning for risk, recognising that good risk management for affordability is not just about robust financial modelling at the outset but equally robust financial monitoring and project management to ensure complex capital projects are delivered on cost and in time 	2	<p>Agreed</p> <ul style="list-style-type: none"> The Capital and Asset Group (CAG) has been setup with responsibility for all capital issues including the capital strategy, capital programme, capital resources and options appraisals. A Capital Strategy has been produced and capital funding statements are maintained on an ongoing basis. Prudential Indicators were reported to CRC in November 2004. This will be developed further for 2005/06. 	<p>Ongoing</p> <p>November/ December 2005</p>

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		<ul style="list-style-type: none"> report regularly the actual performance against prudential indicators and integrate monitoring and reporting against Prudential Indicators into the existing financial reporting framework, to include treasury management performance 			
4	2.36	<p>Procedure notes for key financial systems</p> <p>The Council will need to ensure that adequate procedure notes are in place to support users for all key financial systems when MCS is implemented.</p>	1	<p>Agreed.</p> <p>Procedures for using SAP have been developed as part of the implementation of the system. These system procedures will be integrated into the wider financial processes of the Council. The existing Financial Toolkit will be updated.</p>	Ongoing
5	2.42	<p>NNDR – processing valuation updates</p> <p>There is a weekly reconciliation of NNDR income to the ledger but there has been some delay in inputting valuation changes on the system due to implementation of Pericles. The Council will need to ensure that the overall debit raised is reconciled to relevant valuation reports as at 31 March 2005.</p>	2	<p>The reconciliation has been completed.</p>	Actioned
6	2.44	<p>Control account reconciliations</p> <p>There has been a lack of adequate progress in reconciliations between the housing benefits system, debtors and various purchase systems to the financial ledger during the year. The Council will need to ensure that appropriate action is taken to ensure that these systems are fully reconciled to the ledger as at 31 March 2005 before data is rolled forward into new systems.</p>	1	<p>Agreed.</p> <p>As part of the closure process control accounts were reconciled as at 31 March 2005 by the relevant service accountancy group or service manager. In addition, prior to the migration to SAP, these reconciliations have been done up to 31/7/05.</p> <p>The implementation of SAP will impact on these reconciliations in the future, e.g. debtors, creditors. Where third party systems remain, e.g. housing benefits, procedures for regular reconciliations are being put in place.</p> <p>For the migration of data from LAFIS to SAP, the data will be extracted for each week in specific blocks, e.g. balance sheet, capital etc. Each block will then be mapped to SAP with a control total for each block to ensure that all</p>	Ongoing

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				transactions are successfully migrated. Each load with then be reconciled with full documentation held by the MCS project team.	
7	2.45	<p>Impact of internal control weaknesses</p> <p>The Council will need to ensure that significant control weaknesses as identified by Internal Audit are reflected as appropriate in the Council's Statement on Internal Control for 2004-05, and also taken into due account in the design of new systems as part of MCS.</p>	1	Significant weaknesses in internal controls will be reported in the Council's 2004-5 Statement on Internal Control.	August 2005
8	2.47	<p>Internal Audit</p> <p>We have discussed with Internal Audit some scope for internal audit to further strengthen their overall assurance role. Specific suggestions include:</p> <ul style="list-style-type: none"> • clearer mapping of the high level controls we consider to be key to the effective functioning of financial systems into internal audit coverage of individual systems. • taking a more consistent approach to the issue of sample sizes, especially on systems considered to be high risk. 	3	<p>Internal audit reviews of key financial systems will include assessment of high level controls identified by the External Auditor. IA will also complete a self-assessment of External Auditor's high-level controls checklist for key financial systems before commencement of an external audit.</p> <p>On the financial ledger audit the auditor tested 5 transactions, which confirmed that the control is not applied and we concluded that this was not a satisfactory situation. Having established that the control is not applied, extending the sample size would not have added value. Had we found from a limited sample testing that the control was being applied, then I agree that it would have been prudent to have continued to test on a slightly larger sample than 5 to gain confidence in the conclusion being drawn.</p> <p>In relation to fixed assets, reference was made to capital charges in T1 at section 03.04 which referred to working paper 45. T1 explains that the capital charges are calculated automatically by computer at 3.5% and working paper 45 confirms this for 29 items (highlighted on the working paper).</p>	<p>Immediately</p> <p>None</p>

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
9	2.53	<p>Anti-fraud framework</p> <p>To ensure that the overall framework for sound financial conduct and for the prevention and detection of fraud is further strengthened, the Council will need to ensure that:</p> <ul style="list-style-type: none"> • there are appropriate resources available to develop the work of CAFT to encompass more proactive and preventive work as appropriate. • there is a clearer system for officers to declare any interests, gifts and hospitality to ensure adequate arrangements for compliance with the Council's own policies in these areas. • the relevant parts of the Constitution are regularly updated and tracked as such. For example, we observed that the Contract Procedure Rules on the intranet at the time of our interim audit were dated September 2003, while several key documents such as Standing Orders and Standing Financial Instructions on the intranet do not appear to be dated in terms of when last prepared or updated. 	2	<p>Agreed, but subject to resources being available.</p> <p>Agreed</p> <p>Agreed</p>	Ongoing
10	2.55	<p>Reporting progress on National Fraud Initiative</p> <p>As the work on NFI progresses, the Council should consider improving the profile of work in this area through more detailed reporting to Members by encompassing NFI in the planned quarterly reports from CAFT.</p>	3	Agreed. CAFT will include in its planned quarterly reports to Management Board and members NFI progress information.	December 2005
11	2.61	<p>Embedding business continuity planning</p> <p>The Council needs to undertake further work to cascade business continuity to service departments, other establishments and outstations, as well as subsequent rehearsal and maintenance of its plans.</p>	2	A review of business continuity and emergency planning has been initiated by the Directors Group. This will be led by the Head of Internal Audit and a report issued by the end of September.	September 05
12	2.63	<p>Implementing anti-money laundering initiatives</p> <p>There is scope to strengthen the Council's framework for taking forward anti-money laundering legislation, through:</p> <ul style="list-style-type: none"> • the introduction of clear strategies, policies and procedures on anti money laundering which may be incorporated into the 	2	Agreed. The Head of CAFT is the MLRO and is currently taking exams to become an accredited Financial Investigator which will provide her with increased powers under the Proceeds of Crime Act 2002. In addition discussions have taken place with the Home Office in relation to the role of Local Authorities and Money Laundering from which Barnet	December 2005

Ref	Para ref	Recommendation	Priority	Management Response	Timescale
		<p>counter-fraud policy;</p> <ul style="list-style-type: none"> • appropriate training for staff working in areas most at risk of dealing with potential money laundering activities (e.g. those collecting rent, council tax, debtors and housing benefits overpayments), so they may be more alert to the risk and be better able to identify it and report it when it arises, and • a clear corporate framework for passing any relevant intelligence or suspect cases of money laundering to the appropriate authorities such as the police and the National Crime Investigation Squad (NCIS). 		<p>will develop a Policy, procedures for reporting and a comprehensive training programme for staff in the highest risk area's.</p>	

AGENDA ITEM: 12 Page nos. 139-196

Meeting	Audit Committee
Date	31 August 2005
Subject	Audit Update on Modernising Core Systems (MCS) Project
Report of	Chief Internal Auditor
Summary	To provide the Committee with an opinion on the assurance they can have that the MCS project will meet its objectives efficiently, effectively and economically.

Officer Contributors	Michael Bradley, Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A – External Auditor’s Final Management Letter on the MCS project
For decision by	The Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Michael Bradley. 020 8359 7151

1. RECOMMENDATIONS

- 1.1 **The Committee is asked to consider the report of the external auditors on progress on the MCS project.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Committee on 18 July 2005 considered the external auditor's interim management letter on the MCS project and was content with the management response to the issues raised and that the risks were being managed as far as reasonably possible, subject to the internal and external auditors being instructed to pursue the issue of cultural change.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Modernising Core Systems Programme is fundamental to the delivery of the corporate priorities, as laid out in the Corporate Plan. It is particularly significant to the attainment of the priority of delivering 'a better council for a better Barnet' through investment in modern systems. The programme also supports the delivery of the majority of objectives set out in the Resources and Borough Treasurer's Performance Management Plans (PMPs) and, indirectly, all services' PMPs.

4. RISK MANAGEMENT ISSUES

- 4.1 Failure of the MCS project to deliver its objectives efficiently, effectively and economically could seriously impact on the delivery of the corporate priorities as laid out in the Corporate Plan.
- 4.2 The risk monitoring process of MCS is an ongoing permanent process and is a fixed reporting requirement at the Project Board which meets every two weeks. In addition, the full open risk log is reviewed comprehensively at the weekly Operational Board.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 The budget for the MCS project is being reported to the Cabinet ICT Committee.

6. LEGAL ISSUES

- 6.1 None

7. CONSTITUTIONAL POWERS

- 7.1 The Audit Committee's terms of reference include 'ensuring that the council's financial reports, annual financial statements, Statement of Internal Control and the action taken by the council to implement fully a risk management

system are balanced, fair, conform to accountancy standards and meet prevailing best practice.'

8 BACKGROUND INFORMATION

- 8.1 The external auditors, Robson Rhodes, advised the Committee on 18 July 2005 that a further report on their review of the MCS project would be forthcoming.
- 8.2 The high level summary from the external audit report is as follows:

External Audit Management Letter - Summary

Within this report we have commented as far as possible on the arrangements that the Council has put in place to date to ensure a successful implementation of the SAP system from 1st August 2005.

Our work has identified four specific significant risks, which the Council will need to address/mitigate in the post- implementation period. These are interrelated issues which build upon each other and exacerbate the risk facing the Council overall:

- Whether there was sufficient time available to complete all of the **delivery** tasks associated with such a major implementation project. Areas of particular concern include the delivery of interfaces, alignment of the AXIS and MCS projects, UAT and data migration, systems volume and stress testing, change management action plans at a service level, the adoption of appropriate procedures, and the delivery of a major programme of training across the Council. Due to timescales involved we have not been able to review all areas related to the above for example we have yet to see copies of the service change management plans or review the training programme in detail.
- Whether adequate arrangements have been put in place to ensure that appropriate **security and segregation of duties** have been implemented in the SAP system. Areas of particular concern include reviewing the segregation of duties and authorisations implemented to ensure all possible security weaknesses have been addressed, ensuring that there is a formal process in place for linking individual SAP user profiles to key roles and responsibilities, and process mapping SAP user authorisations in the context of individuals segregation of duties;
- Whether there has been sufficient focus in the project and its execution on addressing weaknesses in the **control environment** identified by sources such as internal and external audit and in delivering best practice in financial stewardship recommended under the CIPFA Financial Management model;
- Whether in the context of the above, there has been sufficient time available to complete and more importantly address the outcomes of **assurance reviews** on the systems by the MCS project team, line

management as appropriate and audit reviews. Of particular concern here are any issues arising from systems testing, internal audit reviews of both documentation and historic control weaknesses and how they will be addressed in such a tight timescale. Due to timescales involved we have not been able to review all areas related to the above.

In addition our review has identified two specific issues that the Council will need to address following implementation of SAP on August 1st:

- The need to embed improvements to the financial management and internal control culture across the Council. Whilst some progress on this can be made leading up to go-live via training and by addressing concerns from audit reviews it is a longer-term issue, which requires constant scrutiny and follow up. We would expect to be able to measure progress with regards to the above in the 2004/05 Statement on Internal Control.
- The need to build upon the existing benefits realisation principles which have been set out as part of the project and to underpin them with detailed outcome based targets in areas such as the cost of processing, the quality of management and financial reporting and the degree of assurance that audit is able to give over key systems.

9 LIST OF BACKGROUND PAPERS

9.1 Modernising Core Systems Project Risk Register.

9.2 Anyone wishing to inspect the background papers should telephone 020 8359 7151.

BS: JL
BT: MB

London Borough of Barnet

Modernising Core Systems

Final Pre-implementation Report

July 27th 2005

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1 Executive Summary

Context

- 1.1 As part of our 2005-06 Audit and Inspection Plan, and taking on board the concerns from senior management and the Audit Committee to have an external audit perspective prior to the go-live date of 1 August 2005, we have undertaken a pre-implementation audit review of the London Borough of Barnet's (the Council) Modernising Core Systems (MCS) project.
- 1.2 The MCS project has the following mission statement:
- “To implement an integrated systems platform that delivers major effectiveness and efficiency benefits for LBB, and provides the necessary platform for LBB to become an excellent class authority.”*
- 1.3 We commenced our fieldwork in late April 2005, and this interim report summarises our findings to 27th July 2005 (6 days from go-live).
- 1.4 Our review has focussed on the following areas, (although we have not been able to complete all of the tasks set out in our agreed terms of reference as there are a number of areas where information has not yet been made available):
- **IT Controls Assurance** work focussing on systems testing, data migration, change controls and security arrangements;
 - An overall **Change Management** review in the context of the system implementation; and
 - **External Output** in terms of the impact on MCS of the production of the Council's final accounts, Best Value Performance Indicators, and Grant Claims and Returns.

Overall conclusion

- 1.5 Within this report we have commented as far as possible on the arrangements that the Council has put in place to date to ensure a successful implementation of the SAP system from 1st August 2005.
- 1.6 Our work has identified four specific significant risks, which the Council will need to address/mitigate in the post- implementation period. These are interrelated issues which build upon each other and exacerbate the risk facing the Council overall:
- Whether there was sufficient time available to complete all of the **delivery** tasks associated with such a major implementation project. Areas of particular concern include the delivery of interfaces, alignment of the AXIS and MCS projects, UAT and data migration, systems volume and stress testing, change management action plans at a service level, the adoption of appropriate procedures, and the delivery of a major programme of training across the Council. Due to timescales involved we have not been able to review all areas related to the above for example we

have yet to see copies of the service change management plans or review the training programme in detail.

- Whether adequate arrangements have been put in place to ensure that appropriate **security and segregation of duties** have been implemented in the SAP system. Areas of particular concern include reviewing the segregation of duties and authorisations implemented to ensure all possible security weaknesses have been addressed, ensuring that there is a formal process in place for linking individual SAP user profiles to key roles and responsibilities, and process mapping SAP user authorisations in the context of individuals segregation of duties;
- Whether there has been sufficient focus in the project and its execution on addressing weaknesses in the **control environment** identified by sources such as internal and external audit and in delivering best practice in financial stewardship recommended under the CIPFA Financial Management model;
- Whether in the context of the above, there has been sufficient time available to complete and more importantly address the outcomes of **assurance reviews** on the systems by the MCS project team, line management as appropriate and audit reviews. Of particular concern here are any issues arising from systems testing, internal audit reviews of both documentation and historic control weaknesses and how they will be addressed in such a tight timescale. Due to timescales involved we have not been able to review all areas related to the above.

1.7 In addition our review has identified two specific issues that the Council will need to address following implementation of SAP on August 1st:

- The need to embed improvements to the financial management and internal control culture across the Council. Whilst some progress on this can be made leading up to go-live via training and by addressing concerns from audit reviews it is a longer-term issue, which requires constant scrutiny and follow up. We would expect to be able to measure progress with regards to the above in the 2004/05 Statement on Internal Control.
- The need to build upon the existing benefits realisation principles which have been set out as part of the project and to underpin them with detailed outcome based targets in areas such as the cost of processing, the quality of management and financial reporting and the degree of assurance that audit is able to give over key systems.

1.8 Our detailed findings are set out in the remainder of our report.

Acknowledgements

1.9 We would like to take this opportunity to thank the Director of Resources and his team for their help and support during the course of our review in what we appreciate is a very pressured period for all concerned.

RSM Robson Rhodes LLP

27th July 2005

2 Approach and Context

- 2.1 In accordance with our 2005/06 Audit and Inspection Plan we have undertaken a pre-implementation review of the Council's Modernising Core Systems (MCS) Project. This review has considered the arrangements and process that the Council has put in place leading up to the implementation of the SAP system with a current planned go-live date of 1st August 2005. The Council's Audit Committee and senior management were particularly concerned to have an audit view pre-implementation so that any key issues could be flagged up and addressed as appropriate.
- 2.2 Our review has been focussed in three areas as follows:
- **IT Controls Assurance Work:** This areas of our review has focussed on specific project areas which we feel have inherent data quality and system implementation integrity risks, these include:
 - System Testing;
 - Data Migration;
 - Change Controls; and
 - Security Controls.
 - **Change Management Review:** Within this part of our review we have considered both the mechanisms for improving the culture of internal financial control as well as the "softer" aspects of the system implementation including training and the embedding of cultural change. It is our intention to perform this, in part, through as assessment of the Council's ability to secure effective stewardship in the context of the CIPFA Financial Management Model in the context of the implementation; and
 - **External Output:** This area of our review considers in overview the impact of the above on the ability of the Council to produce complete and accurate data and supporting audit evidence with regards to the following for both 2004/05 and 2005/06 financial years:
 - Final Accounts preparation and associated working papers;
 - The Best Value Performance Indicators; and
 - Grant Claims and Returns.
 - We agreed to place a particular focus in both Human Resources and Community Care due to the data quality and financial management weaknesses previously identified in these areas.

2.3 In order to perform the above, we have mapped out what we believe are the key risks from an audit perspective involved in such a large-scale system implementation. The table overleaf summarises these key risks along with an indication of where in our review we intend to address them.

Table 1: Key External Audit Risks with regards to a SAP Implementation

Classification of Issue	Narrative	Our Approach
Contract Specification	<ul style="list-style-type: none"> ➤ Poor specification in the agreed contract, realisation post implementation that the system purchased was not “fit for purpose” in all respects; ➤ Examples seen elsewhere include, lack of audit trails, inadequate system security arrangements, standard reporting suite not sufficient and incorrect set up for some areas, for example, grant claims and returns; and ➤ Failure to build into the specification, processes specifically designed to address financial management and internal control weaknesses raised by stakeholders such as users, members, senior management and auditors. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management; and ➤ External Output
Blue Print Process	<ul style="list-style-type: none"> ➤ Lack of user engagement through a combination of both ignorance and resistance; ➤ Lack of understanding of what the business requirements are leading to sign off of blue prints which with hindsight were inadequate; ➤ Failure to build in adequate check points during the blue print which lead to changes as appropriate; ➤ Lack of resources to thoroughly test factors such as user assumptions and process testing; and ➤ Rushed/pressured sign off timescales. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management; and ➤ External Output
Interfaces	<ul style="list-style-type: none"> ➤ Failure to identify all interfaces; or ➤ Significant delays where reliant on other parties for creation etc; ➤ Failure to risk assess the technical complexity and desirability of different types of interface; ➤ Failure to recognise that different interfaces come with different historical baggage dependent on the control environment within that legacy system; ➤ Interfaces never actually happen or don't work in practice. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ IT Controls Assurance
Testing	<ul style="list-style-type: none"> ➤ Insufficient testing of system performed prior to go-live; ➤ Lack of appropriate action taken as a result of negative 	<p>To be addressed in the following areas:</p>

Classification of Issue	Narrative	Our Approach
	<p>tests results;</p> <ul style="list-style-type: none"> ➤ Lack of engagement in and ownership of the results of testing and the risks posed/accepted/mitigated etc; and ➤ Inadequate audit trails to evidence the testing performed. 	<ul style="list-style-type: none"> ➤ IT Controls Assurance
Migration	<ul style="list-style-type: none"> ➤ Lack of audit trails to prove the completeness and accuracy of data transfer from legacy systems; and ➤ Debates around what is an acceptable in terms of error rates following data migration no ownership as to what is an acceptable risk 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ IT Controls Assurance
Interaction with 3rd Parties	<ul style="list-style-type: none"> ➤ Schools - negative experiences with regards to SAP pilot; ➤ Unmanaged expectations in terms of the information required/received post the implementations of SAP; ➤ Other Partners, ALMOs etc as above; ➤ Failure to communicate effectively with suppliers and non-public sector partners about implications of systems change. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management; and ➤ External Output
Security	<ul style="list-style-type: none"> ➤ Inadequate arrangements post go-live; ➤ Unauthorised access; ➤ Lack of audit trail; ➤ Inappropriate access levels; and ➤ Insufficient segregation of duties. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ IT Controls Assurance
Skill Set	<ul style="list-style-type: none"> ➤ Over-reliance upon consultants and then a lack of skill transfer to the Authority post implementation; ➤ Failure to embed the necessary skill set within the organisation by appropriate follow up etc; ➤ Key Officers/individuals leaving the project team at critical stages in the implementation. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management
Financial Management	<ul style="list-style-type: none"> ➤ Budget Managers in Service areas without sufficient knowledge & skills to effectively manage budgets using SAP; ➤ Lack of clarity around the division of roles and responsibilities between finance and service areas following SAP implementation; and ➤ SAP standard suite of reports not "fit for purpose" from Budget Managers perspective, information not easily downloaded or manipulated. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management; and ➤ External Output
Training	<ul style="list-style-type: none"> ➤ Trainers themselves either with no training experience 	<p>To be addressed in the</p>

Classification of Issue	Narrative	Our Approach
	<p>or little or no SAP experience;</p> <ul style="list-style-type: none"> ➤ Either too much too soon (so individuals are struggling to keep up) or conversely; ➤ Some groups not trained at all prior to go-live due to timing & resource constraints; ➤ Large gaps between training provision and go-live (in the event of delayed implementation); ➤ Incomplete/inadequate training logs to ascertain who has received what and when etc; ➤ Lack of feedback on the training received so trainers are unable to adapt to the needs of the trainees; and ➤ Authority fails to correctly identify all prospective users. 	<p>following areas:</p> <ul style="list-style-type: none"> ➤ Change Management
<p>Compliance with “new” policies & procedures</p>	<ul style="list-style-type: none"> ➤ Procedures developed by consultants rather than officers and a disconnect in terms of communication of requirements etc; ➤ Work-arounds developed locally in response to the perception that SAP is overly complicated when compared to the “old” system; ➤ Assumptions that new systems come with a standard user friendly manner that by a process similar to osmosis automatically reflects how the Council does business; ➤ Inadequate/incomplete procedures, or out-dated pre-SAP procedures still being used despite system changeover; and ➤ Turn SAP on but business continues to operate the “Council” way regardless. 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management; and ➤ External Output
<p>Contractor Monitoring Arrangements</p>	<ul style="list-style-type: none"> ➤ Inadequate performance measures with a lack of: <ul style="list-style-type: none"> • Defined Deliverables on the part of the Council; • A clear focus on strategic outcomes- eg accounts deadlines met unqualified, a high score on the Use of Resources judgment, a user satisfaction score of above x%, specified cost reductions in the delivery of back office services; • Qualitative based measures with no regard of quantitative measures; and • Inadequate arrangements for the measurement, challenge and review of the 	<p>To be addressed in the following areas:</p> <ul style="list-style-type: none"> ➤ Change Management.

Classification of Issue	Narrative	Our Approach
	above.	
Audit Trails	<ul style="list-style-type: none"> ➤ Can be a particular problem when systems implementations go live part way through a financial year in terms of ensuring a complete audit trail for the whole of the financial year. ➤ Lack of engagement with the external auditor about the adequacy of audit trail for a new system. 	To be addressed in the following areas: <ul style="list-style-type: none"> ➤ External Output
Roles and responsibilities	<ul style="list-style-type: none"> ➤ Lack of clarity both within individual teams following an implementation, the division of roles between finance and service area and also between the Authority and the Contractor involved in the implementation. 	To be addressed in the following areas: <ul style="list-style-type: none"> ➤ Change Management; and ➤ External Output
Time Scales	<ul style="list-style-type: none"> ➤ Issues around forced go-live, where the system is turned on before the organisation is ready. 	To be addressed in the following areas: <ul style="list-style-type: none"> ➤ IT Controls Assurance; ➤ Change Management; and ➤ External Output.
Perceptions	<ul style="list-style-type: none"> ➤ Common misconception that “old” problems such as compliance and weaknesses in terms of the overall control environment are solved by virtue of the fact that the system is new, in reality often if arrangements are weak, initially they become weaker following the implementation of a new system before they improve. 	To be addressed in the following areas: <ul style="list-style-type: none"> ➤ IT Controls Assurance; ➤ Change Management; and ➤ External Output.

2.4 During the course of our review, we have considered the various mitigating actions that the Council has put in place to manage these risks within each of the three sections of this report.

2.5 This report details our findings to date with regards to the above areas. We have not, at this time, completed all areas of our review, partly due to the fact that the Council have not yet made all the required information available to us and partly due to a number of activities having not yet taken place.

2.6 It is therefore our intention to carry out a post implementation review, where we will comprehensively map out what we believe is the Council's position against each of the risks referred to in the above table by which time all the required information should be available to us.

2.7 This report is prepared on an exception basis at a point in time and hence we have only highlighted the issues, which we feel should be brought to the Council's attention at this stage in the implementation process.

2.8 A copy of our detailed terms of reference can be found in the Appendix to this report.

2.9 We commenced our fieldwork in late April 2005, with a view to reporting back to the Council in June 2005. This report summarises the final results of our pre-implementation work as at July 27th 2005, it is not intended to cover every issue, which was come to our attention, but rather provide an overview of

2 Approach and Context

the key issues, which we have identified and meet the terms of reference agreed between the Council and RSM Robson Rhodes LLP.

- 2.10 This report has been completed as part of the 2005/06 Audit in the context of the *Audit Commission's Statement of Responsibilities*, which sets out the roles and responsibilities of auditors and councils with regards to the audit process.
- 2.11 This report is for the Council's use only and should not be relied upon by any third parties.

3 IT Controls Assurance

Background and Introduction

- 3.1 The Council has introduced a number of robust controls to provide project co-ordination, management, communication and control to create a solid foundation for the SAP implementation process.
- 3.2 However, there were a number of major challenges the Council faced before go-live. Our main concerns were:
- The absence of a process to maintain the currency of the overall project plan linking key milestones and deliverables to lower level operational plans. This issue increased the risk that key deliverables did not occur on timely basis, resulting in potential systems and operational failures- a cutover plan was subsequently produced which mitigated some of these issues although we still identified some areas where process was not fully completed.
 - A lack of a formal key milestone alignment of the AXIS and MCS projects. There are major interdependencies between these two projects and alignment of projects key activities is crucial to the success of the MCS project. The Council subsequently put in place a process of reviewing daily specific key indicators around both projects which will determine the go live decision for MCS on August 1st ;
 - A number of major interfaces had not been put in place and interface project milestones had not been incorporated into the project cutover plan at the time of our interim review. Such interfaces are crucial to future systems and business operation. These issues were picked up by the cutover plan subsequently although further work was still ongoing in this area at the time of writing.

Data Migration

- 3.3 In order to review the arrangements in place to effectively manage the data migration from legacy systems to the SAP system, we have performed the following:
- A review of the Data Migration Strategy, project plan and associated documentation;
 - Interviews with the Head of Migration and Interfaces, the consultant Data Migration Manager and Internal Audit in order to gain an understanding of and make an assessment over the effectiveness of their roles;
 - Consideration of the arrangements in place with regards data from the legacy systems both leading up to go-live and also in the longer term; and
 - Consideration of the arrangements in place regarding the on-going support and system development following go-live and data migration from legacy systems to the SAP system.

Data Migration Strategy

3.4 The Data Migration Strategy was formally signed-off by project quality assurance in late July. A formal and timely sign-off process forms an important aspect of project quality assurance in order to confirm that appropriate project controls are in place.

Data Migration Completion

3.5 The Horizon planning process highlighted risks that some key data migration elements may not be complete prior to the August 1st go live deadline, increasing the risks of operational deficiencies post go-live.

3.6 Furthermore, we noted that a number of data migration elements are being manually entered as part of the data cleansing process (for example, Human Resources data). Whilst we acknowledge that the solution chosen to re-key specific data directly into SAP was chosen to facilitate data integrity, the process presents the following risks:

- Incomplete data sets at the planned go-live date;
- Reputation risk of sensitive data being disclosed to unauthorised staff; and
- Incomplete and inaccurate data may be migrated.

Data migration reconciliation testing

3.7 An assessment was made to determine whether adequate reconciliation controls were in place. Our work highlighted the testing process from source application to target application was incomplete. For example, we identified no evidence of data set reconciliation's between LAFIS and SAP. (Note - a previous recommendation was raised to ensure the revised end-to-end processes were robust and Internal Audit was advised to reference and evidence the accuracy tests of data in the SAP system).

3.8 Since the initial draft of this report some testing has been conducted mitigating the risk of migrating inaccurate data but there is more work to be conducted in this areas once the AXIS project interfaces are in place. The project is at risk of migrating inaccurate data into the new SAP system as a result of an absence of robust testing controls.

Data Migration Interfaces and Testing project plan and key milestones

3.9 During our review a fundamental planning change was initiated (8 weeks to go live) to further enhance the project delivery and timescales around critical aspects of the project prior to go-live, with the result that project planning is now focussed on team-based daily Horizon planning. We found that the Horizon plans are task focussed on delivery and signoff with tight deadlines in place from various elements of the project supported by daily action plans. We also found Horizon plans were clear and there were individual timeframes for each project element and work stream

3.10 However, testing highlighted the final deliverables and key milestones could not be referenced to an overall project plan. The overall project plan has not being updated due to time pressures and the lack of integrated and focussed overall planning. (There are a number individual project plans in place e.g. Data Migration, Interfaces and testing).

3 IT Controls Assurance

- 3.11 The project is at risk that key deliverables and key milestones will occur after Go-Live. High-level risks include business, financial, operational and reputation risks associated with projects of this nature not being delivered on time or within budget. Also, regarding proposed key benefits realisation processes, there is a risk that these processes will be missed due to the complexity of the number of independent plans without integrated milestones.

Detailed Integration testing

- 3.12 As a result of decoupling interfaces from the project deliverables prior to go-live; the process of conducting detailed systems integration testing of migrated data was not tested during this review. Estimated review timescales were unavailable as the process of the realignment of interfaces and testing plans was not complete at the time of this review. Examples of testing sign-off were produced but this was not part of a comprehensive package.
- 3.13 The current lack of full alignment and integration increases the risk of system deficiencies post go-live and resulting potential business disruption and additional costs.

Interfaces

- 3.14 In order to review the arrangements that the Council has put in place to effectively manage the systems interfaces of existing systems to the SAP system, we performed the following:
- A review of the interfaces strategy developed in February 2005
 - A review of the interfaces reports to the programme board, the project plan and associated documentation;
 - Attendance at the migration and interfaces team meetings; and
 - Review of the revised interfaces contingency plan compiled as part of the process of decoupling the Interfaces from the main project implementation prior to go live.
- 3.15 Meeting with the Head of Migration and Interfaces to assess the progress with interfaces development.

AXIS Project Alignment and resource

- 3.16 Formal alignment of the AXIS Project with the MCS Project implementation has now occurred and the AXIS project implementation forms a key indicator reviewed daily as part of no go or go live decision making process in place. The implementation of AXIS is critical to the MCS project delivery. Furthermore, whilst interfaces have been decoupled from the projects planning process prior to go-live, the work on the AXIS interfaces and implementation of the system is still underway and no set milestones for delivery are currently in place.
- 3.17 The project team are fully aware of the critical interdependencies between these two projects and the lack of full co-ordination of the two separate project milestones increased the risk that primary information and business process interdependencies between AXIS and SAP might not be in place at go-live, resulting in potential operational disruption, loss in efficiency and effectiveness and significant additional costs. Management do however consider that they have addressed this risk by the daily process of reviewing risk indicators for go-live.

Contingency Planning

- 3.18 The interfaces aspects of the project have been decoupled from the overall project plan. Subsequently, the Interfaces team have produced a contingency plan for each primary interface in advance of the go-live date. However, to date the contingency plans have not been realigned with the overall cut-over plan, increasing the risk that key contingencies will not be fully communicated to the business. Management is of the view that this overall process is not necessary although contingencies do exist for specific systems.
- 3.19 Furthermore, if contingencies need to be initiated following go-live, there is a risk that primary business areas will not be adequately prepared to react in a timely and effective manner. Of most concern however, is the current level of systems interfaces still to be implemented and tested, presenting considerable risks to the short-term systems functionality and business process operations.

Legacy systems decommissioning

- 3.20 We could not establish whether a legacy decommissioning process is fully in place. It was clear once the legacy systems are decommissioned access to legacy systems data in its original format will be possible. However, at this stage of the review this could not be fully assessed until the interfaces contingency plans are re-aligned with the systems test plans and revised milestones are implemented. The Council now has arrangements in place which we will consider in detail post-implementation.
- 3.21 Furthermore, timescales have been revised and were available for review at the time of reporting with respect to legacy data being available or legacy systems being decommissioned due to the re-planning of project deliverables prior to go-live. The Council was at potential risk of decommissioning legacy systems earlier than is required, which may have affected future business operations and efficiency.

System Testing

- 3.22 In order to review the arrangements that the Council has put in place to test the SAP system and related interfaces to ensure the data input is accurate and users able to use the system effectively, we reviewed the following areas:
- A review of the testing strategy and plan, error log and associated documentation;
 - Interviews with the Testing Manager to gain understanding of and make an assessment over the effectiveness of the role;
 - Consideration of the arrangements in place once interfaces were decoupled from the project plan;
 - Discussed future plans for integration testing in light of select key interfaces not being ready prior to Aug 1st go live; and
 - Assessment of the overall systems volume test strategy and plans proposed.

Test Planning

- 3.23 The decision to decouple interfaces has had an impact on both systems testing and integration testing going forward and no clear co-ordinated timescales are in place.

- 3.24 The lack of a clear co-ordinate plan increases the risk that key aspects of systems and integration testing will not occur in a controlled and timely manner. We will review the subsequent progress made by the Council on this area as part of the post-implementation review.

SAP Volume and systems stress testing

- 3.25 The systems testing strategy does not include systems volume and stress testing components. Furthermore, whilst work had been conducted in this area, there is a lack of a formal approach to record the assessment process and results.
- 3.26 The absence of this key requirement increases the risk that the system may not be technically fit for purpose. We understand that this testing took place in late July 2005. We will review arrangements for stress testing post-go live.

SAP Security

- 3.27 In order to review the arrangements that the Council has put in place to test the SAP system security and the user authorisations process, we reviewed the following areas:
- A review of the systems architecture and network topology and associated documentation;
 - Interview with Logica CMG consultants working on the BASIS security aspects of the system;
 - Interviews with the Interim Head of Information Systems, and seconded Council Officers to gain understanding of and make an assessment over the effectiveness of their roles with respect to security planning around the SAP implementation;
 - Consideration of the end-to-end security in place to ensure risks associated with inappropriate access to parts of the system are managed appropriately;
 - A review of the process of ensuring appropriate segregation of duties in accordance with compliance and delegated financial authority;
 - Consideration of the arrangements in place once authorisations were allocated to proposed senior users of the SAP system, inline with the joiners and leavers policies and procedures in place;
 - Assessed future plans for user security authorisations testing audit and review taking place and the risks associated with the appropriate skills transfer not having been complete by Aug 1st go live;

Security Management

- 3.28 There is a limited understanding of the overall security requirements for implementing the SAP R/3 system security. Whilst a number of staff are aware of the building blocks required to ensure an appropriate secure environment, we have been unable at this time to verify the separation of duty controls currently in place.
- 3.29 We identified knowledge gaps regarding the requirements of robust SAP security controls without such controls in place the system and data are at risk of being insecure and at risk of inappropriate access by unknown sources. IT security risks that arise can quickly become business risks, possibly leading to

financial loss. We recognise that progress has been made on verifying authorisations since we originally reviewed this areas.

System Level Separation of Duties

- 3.30 The current process being tested has a weakness in that SAP separation of duties has not been reviewed in detail. The Council is at risk of not being compliant with delegated financial authority requirements.
- 3.31 At this time, we have received no information to enable a review of system level separation of duty controls.

4 Change Management

Background and Introduction

- 4.1 In order to review the arrangements that the Council has put in place to effectively manage the cultural change linked to the implementation of the SAP system we have performed the following:
- Review of the Change Management Strategy, communications plan and associated documentation;
 - Issued a change agents questionnaire designed to assess the change agents skills, awareness of responsibilities under the role, level of support gained from the centre and the overall effectiveness of change management from their perspective;
 - Designed an end users questionnaire to assess the level of awareness of the MCS project and the extent to which users have been engaged in the process to date;
 - Interviewed a number of Service Champions to gain an understanding of and make an assessment over the effectiveness of their role;
 - Considered the arrangements in place with regards to training for the SAP system both leading up to go-live and also in the longer term;
 - Considered the arrangements in place for the on-going support and system development post go-live;
 - Obtained a number of procedure notes and worked in conjunction with Internal Audit to assess the processes in place for reviewing procedure notes;
 - Reviewed the arrangements to be in place with regards to report development and writing; and
 - Evaluated the arrangements in place for the Council to effectively monitor Logica's role in the implementation going forward in terms of benefits realisations.
- 4.2 Detailed recommendations can be found in the Appendix to this report to support the issues raised in this section as appropriate.

Key Findings

Change Management: Time Scales

- 4.3 The successful implementation of a new system is dependant upon the ability of the organisation to embrace the change required. Effective implementation of the Council's Change Management Strategy is central to achieving this required change. The project timescales linked to this are very tight and there is a risk that given such timescales, there is insufficient time available for the thorough implementation of the Strategy across the Council.

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- 4.4 Having discussed the overall timeframe with relevant officers within the MCS team we are satisfied that the team are aware of the risks involved however, the real challenge for the team is to ensure that they are able to bring the rest of the business with them leading up to the implementation and in the vital early stages post the go-live date.
- 4.5 We identified varying degrees of “buy-in” from the Service areas within the Council. Some appear to have struggled with the concepts and implications of the implementation more than others with only relatively recent engagement having been received from Barnet Homes.
- 4.6 Both Human Resources and Borough Treasurers are faced with particularly challenging positions as they have to address increased complexities around not only being effected by the SAP system but also being instrumental in its implementation, deal with issues relating to devolved services and in some cases, interim management arrangements, all of this being further compounded with individuals being uncertain of the shape and composition of the Borough Treasurer's function in the longer term as a result of the full implementation of the MCS project.
- 4.7 The results of the Council's staff survey showed about a 50% awareness rate of the MCS project, which is reasonably low in the context of such a large-scale project however, we appreciate that this survey was carried out some time ago.
- 4.8 We have therefore carried out an additional survey to canvass the views of a number of end-users more recently. The results from this survey were positive showing that of the end-users that responded, 93% were aware of the project. A summary of these results can be found in Appendix C to this report.
- 4.9 The Council has produced a detailed overall framework for change management. Our review of the documentation did not reveal any significant gaps although execution of the detail of their change management plans needs to be properly considered in the context of what is feasible to deliver in the very short term and the extent to which the intended cultural change in financial management practice can be embedded in the short, medium and longer term.
- 4.10 We intend to continue to monitor the extent to which cultural change has been achieved and report back to the Council formally as part of our post-implementation review in due course.

Change Management: Service Change Management Plans

- 4.11 As part of the Change Management Strategy, Service Champions are required to develop a Service Change Management Plan tailored to their particular service as appropriate. We understand that the plans will include risks identified, issues and change logs, benefits analysis and a business impact analysis.
- 4.12 At the time of writing we had yet to receive any service change management plans for review. In the context, we would question the degree of buy-in from the services if these plans were yet to be completed and finalised. The lack of such documentation poses a serious risk to improving the financial management and control environment as service buy-in is essential to a successful implementation.
- 4.13 However, discussions with the relevant officers highlighted that comprehensive plans were not necessarily expected from all Service areas, providing that sufficient information had been received in whatever form considered appropriate. This was justified on the basis that they were to be “live” working documents.

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4.14 Whilst it is good practice that Service representatives own and implement the Service Change Management Plans we recommend that the Central Change Management Team ensure mechanisms are in place for the following going forward:

- Recording the receipt and ascertaining the completeness of documentation received;
- Reviewing and challenging the context of the Service plans (in whatever form);
- Monitoring the progress and effectiveness of the implementation of the plans going forward; and
- Identifying the need for, and then providing support to, the Service Champions as appropriate.

Change Management: Localised Procedures

4.15 One of the more medium term risks that the Council faces is the development of and adherence to localised procedures to cover all the relevant business processes, which sit outside of the SAP system, but will, nevertheless, be affected by the implementation.

4.16 Should these localised arrangements not be appropriately formalised then there is a risk that many of the potential benefits resulting from the SAP system implementation could be diminished.

4.17 We understand that the MCS team are considering a number of ways to effectively assist the Service areas with this business processing re-engineering post go-live. Given specific information with regards to localised procedures is not available at the time of writing, we intend to pick up on progress in this area as part of our post-implementation review

Training: Expertise and Scheduling

4.18 We understand that the Council has recruited “trainers” internally from within the organisation. These individuals are not SAP experts and in some cases are not business process experts in all of the areas for which they will ultimately be responsible for providing training.

4.19 There is a risk that due to the above, the quality of training materials and training delivery will be compromised and that end users may not be provided with adequate training overall. Potentially this could result in the following:

- Breakdowns in Internal Control;
- Poor data quality and integrity;
- System users not taking ownership of the business processes;
- Work-arounds being developed locally; and
- Low staff morale and resistance to the system overall.

4.20 However we are aware of a number of mitigating actions, which the MCS team are taking in response to the above risks. These include:

- A two-week induction programme for the trainers, to be facilitated by Logica CMG. This programme is to include both generic SAP training and “train the trainer” training;
- The Council intends to use Logica CMG's standard training templates;

4 Change Management

- A Logica CMG trainer is to be utilised for one day a month to over-see the development of the training programme overall;
- The Council intends to monitor the development of training materials; and
- The course outlines have been reviewed by the relevant Functional Project Teams.

4.21 The scheduling of the training also provides a challenge to the MCS team due to the following:

- The number of users who will require training;
- The volume of courses which will need to be delivered; and
- The timing of the training programme and the likelihood that individuals will be on leave for periods over the summer in addition to the pressures that the finance team will be under due to the accounts closedown timetable.

4.22 Linked to the ability of the Council to manage the above risks, at the time of writing our initial post implementation report, the team had yet to develop the training matrix and schedule (which would go part way to addressing the above risks) due to weaknesses in the information received from the services in relation to their specific user allocations.

4.23 We also understand that some initial problems were experienced once the training programme had commenced, although these were quickly addressed and changes made to the original programme as required.

4.24 It essential (in the context of the above challenges) that there are effective and efficient feedback mechanisms such that any amendments required to the training programme can be built into future sessions as quickly as possible. We also recommend that the Council retain comprehensive training logs which detail which individuals have received which training sessions, and how this corresponds with their user allocations.

4.25 Although we acknowledge that the MCS team are taking actions to try and manage these risks such as the recruitment of a training support administrator and the use of a scheduling database, we feel that in view of both the volume and the timescales, ensuring effective and complete training provision continues to pose a major risk for the Council at this time.

4.26 We intend to review both the training matrix and assess the way in which the Council responded to the required changes in the training programme as part of our post implementation work in the future. We also intend to consider the views of those trained in order to ascertain the effectiveness of the training which individuals received.

Training: Support Skills

4.27 There are a number of topics for which a demand has been identified under the “Developing Support Skills” training programme, these include:

- Procurement and Contract Management;
- Financial Management; and
- Basic IT Skills.

4.28 We understand that due to the short timescales involved, it is the intention of the MCS team to deliver SAP technical training as the priority with the delivery of support skills training post go-live.

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- 4.29 The procurement and contract management training is arguably appropriately delayed on the basis that the contract management module of the SAP system is not planned to go live until phase two of the implementation. However, at this time, we would recommend that the Council considers the content and nature of this training alongside our previously issued report on the topic such that the weaknesses noted can be appropriately addressed as part of the training.
- 4.30 With regards to the IT training, there is a risk that if individuals are attempting to use the SAP system without a basis understanding of IT then this may have a negative impact on the overall control environment at the Council. We intend to follow up on the way in which the training team intend to mitigate against this risk during the remaining part of our review.
- 4.31 In terms of financial management training, the risk associated with this are that budget holders are given the responsibility for managing budgets without the necessary skills which may result in ineffective budget management and potentially significant uncontrolled overspends in the medium term.
- 4.32 We therefore recommend that “high risk” budget holders are identified as those individuals who are responsible for significant budgets and have limited experience and knowledge with regards to financial management. Measures should be put in place to ensure that these individuals are given additional support by Borough Treasurers as appropriate.
- 4.33 Linked to the above, we also recommend that there is a very clear division of roles and responsibilities between Borough Treasurer’s and service budget holders with regards to budget management and that this is communicated to both parties prior to go-live and monitored post go-live.

Procedures: Review of documentation prior to go-live

- 4.34 The Council’s Internal Audit function has taken on the role of reviewing all proposed procedures relating to the SAP system prior to go-live.
- 4.35 The Internal Audit review is designed as a process rather than a content review which, given their role within the Council and their requirement to maintain independence, we feel is appropriate. However, in this context, the review being carried out does not constitute an effective independent review of the detailed content of the proposed procedures.
- 4.36 Our work in this area has highlighted that the Service teams are, in the main, also not currently performing an independent content review. We believe that such a review is essential in both ensuring the appropriateness of the procedures to be adopted and demonstrating service buy-in to the process overall.
- 4.37 We would therefore suggest that the Council takes measures to ensure that this independent review is performed and evidenced as such prior to the procedures becoming operational.
- 4.38 During the course of our review, we identified that to date, about half of these procedures have been reviewed by the Internal Audit function.
- 4.39 Given the timescales involved, there is a considerable amount of work remaining in this area if all procedures are to be appropriately reviewed prior to go-live. This presents a significant risk to the project overall due to the potential for the following:
- There may not be time for any weaknesses identified by Internal Audit to be appropriately implemented by service areas and the MCS team;
 - Not all weaknesses may be identified prior to go-live; and

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- There are risks around a potential disconnect between the on-going Internal Audit review and the roll out of training (which commenced on the 13th June) on procedures, which may not have been reviewed at this time.

4.40 Due to the above, the original internal audit matrix, which was developed for documenting all Internal Audit reviews, is no longer being utilised. Through discussions with the relevant auditors we identified that Internal Audit believed that many of the risks (and related controls) that would be covered by their matrix would be consistent across a number of procedures and therefore there was limited benefit in documenting these.

4.41 In addition to the consistent risks referred to above, Internal Audit also considered specific risks relating to individual procedures as appropriate. However, these were not formally documented in all cases during the Internal Audit review performed.

4.42 Therefore, although we support Internal Audit's role in carrying out a process review on the procedures prior to go-live, should we not be able to obtain sufficient evidence to support the detail behind the review process then we may not be able to provide assurances over this part of the project.

4.43 At the time of writing) we had yet to review all necessary evidence to support the review of all procedures, we will therefore consider this as part of our post-implementation review in due course.

Benefits Outcomes

4.44 As part of our review we have considered the Benefits Outcomes contained within the Contract between the Council and Logica CMG.

4.45 Although our work in this area is not yet complete, we were concerned to note that the benefits outcomes identified in the contract were few in number and very generic in nature, as follows:

- Eliminate system causes of HR BVPI qualifications;
- Quicker closedown of the accounts (subject to the necessary human resources being assigned);
- BVPI 8 Payment of Invoices within 30 days (subject to staff inputting data correctly);
- Cost centre managers have reports available and perform analysis/planning;
- Reduction of the systems in operation at the Council as listed in the de-commission list of the Legacy Control Table; and
- % of procurement that can be tracked by SAP. This excludes procurement that is initiated by other systems and that performed via procurement cards.

4.46 We are currently awaiting the receipt of additional information with regards to these outcomes. However, our initial view is that the current list of benefits outcomes needs to be supported with a series of specific, measurable outcomes such that outcome based indicators can be embedded that reflect the key financial requirements of the Council. Specifically, we believe that the Council needs to ensure that:

- The outcomes used to monitor the benefits need to be reviewed and qualitative measures developed and key dependencies identified, communicated and agreed between both parties;

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- The omissions with regards to the degree to which Internal Audit recommendations are addressed in the SAP system (where practical need to be addressed and additional indicators built in as appropriate;) and
- Audit arrangements need to be put in place to ensure the quality and accuracy of the reported outcomes prior to any payment being made.

CIPFA Financial Management Model: In the context of the implementation overall

- 4.47 As part of our terms of reference we agreed to undertake a review of the Council's overall arrangements with regards to the implementation in the context of the requirements of the CIPFA Financial Management Model.
- 4.48 Given the direct link between an effective system implementation and effective internal and budgetary control within any given council, the securing stewardship element of the Model is most appropriate to the SAP implementation.
- 4.49 The Council undertook a self-assessment against the Model back in 2004. Our work in this area to date has highlighted that to date no follow up work has been undertaken, partly due to the fact that the Council intends, instead, to complete a self-assessment against the Key Lines of Enquiry (KLOE) in preparation for CPA going forward.
- 4.50 It is our view that the CIPFA Model provides a detailed and comprehensive framework within which to assess the Council's arrangements with regards to financial management in its widest sense, and can easily be tied into the requirements of the KLOEs which whilst needing to be underpinned by good practice in financial management and internal control are too general in description to form a detailed basis for embedding best practice in financial management.
- 4.51 Therefore, we believe that it is imperative that robust self-assessments against the CIPFA model will be integral to the assessment of the effectiveness of the implementation overall.
- 4.52 Given the Council has not performed any follow up work in this area, we intend to consider the Council's Self-assessment under the KLOES in the context of the implementation. We are due to commence our work in this area during August 2005.

5 External Output

Background and Introduction: *Accounts*

- 5.1 In order to review the arrangements that the Council has put in place to ensure that complete and accurate data can be produced in relation to the accounts for both 2004/05 and 2005/06 we have performed the following:
- Liaised with Internal Audit about the scope, extent and timing of their work in relation to the implementation;
 - Held discussions with relevant leads, including the Finance team lead for MCS and staff in Borough Treasurers as appropriate; and
 - Canvassed the views of senior stakeholders in Borough Treasurers in terms of their perception of the level engagement with the project and their top priorities for MCS to address going forward;
 - A consideration of the ability of the legacy systems to produce audit working papers for the 2004/05 final accounts audit and also our requirements for the 2005/05 final accounts audit where we will be looking to audit across two systems within the same financial year.
- 5.2 Detailed recommendations can be found in the Appendix to this report to support the issues raised in this section as appropriate.

Key Interim Findings: *Accounts*

Historic control weaknesses within the Council's legacy systems

- 5.3 As the Council's External Auditors we look to place reliance upon a standard set of key controls as part of our final accounts audit. These key controls are selected because they are fundamental to the effective operation of the Council's systems. In prior years we have noted a number of weaknesses in relation to these key controls, both as designed and as operating in the Council's legacy systems.
- 5.4 Historically, Internal Audit has also highlighted weaknesses across a number of the Council's systems such that very few of the Council's financial systems have been issued with a full assurance from Internal Audit in the past 2 years. The table below summarises Internal Audit's assessment on these systems and of these, which are to be captured going forward in the MCS project.

Table 2: Summary of Key Financial Systems Weaknesses and relationship to the MCS project

System	Internal Audit Assurance 2003-04	Internal Audit Assurance 2004-05	New system part of MCS
Financial Ledger	None	Full (1)	Yes

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System	Internal Audit Assurance 2003-04	Internal Audit Assurance 2004-05	New system part of MCS
Fixed Assets	None	Limited	Yes
Stock	Limited	None	Yes
Debtors	Limited	Limited	Yes
NNDR	Adequate	Audit deferred to June 2005	No (2)
Council Tax	Limited	Limited	No (3)
Cash and Investments	Limited	Satisfactory	Yes
Creditors	Limited	Follow-up audit around fraud-based controls only	Yes
Housing Benefits	Adequate	Limited	No (4)
Payroll	None	Limited	Yes
Pensions	Adequate	Full	No
Notes			
<ol style="list-style-type: none"> 1. There was one priority 1 recommendation for which it was subsequently identified there were compensating controls. 2. New system Pericles from January 2005 3. Planned for Pericles from October 2005 4. Currently being considered for Pericles 			

- 5.5 Accepting that new systems cannot, in themselves, address all control compliance issues, it is imperative that the Council takes the opportunity presented by the MCS project to address any design issues related to the above control weaknesses.
- 5.6 During the course of our review, we identified that there is a process for communicating control weaknesses raised by both ourselves, and Internal Audit to the MCS team. There is also evidence of the profile of these issues being lifted through their inclusion as key deliverables within the MCS weekly activity plan, progress of which is monitored by the MCS project manager.
- 5.7 Although the primary responsibility rests with the Council for ensuring audit recommendations relating to the current systems are addressed, where appropriate, as part of the MCS project, we recognise there is also a role for audit (both internal audit and ourselves) to review and reach a view on the adequacy of steps taken, ideally before the system goes live so that any necessary corrective action can be taken as appropriate.
- 5.8 In light of this, Internal Audit intend to undertake a review with a view to identifying what actions have been taken to address the control weaknesses as described above within the design of the SAP system.

5 External Output

5.9 It is our intention to then review and comment upon this piece of work from an external audit perspective as and when the Internal Audit review is complete.

5.10 We have now received this information and intend to pick this up as part of our post implementation review in due course. There are of course associated risks with this piece of work from the Council's perspective should it not be fully completed by Internal Audit prior to go-live.

Audit Trails for 2004-05 and 2005-06

5.11 We understand that all the Council's legacy systems will remain in place such that we are able to obtain satisfactory audit trails for the 2004-05 audits effectively without the need to interrogate the SAP system.

5.12 For 2005-06, it is the Council's intention to utilise the Audit Trail Module within the SAP system. Given the Council are still in the process of considering how this would work in practice we have yet to carry out our review of 2005-06 audit trails. We therefore propose to follow up on progress made in this area as part of our post implementation review.

Views of Key Finance Stakeholders

5.13 In addition to the above, we also canvassed the views of a sample of key finance stakeholders, specifically in relation to the controls weaknesses and the impact of the new system implementation in addressing these weaknesses going forward.

5.14 We have summarised the comments obtained from our sample in the table below, which provides more information to reinforce the messages outlined in previous sections to this report.

Table 3: Views of Key Finance Stakeholders

Ref	Question	Summary of comments
1	Are you clear about how MCS will address weaknesses in current financial systems such as LAFIS, payroll, creditors, debtors and fixed assets?	<p>MCS should help to manage control weaknesses relating to data duplication/ integrity if interlinking feeder systems are reduced.</p> <p>MCS should help through better accountability provided by "who did what trail and history".</p> <p>MCS should help through integrated systems for financial management, financial accounting and also fixed assets accounting.</p> <p>Aware of broad intentions for these to be addressed but not clear whether specific criteria have been set.</p> <p>MCS should assist by enabling budget managers to be more accountable for their budgets.</p> <p>However new systems do not replace the need for accountability in individual roles. It is particularly important that the right people are assigned appropriate roles within the system.</p>
2	Are you clear as to how MCS will help improve overall financial and budget management in the Council?	<p>For the new system to have impact, people will need accept responsibility for change, and will also need to be properly trained.</p> <p>MCS should help by making budget holders directly responsible for extracting information from the SAP system and having better access to budget details, spending profiles, actual spending and commitments.</p> <p>MCS should facilitate speedier reporting of the Councils financial position</p>

Ref	Question	Summary of comments
		<p>to Heads of Service and Members.</p> <p>However there is a risk that the pressure to reclaim under-spends back to the centre will discourage a responsible attitude.</p>
3	<p>What in your view are the top 5 five issues which MCS must deliver to help you and your team do your job better?</p>	<p>Culture change including:</p> <ul style="list-style-type: none"> ➤ Greater sense of ownership for making MCS work when implemented in the middle and lower levels of the organisation. ➤ Managers taking ownership for getting data right – in particular accurate HR data. <p>Clarifying roles and responsibilities of finance, services and the corporate centre in financial management when new system comes in.</p> <p>There must adequate controls in place – example given related to the central control of procurement.</p> <p>MCS should provide a fully operational system, which delivers what is required by the organisation.</p> <p>Proper training and support on the new system needs to be appropriate to all users, including full documentation of new systems and documented procedures which are user-friendly.</p>

Background and Introduction: *BVPI Data Cleansing Activities*

- 5.15 As part of our review with regards to the Best Value Performance Indicators we considered the following:
- Whether the actions taken to date to ensure the Council's payroll and HR data is complete and accurate are appropriate and whether they are likely to result in increased confidence in the reliability of information held and the associated indicators produced and reported; and
 - The potential impact the introduction of the SAP system on the collation and production of the HR and Payroll indicators from 2005/6 onwards.
- 5.16 In order to perform our review, we have held discussions with the lead officers responsible for implementing action plans created as a consequence of previous audit reports and also with the responsible officers for each of the indicators.
- 5.17 In terms of the future collation of indicators, it should be noted that this report has been produced pre the implementation of the SAP system and therefore, can only consider the potential of the system and the proposals in place for its use in future reporting periods. We cannot therefore, conclude on the nature of the actual indicators which the Council will produce and present for audit in the future.

Key Interim Findings: *BVPI Data Cleansing Activities*

- 5.18 There are currently three projects ongoing in relation to the cleansing of the current data held within HR and Payroll as follows:

- **The HR data cleansing exercise** led by the Resources Performance and Strategy Manager and concerned with cleansing the Council's "base data" in relation to HR and Payroll;
- **Operation Windmill**, the objectives of which includes: 'to conduct a rigorous assessment on the HR/Payroll procedures in the recruitment and payment of LBB staff' and is primarily aimed at reducing the risk of payroll fraud occurring; and
- **The MCS Data Cleanse Strategy** that aims to ensure that there is clean HR and Payroll data available to agreed deadlines for migrating to SAP.

5.19 There are risks associated with concurrent projects operating in the same area at the same time. Such risks include the potential for a disjointed approach, duplication of effort or unclear lines of responsibility. These appear to have been addressed as far as possible through close working between the three project groups, all of which having the benefit of falling under the same Directorate. However, we do recommend that this situation be kept under review with a view to mitigating these risks as far as possible.

HR Data Cleansing Exercise

5.20 The quality of personal data held by the Council has previously been identified as poor, during our review reported in October 2004, weaknesses were identified with regards to the paper filing system, for instance, files could not be located or incomplete data was held. In addition, a number of inconsistencies were identified between information held on the paper file and that held on Delphi, the payroll system currently used by the Council. Our resulting report recommended that:

'...the Council reviews the current controls in place with a view to identifying weaknesses and implementing a suitable control environment going forward. Such a control environment should ensure that data is complete and accurate, this being achieved through the adoption of a series of standard internal controls...'

5.21 In response to the above, two forms were issued to every individual recorded within the Delphi system. A Part 1 form was issued and contained all personal details held on Delphi relating to the employee. Employees were requested to either amend the form as appropriate or return it signed as confirmation that there had been no changes to the details held on Delphi.

5.22 A Part 2 form, a Work Force Monitoring (WFM) form was also issued at the same time. The WFM requested information on an individual's gender, disability status, ethnicity, faith, sexuality and level of educational attainment. Table One below details the response rate to these forms from employees live on the Delphi system as at 11 May 2005:

Table 4 - Percentage of Part 1 and Part 2 Forms Returned by Employment Area to date

Employee Area	Part 1	Part 2
LBB Admin Staff	95.3%	94.2%
LBB Councillors	78.9%	71.1%
Schools	80.7%	84.2%
Woodhouse College	82.4%	12.1%

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Miscellaneous	78.2%	74.9%
Barnet Homes	92.7%	78.8%

- 5.23 There is on-going activity to capture the missing information at this time. Reminders have been issued to all staff whom have not yet returned their forms with a fourteen day deadline for submission. (However, it should be noted that employees are not required by law to submit the information requested on the Part 2 form).
- 5.24 A process is in place for checking that data has been transferred correctly from the returned Part 1 forms to Delphi. A database has been established which contains all employee records. Information from returned forms is entered onto the corresponding database record; the team inputting information from the forms do not update Delphi. This information is then transferred to Delphi. A team member who did not input the information checks the paper form against the database entry. A further ten percent sample check is taken of paper records against Delphi records.
- 5.25 Logs of the checks performed were retained. Although the logs detailed the records checked and the dates on which they were checked, they did not contain information on whether errors were identified as a result of the check.
- 5.26 We recommended that any logs of future checks record any errors identified and the corrective action taken. This will allow officers to ascertain accuracy levels of information being input and whether additional or less checks on the data held are required.
- 5.27 As part of our review, 60 Part 1 forms were randomly selected and the details checked against the corresponding entry on Delphi. The results of our testing showed that in 6 of the 60 forms reviewed, inconsistencies were noted between the information on the forms and that input into the system. That is, a potential 10% error rate overall.
- 5.28 An Ethnicity and Equalities database has been set up to record information contained in the Part 2 forms. Delphi does not have the capability to record information on ethnicity, which is needed for BVPI 11b, % of top 5% of earners from black and minority ethnic communities. It will be possible to record this information on SAP and the information held on the database will be uploaded to SAP. Once SAP is implemented, devolved HR Officers will input this information directly onto the employee's personal record on SAP.
- 5.29 A test was also undertaken on the information recorded in the Ethnicity and Equalities database. Sixty database records were checked against the corresponding form. The results were as follows:
- In fourteen cases, no form was held for the selected employee. It is not obligatory that employees supply this information;
 - In forty cases, information on the form matched that recorded on the database; and
 - In 5 cases, discrepancies were identified, resulting in a potential 9% error rate overall.
- 5.30 Although we would never expect 100% accuracy, we would have some concerns over potential error rates of 9-10% in the Council's base data. That being said, when the result is considered in the context of the extent of the previous weaknesses, we feel that the Council has made considerable progress in this data cleansing exercise over recent months.

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- 5.31 All returned forms are currently held by the team co-ordinating this exercise. On completion, the forms will be distributed to the corresponding service area and placed on the appropriate personal file. It has not yet been determined when this will take place.
- 5.32 We carried out a subsequent review of data cleansing activity on July 28th 2005. The results of this work have been reported separately to the Council.

Operation Windmill

- 5.33 The Council's Corporate Anti-Fraud Team (CAFT) was given responsibility for undertaking a major project with the objective of conducting a rigorous assessment on the HR/Payroll procedures in the recruitment and payment of Barnet staff. Operation Windmill is designed to ensure that the recruitment processes in place safeguard against the risk of fraudulent activity going forward.
- 5.34 An action plan has been developed to run over a 15 week period, the proposed duration of the project; however, the plan is a living document and is, therefore, liable to change. Operation Windmill focuses on ensuring that there is a standardised recruitment procedure in place across the whole Council.
- 5.35 Our initial review of the action plan highlighted no areas of concern or omission, although the document itself is very high level and does not provide detailed information as to exactly how the actions within the plan are to be achieved.
- 5.36 We appreciate that the rationale behind keeping this action plan at such a high level was to enable the CAFT team to commence work as soon as possible, and hence effectively "close the door" to the Council until such time that the previously identified weaknesses were addressed.
- 5.37 However, operating at such a high level and without detailed plans in support of the main action plan does increase the risk that areas are missed or treated incorrectly. The Council has taken measures to mitigate against these risks by only allowing very few individuals within the CAFT team to be involved in the implementation of the action plan.
- 5.38 We intend to continue to monitor and review the progress against Operation Windmill over the duration of the project and are due to work with CAFT in a spot check exercise to ensure that the various procedures that have been put in place have been adhered to. We envisage that this piece of work is likely to occur in September 2005.

The MCS Data Cleanse Strategy

- 5.39 The MCS Data Cleanse Strategy was received as part of the data migration strategy on July 26th. We intend to complete our review during our post-implementation review.

The implementation of SAP and the collation of data for HR and Payroll Indicators going forward

- 5.40 As well as looking at the quality of the data held, our review also considered the likely impact of the introduction of the SAP system on the way in which the HR and Payroll indicators are collated and calculated going forward.
- 5.41 A major issue previously identified with regards to the reporting of the indicators was the uncertainty over the size of the denominator relating to the total number of employees in the Council. These weaknesses were due, in the main to the failure of the Council to maintain a complete and accurate establishment list in the past.

5 External Output

- 5.42 We are aware that as part of the data cleansing strategy work has been ongoing to produce organisation unit structures and position spreadsheets that will be transferred across to SAP. These spreadsheets contain details of all posts within the Council. Processes are in place to ensure that these are updated on a weekly basis with starters, leavers and new positions. This information if kept up to date will become the Council's establishment list and will help to ensure that there is a sound basis for the denominator used to calculate corporate health indicators where the total number of Council employees is required.
- 5.43 SAP will also be capable of holding information on working patterns and the status of employees for example, part-time or full-time, which will help to address another failing of Delphi. However, it is critical that accurate employee information is held and that this is regularly updated to ensure records are correct both pre and post-SAP implementation.
- 5.44 As part of the MCS project, procedures and Business Process Procedures (BPP) have been written to cover HR and Payroll activities. In general terms, all procedures have been produced using a standard template. The template includes a section on Change Management Issues and Risks; however, the template used does not detail how any risks identified will be managed or who will own the risk. We understand that the BPPs for HR and Payroll have been written by an external consultant.
- 5.45 A procedure has been written to cover the steps to be followed for notifying and inputting an employee's sickness absence record. The Sickness Absence (including Industrial Accident) procedure was reviewed and it was noted that there were discrepancies between this procedure and the Attendance Management policy available on the Council's intranet. For instance, there is no reference to the role of the AMMO in the procedure and it is unclear from the procedure whether once SAP is implemented it will remain a requirement that a SW66 is also completed to record sickness on.
- 5.46 There is a section on Reporting Requirements within each procedure. For the Sickness Absence procedure it was noted that there were no reporting requirements. We would have expected this procedure to refer specifically to BVPI 12 requirements.
- 5.47 There has been no independent review of the procedure; from discussions with the author of the procedure, it has been established that it has been written based on guidance already in place.
- 5.48 The above highlights the potential risk of disconnects between the writing of procedures and the Council's actual needs. Action should be taken to ensure that not only these specific issues are addressed but also that all procedures are fit for purpose prior to go-live.
- 5.49 We also recommend that the Council consider undertaking an exercise whereby the procedures being developed are cross checked against reporting requirements in the context of the BVPIs such that any potential omissions in terms of the data recorded can be identified and addressed prior to go-live.

BVPI Further Work to be performed

- 5.50 We are due to review and report more comprehensively on all HR data cleansing activities in due course. However, we would like to point out that it is imperative that the Council is able to track the extent to which records have been cleansed both pre and post migration given not all cleansing activities will be complete before migration into the SAP system during July 2005.
- 5.51 With regards to Community Care, our work on updating on the progress made is currently on-going and we are due to report to the service in August 2005.

Background and Introduction: *Grant Claims and Returns*

- 5.52 As part of our review with regards to grant claims and returns we considered the following:
- The way in which grant claims and returns are to be recorded within the SAP system; and
 - Specifically for the big claims and returns (that is, LA01, HOU01, HOU02 & BEN01) how the various legacy systems are to interface with the SAP system.

Key Interim Findings: *Grant Claims and Returns*

- 5.53 At this time we have performed limited work in this area other than to identify that the Council intends to record grant claims and returns in the SAP system as Internal Orders.
- 5.54 We understand that the MCS team are currently in the process of critically assessing this decision in light of the Council's requirements. It is our intention to review this assessment as part of our post-implementation review as this information has not been made available to us at this time.
- 5.55 Given the diversity of the Council's grant claims and returns in terms of both value and number of actual claims, in addition to the weaknesses which have been identified with regards to the processes in place over the last couple of years, we would recommend that this piece of work is carried out as a matter of priority such that any required system amendments can be identified and actioned as soon as possible.

Appendix A: Terms of Reference

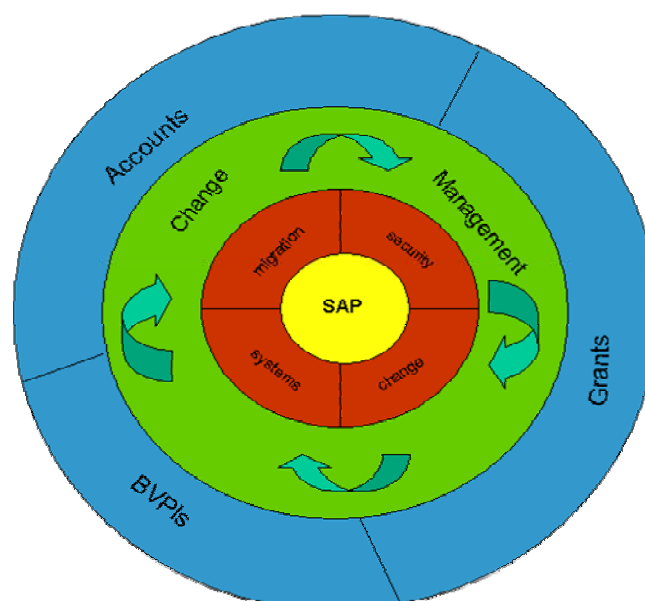
Modernising Core Financials Project

The proposed scope of the Modernising Core Financials project can be summarised as follows:

- **Controls assurance work:** Regarding specific project areas which we feel there are inherent data quality and system implementation integrity risks;
- **Change management review:** Which considers both the wider mechanisms for improving the culture of internal financial control as well as the “softer” aspects of the system implementation including training and the embedding of cultural change. This will be carried out through an assessment of the Council's ability to secure effective stewardship under the CIPFA Financial Management Model in the context of the SAP implementation; and
- **External output:** The impacts of the above on the ability of the Council to produce complete and accurate data and supporting audit evidence with regards to the following for both the 2004/05 and 2005/06 financial years:
 - Final accounts and associated working papers;
 - The Best Value Performance Indicators; and
 - Grant claims and returns.

We will also place a special focus on the relationship between the MCS project and improvement in financial management and data quality in Community Care as well as the impact of the current activity within Human Resources.

Figure 1: The review in summary



Within the above scope we would aim to perform the following:

Control assurance work:

Review Area	Start
<p>Systems testing</p> <p>We will review the controls in place to help ensure that the system will function according to business requirements and will operate in a manner that is consistent with working practices. Our focus on this area will be to review systems functionality, interface controls, volume, negative and performance testing controls.</p>	18 th April
<p>Data migration</p> <p>We will review the controls in place designed to ensure that the data transferred from legacy systems to SAP will be transferred completely and accurately and that only business required data is transferred.</p> <p>We will review the planned business and automated controls designed to ensure the completeness and accuracy of data interfaced from other business systems to SAP / vice-versa.</p>	18 th April
<p>Change Controls</p> <p>We will review the change control management process and sample test change requests to ensure that appropriate controls are being followed.</p>	2 nd May
<p>Security controls</p> <p>We will review the planned SAP security controls designed to ensure only authorised access to SAP and also the appropriateness of system level separation of duties. Some typical areas of review will be:</p> <ul style="list-style-type: none"> • Logical access controls; • User profile management; • Master data maintenance; • Expenditure master data maintenance and input/output controls; • Dictionary access; • Default parameters; • Remote access (SAP R/3 Remote Function (RFC)); • Profile generator and security administration (super-user SAP review and administration group); • Table change control; • Log and trace files; and • SAP router -where applicable. 	2 nd May

Change Management Review:

Our review in the area of change management will focus on the stewardship aspects of the CIPFA Financial Management model and in particular will consider the potential impact of the new system on the overall internal control environment within the organisation through an assessment of:

- Roles and responsibilities and overall ownership of the system;
- Training needs assessments and proposed training programmes;
- Development and dissemination of procedural guidance;
- Reviewing the impact of the project on all key financial systems currently graded by Internal Audit as having none or limited assurance;
- Mapping our high level control matrix for final accounts purposes against the SAP implementation and identifying any shortfalls;
- The planned support mechanisms and processes; and
- Arrangements for on-going system development.

We intend to commence our work in this area during the w/c 18th April 2005.

External output:

In this part of our review we intend to work with officers to ensure that appropriate arrangements are in place to facilitate the audit of the 2004/05 final accounts, Best Value Performance Indicators (with a particular focus on finance driven BVPIs) and grant claims and returns given that the SAP system should go live either during or prior to the audits commencing.

We also intend to advise officers as to the potential risks and associated solutions for the 2005/06 audits given that both systems will have been operational during the 2005/06 financial year.

We intend to commence our work in this area during the w/c 18th April 2005.

Outcomes:

All our findings will be discussed with the relevant officers. Given the timing of our review in relation to the planned go-live date, and the evolving nature of the MCS project, we intend to report back our findings on an on-going basis each week to the Director of Resources in addition to issuing a final report at the end of our review in May 2005.

Resources and Timing

The work will be performed as follows:

Controls assurance: Steve Snaith;

Change management: Emma Turner and John Williams; and

External output: Emma Turner and Irene Loh.

All areas of the review will be supervised by Paul Dossett, with an intended completion date of 27th May 2005.

The review is included in the agreed 2005/06 Audit and Inspection plan.

Appendix B: MCS Interim Report: Action Plan

Note: We intend to follow up on progress made towards addressing the various recommendations raised in this report as part of our post-implementation review.

Ref	Recommendation	Priority:	Management Response	Timescale
IT Controls Assurance: Data Migration				
3.4	The Council should ensure that all key aspects of the MCS project have been formally quality assured. In particular, our interim review identified that with regards to the Data Migration Strategy there was no evidence of this formal quality assurance having occurred.	3	<i>The Data Migration Strategy has been signed off formally. All aspects of the data migration strategy have been feed through to the cut over plan.</i>	<i>Completed and On-going.</i>
3.7	<p>The Cut Over plan should be verified by key personnel to ensure business process owner buy-in to the overall data migration process, addressing the immediate and subsequent business and financial implications for adopting a manual entry based approach.</p> <p>The project board should implement the necessary controls to ensure all data elements manually entered are easily recognisable by key personnel and where necessary sensitive data should be secured by each of the business areas.</p> <p>The project board should allocate responsibility to asses key data</p>	2	<ul style="list-style-type: none"> ▪ <i>Agreed, there will be a schedule of meetings. Cut over manager attending daily horizon update meetings.</i> ▪ <i>Agreed and in place</i> ▪ <i>Named resources are recorded in horizon reports and on the data object list.</i> 	

Ref	Recommendation	Priority:	Management Response	Timescale
	migration risks and associated contingencies, in the event that data objects are not migrated pre go-live.			
3.9	Reconciliation of the financial data migrated from legacy systems should be tested end-to-end by the business and the respective controls should be in place to ensure data migrated is complete, accurate and secure.	2	<i>Agreed and there is a process to do this.</i>	
3.12	The Project Board should formerly validate and sign-off the Cut-Over plan. This plan should integrate the key project elements, which were decoupled from the overall project plan including Interfaces and Integration testing. The Project Board should validate and sign-off the Interfaces and Systems Testing re-alignment plan when completed to maintain the focus on Interfaces and subsequent integration testing.	1	<i>Agreed, Cut-Over plan going to Programme Board for approval on 7th July.</i> <i>Agreed.</i>	
3.14	The Testing Manager and the Interfaces Manager should ensure the systems integration test plans are realigned and the planning outlines any subsequent UAT processes. This revised plan should be validated and signed-off by the Project Board.	2	<i>Agreed.</i>	
IT Controls Assurance: Interfaces				
3.18	Whilst we acknowledge that work with regards to the AXIS project alignment has now progressed, a formal review should be completed as a matter of urgency to ensure that the project milestones of the AIXS project are in line with the MCS project.	1	<i>Agreed this is the major project risk at present, plans are being worked on and will be ready by the beginning of week commencing 27/6/5.</i>	

Ref	Recommendation	Priority:	Management Response	Timescale
	Additionally, an associated contingency plan should be produced, indicating any resource requirements necessary to mitigate associated risks and to provide a clear basis to inform the senior management go-live decision.			
3.20	<p>The Project board should ensure the interface milestones are fully integrated with the Cut-Over plan prior to signoff.</p> <p>Key business personnel should ensure the contingencies planned are suitable for the business in the short term, ensure the cost implications are noted and formerly validate and authorise the associated contingency plan.</p> <p>The overall status of interface implementation and testing should form an integral basis of the senior management go-live decision.</p>	1	<p><i>All tasks outstanding from horizon reports and all interface milestones will be incorporated into the Cut-Over plan prior to its sanction and approval by the Programme Board on 7th July.</i></p> <p><i>Any contingency plans that may become necessary will go through a process of business agreement and formal board sanction prior to their acceptance and application.</i></p>	
3.22	The legacy systems decommissioning process should form an integral part of the Cut-Over plan currently under development, incorporating clear realigned key milestones and systems deliverables. This process should take into consideration disaster recovery planning in line with overall business continuity requirements.	2	<i>Agreed, this is contained in the Cut-Over plan.</i>	
IT Controls Assurance: System Testing				
3.25	The Testing Manager and Interfaces Manager should review test timescales, realign their plans and assess the systems, technical	1	<i>Agreed and in progress.</i>	

Ref	Recommendation	Priority:	Management Response	Timescale
	and resource requirements.			
3.27	The Project Board should ensure the volume and systems stress tests are included in the overall testing strategy and that the testing is carried out in-line with key project milestones within a formal testing recording environment.	2	<i>Agreed and will be planned and included in the Cut-Over plan.</i>	
SAP Security				
3.30	The Council should ensure that an appropriately qualified member of staff is responsible for the overall management of SAP information system security.	1		
3.32	A Review of the segregation of duties and the authorisations implemented is required to ensure all possible security weaknesses have been addressed.	1	<p><i>LBB have recognised this area as an area that will require additional support and knowledge transfer from LCMG. For this reason LBB are looking to reengage the Authorisation Consultant for the month of August to work along side the Authorisations team when their is an expectation that there will be a substantial activity level.</i></p> <p><i>This will;</i></p> <ol style="list-style-type: none"> <i>1. Help bolster the team to cope with the demand from the users around access issues</i> <i>2. Provide guidance and support on real issues to the newly formed Authorisations team.</i> 	<i>On-going</i>

Ref	Recommendation	Priority:	Management Response	Timescale
			3. Allow a greater period of time for knowledge transfer over a wider sample of issues.	
3.32	The Council should implement a formal process of linking individual SAP user profiles to key roles and authorisations.	1	See above response to 3.34	
3.32	The Council should conduct process mapping of SAP user authorisations in context with individual segregation of duties.	1	See above response to 3.34	
3.32	Authorisations testing sign off and role requirements around authorisations should be conducted.	3	See above response to 3.34	
3.32	The current LBB joiner leaver processes are weak and not up to date - the SAP systems implementation leaver joiner process if reviewed and updated should be used to fill gap where the existing processes are weak. Before August 1 st there should be full list of up to date SAP users and employees using the system in place for audit review to ensure the process is robust.	1	See above response to 3.34 The starters / leavers process linked to SAP is currently in development and is expected to be completed by 1 st August. It is being built based on the generic standard Barnet model attached.	
3.32	The Council should review the level of consultant involvement in implementation to ensure LBB skills transfer where required, and to avoid conflicts of interest with Logica consultants signing off processes.	1	<i>The security consultant from LCMG will be on site for 1 week after go live to assist and transfer knowledge to relevant LBB officers.</i> <i>The consultant will then return for 3 days per week for the next two weeks to help with any issues that the team cannot resolve.</i>	Immediate

Ref	Recommendation	Priority:	Management Response	Timescale
Change Management: Service Change Management Plans				
4.14	<p>The Council should ensure that there are processes in place to ensure the following:</p> <ul style="list-style-type: none"> • Formal receipt of all documentation received from service areas with regards to their service change management plans; • Documented review arrangements with regards to the above; • Linked to the above point, formal monitoring arrangements to facilitate progress against implementation of the plans; and • Adequate support offered by the Centre as appropriate. 	1	<ul style="list-style-type: none"> ▪ <i>Agreed an on-going log is kept and recorded on the version control document.</i> ▪ <i>Programme Board now receives fortnightly update on change management progress and discussions are held with service management.</i> ▪ <i>Agreed, however difficult to agree documented processes.</i> 	
Change Management: Localised Procedures				
4.17	<p>The Council should development and communicate a comprehensive framework to address the required business process re-engineering in relation to localised procedures within each service area in support of the SAP implementation.</p>	1	<p><i>We agree but feel this is not feasible to do pre-Go Live. This will be a service led approach and internal change capacity has been developed to progress.</i></p>	
Change Management: Training Expertise and Scheduling				
4.19	<p>The current arrangements with regards to the use of in-house trainers should be reviewed in light of the associated risks in this area to ensure that they can and will deliver the comprehensive and detailed training that users need.</p>	1	<p><i>Agreed, thus the reason why SAP trained resources have been brought in to augment and assist with the team's training delivery.</i></p>	

Ref	Recommendation	Priority:	Management Response	Timescale
4.22	A comprehensive training matrix and supporting schedules should be developed to ensure that the appropriate scheduling arrangements are in place and the related risks are mitigated.	1	<i>Agreed, such schedules are under development. There has been a robust business review in place by the change team in support of the training team. The training schedules are being refined post the business reviews conclusion by the change team.</i>	
4.23	It is essential the effective and timely feedback mechanisms are in place to facilitate any required amendments to either the content to or scheduling arrangements around the proposed training programme.	2	<i>Feedback mechanism in place on attendance and quality and service expertise has been identified to attend training sessions to ensure business quality.</i>	
4.23	Comprehensive training logs should be collated and retained for each and every training session that is held both leading up to the implementation and also post 1 st August. These logs need to be cross-checked back to individuals' user allocations as appropriate.	2	<i>Agreed</i>	
Change Management: Support Skills Training				
4.27	The Council should ensure that our findings with regards to Contract Management are taken into account in the design and roll-out of procurement and contract management training as part of phase two of the implementation.	2	<i>Agreed, this will be passed to Strategic Procurement Team and monitoring will be captured in SAP tendering module (implementation due in phase 2).</i>	
4.29	The Council should consider the risks associated with providing financial management training post go-live and take appropriate action to mitigate these.	3	<i>Training schedule includes training for Senior Accountants to be able to deliver budget management training.</i>	

Ref	Recommendation	Priority:	Management Response	Timescale
4.31	The division of roles and responsibilities between budget holders within the services and Borough Treasurers needs to be clearly communicated and documented prior to go-live in the context of increased contact for the budget holders in relation to the SAP system going forward.	1	<i>The Borough Treasurer has issued proposals for restructuring accountancy, which reinforce the change in responsibility between accountancy and budget holders. SAP training on budget management for budget holders will obviously address this matter so there should be no scope for any lack of uncertainty. Over the split of responsibility, although clearly there will need to be ongoing accountancy support to budget holders for the first few months.</i>	
Change Management: Procedures				
4.34	There is a need to ensure that the services own and take responsibility for the sign off and adoption of procedures prior to go-live. It is therefore necessary for each service area to perform an independent review of the procedures with a view to confirming that they are fit for purpose, evidence of this independent review should be retained.	1	<i>Agreed. People from within the business will be carrying out User Acceptance Testing and Authorisation Testing.</i>	
Change Management: Benefits Outcomes				
4.43	The suite of benefits outcomes within the contract need to be supported with the following: <ul style="list-style-type: none"> The outcomes used to monitor the benefits need to be reviewed 	1	<ul style="list-style-type: none"> <i>Agreed, a business benefits paper has been developed which identifies all the business</i> 	

Ref	Recommendation	Priority:	Management Response	Timescale
	<p>and qualitative measures developed and key dependencies identified, communicated and agreed between both parties;</p> <ul style="list-style-type: none"> • The omissions with regards to the degree to which Internal Audit recommendations are addressed in the SAP system (where practical) need to be considered in the context of benefits realisation; and • Audit arrangements need to be put in place to ensure the quality and accuracy of the reporting outcomes prior to any payments being made. 		<p><i>benefits as per LBB/LCMG contract. These will be reviewed and measured to ensure delivery.</i></p> <ul style="list-style-type: none"> ▪ <i>All the Internal Audit recommendations identifying what SAP should address through its implementation have been incorporated into the daily Horizon planning to ensures the final SAP solution facilitates requirements. Note such IA recommendations are not considered as part of business benefits outcome, but as base line business requirements.</i> ▪ <i>IA will include, in the scope of their work, a review of the management procedures to ensure payment certification procedures in this area are adequate</i> 	
Change Management: CIPFA Financial Management Model				
4.48	There is a need to ensure that any self-assessments performed against the CIPFA Financial Management Model are done so in the context of the SAP implementation.	2	<i>The corporate financial management best value review made use of the draft FM model, and was conducted at a time when the council had already made the commitment to the MCS project.</i>	

Ref	Recommendation	Priority:	Management Response	Timescale
External Output: Accounts				
5.11	The Council needs to ensure that all relevant internal/external audit recommendations have been reviewed in the context of the SAP system specifications to ensure that (where possible) the system set-up sufficiently addresses the historical weaknesses.	1	<i>See 4.43 bullet 2. Process to monitor this will be integrated as part of implementation.</i>	
External Output: BVPIs and HR & Payroll Data Cleanse				
5.18	The situation in terms of the three strands of data cleansing activity within HR & Payroll need to be kept under review with a view to ensuring a complete and comprehensive approach to the issues identified and also ensure that any duplications of effort can be avoided.	2	<i>Co-ordination meetings have now been scheduled and will be led by LBB Project Manager.</i>	
5.24	For any future data cleansing activities the Council should ensure that a comprehensive log of all checks performed is retained as audit evidence.	3	<i>Agreed and is now being actioned. A requirement to log checks will be built into the IS programme office project management methodology.</i>	
5.41	It is essential that the Council's newly developed Establishment list is kept up to date going forward and that independent checks are performed on both the completeness and accuracy of the document.	1	<i>Agreed – sign off by Heads of Service, draft proposals in discussion for on-going enhancement of the establishment list.</i>	
5.48	The Council should undertake a review of their system requirements in light of the definitions for the BVPIs as a cross-check to ensure that all appropriate information is capable of being recorded post the SAP system go-live.	2	<i>Agreed this is happening as part of preparation for Go Live as it is a system requirement.</i>	

Ref	Recommendation	Priority:	Management Response	Timescale
5.50	It is essential that the Council is able to track all data cleansing activity which occurs prior to migration into the SAP system post migration and that audit evidence to support this is retained.	1	<i>Agreed –and monitored as part of daily horizon reporting.</i>	
External Output: Grant Claims and Returns				
5.54	The Council need to ensure that the critical analysis of the appropriateness of treating grant claims and returns as internal orders is carried out and any findings acted upon as appropriate prior to go-live.	2	<i>Agreed. The SAP functionality supports the management of incoming grants and the movement of funds associated with incoming grants. SAP functionality does not support outgoing grants and claims management.</i>	

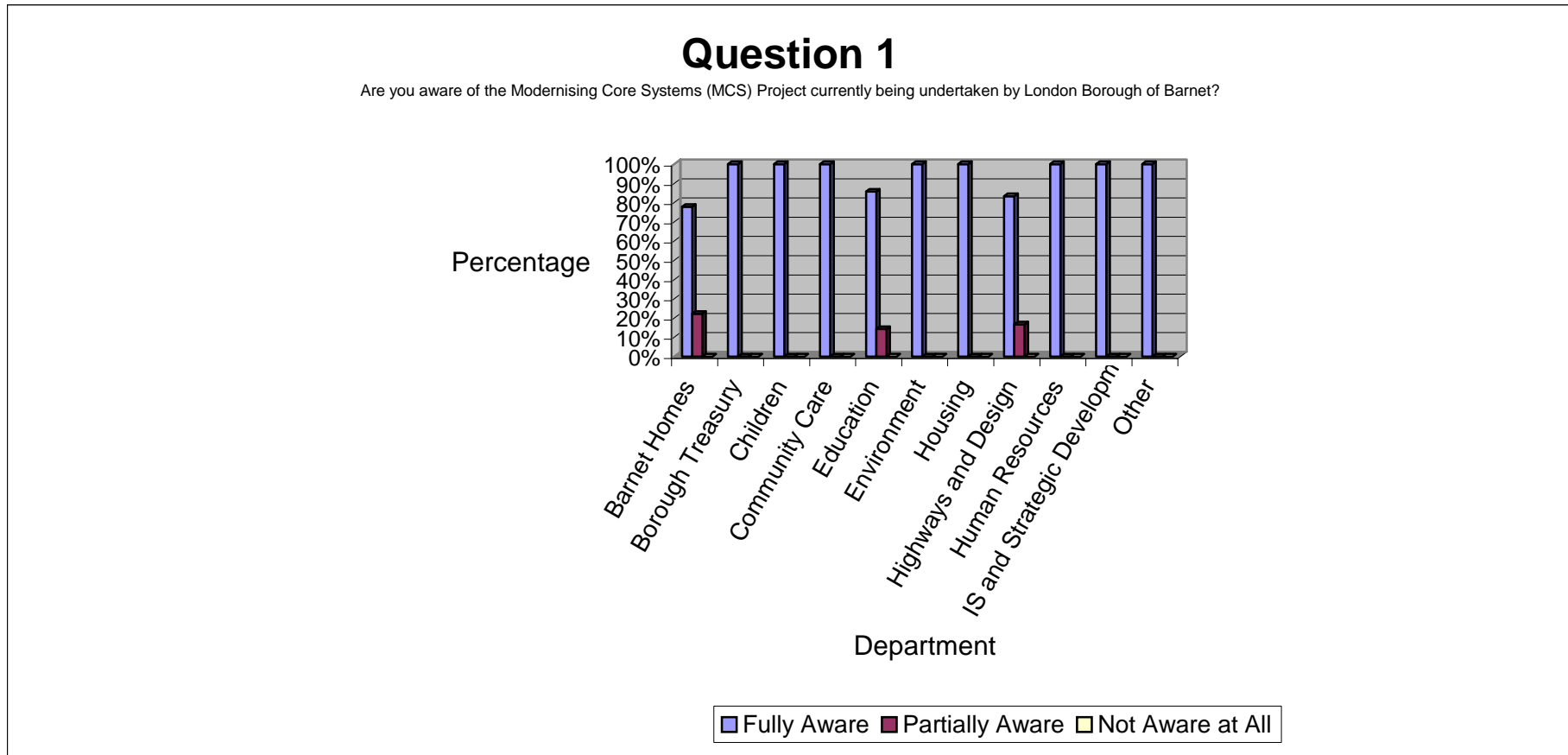
Recommendations Weighting:

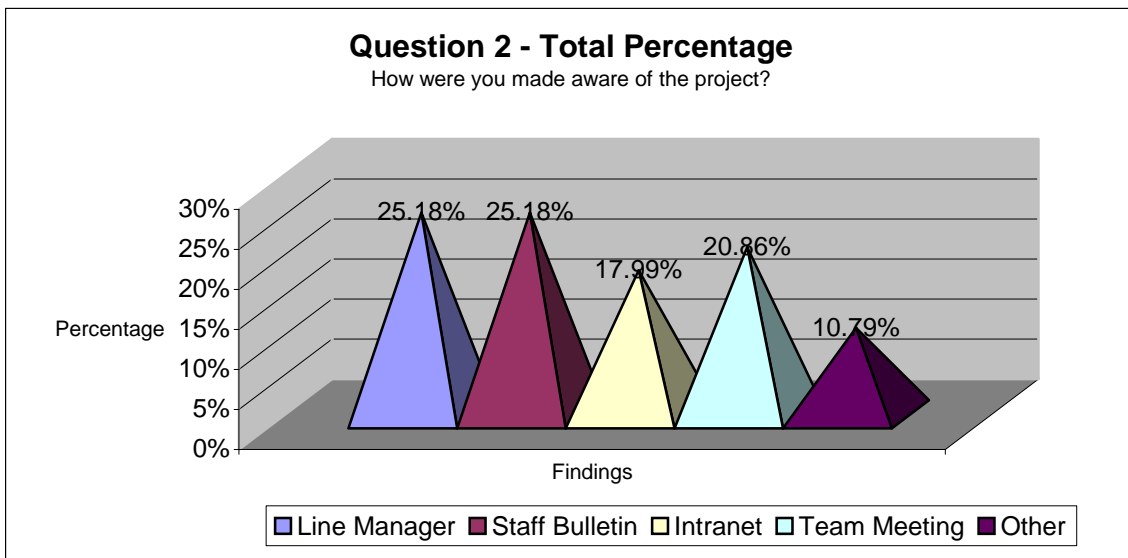
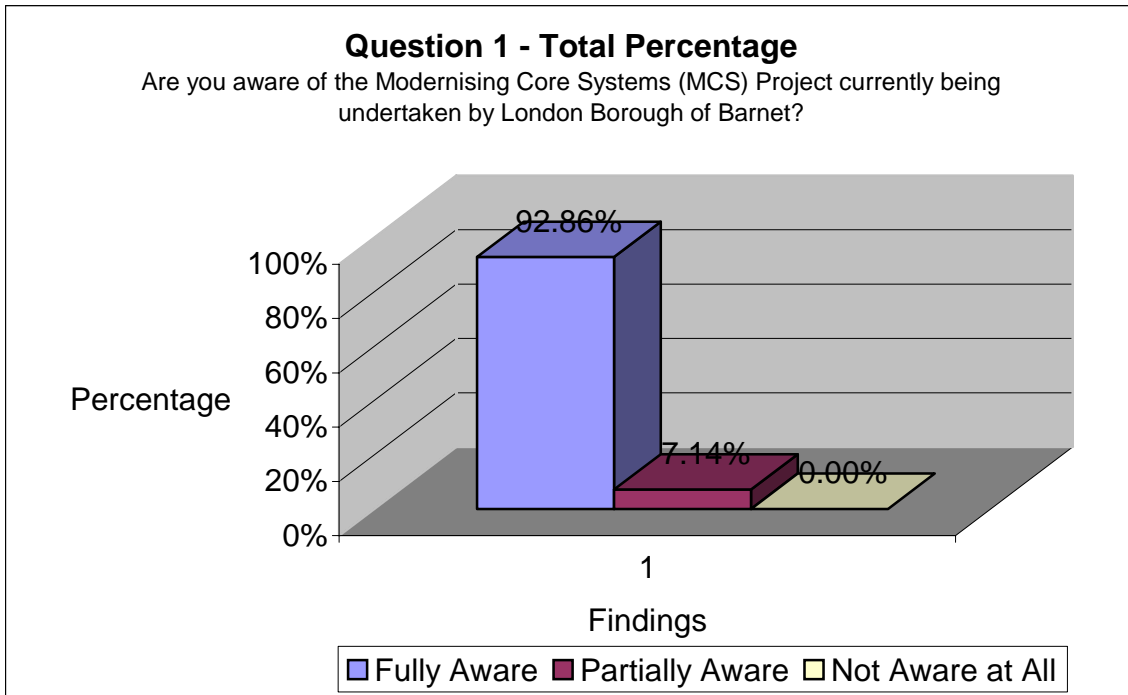
Priority 1 = Fundamental

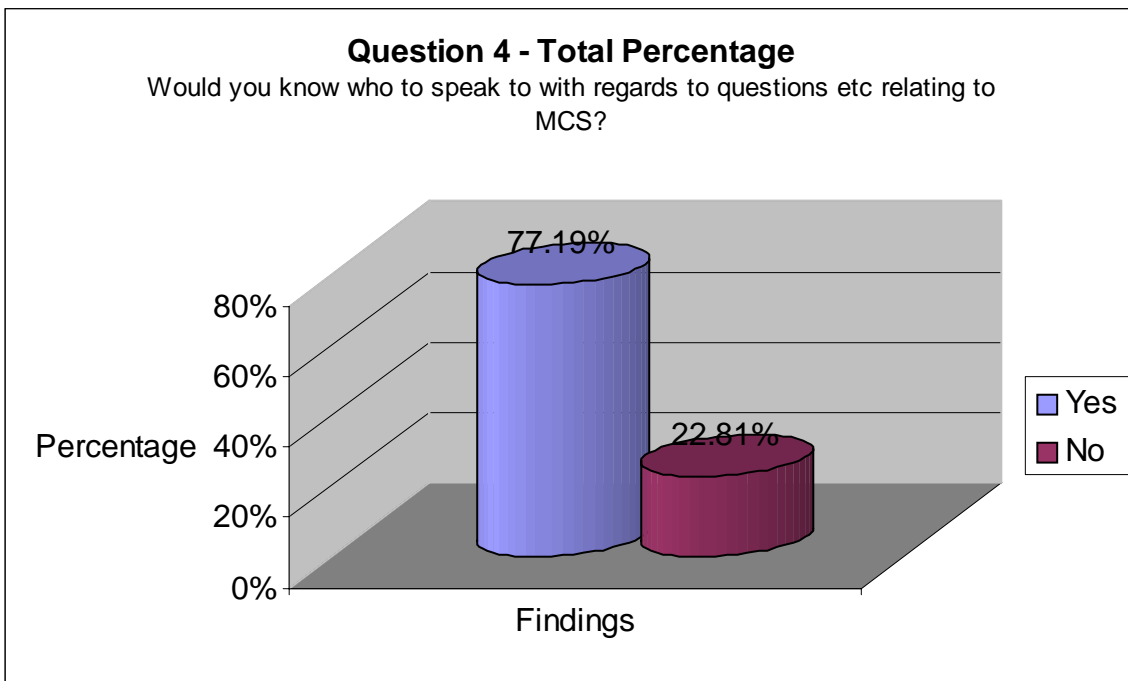
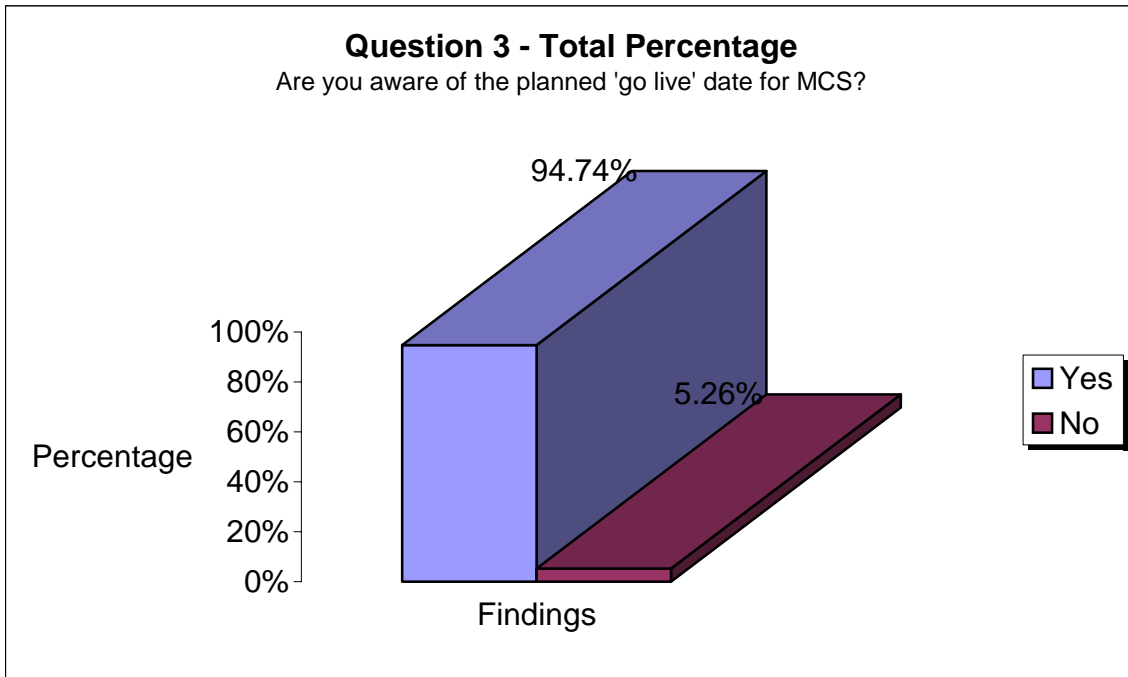
Priority 2 = Significant

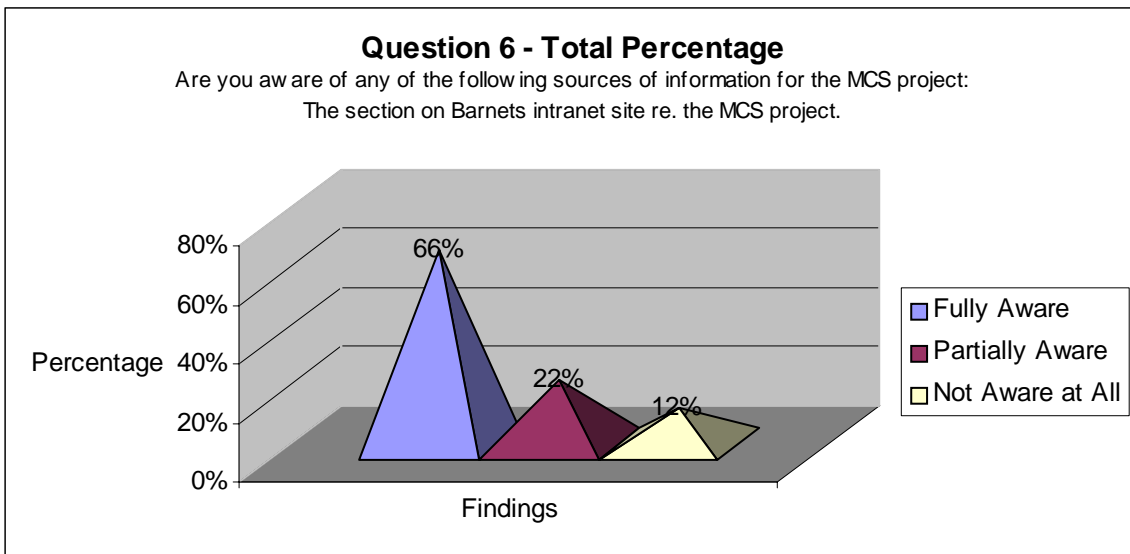
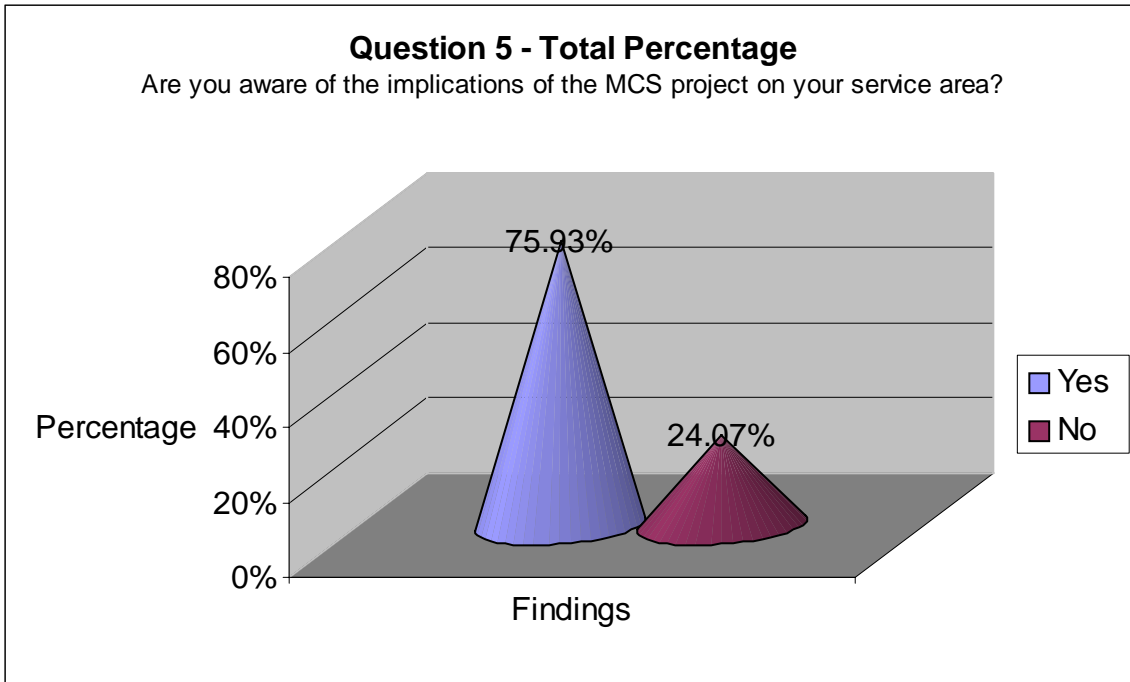
Priority 3 = Best Practice

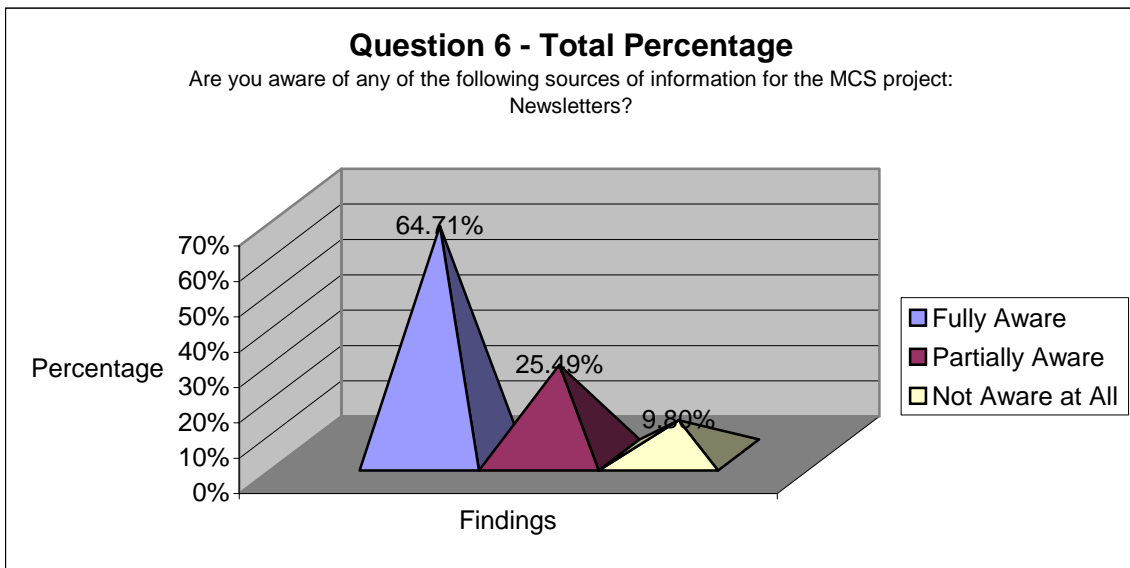
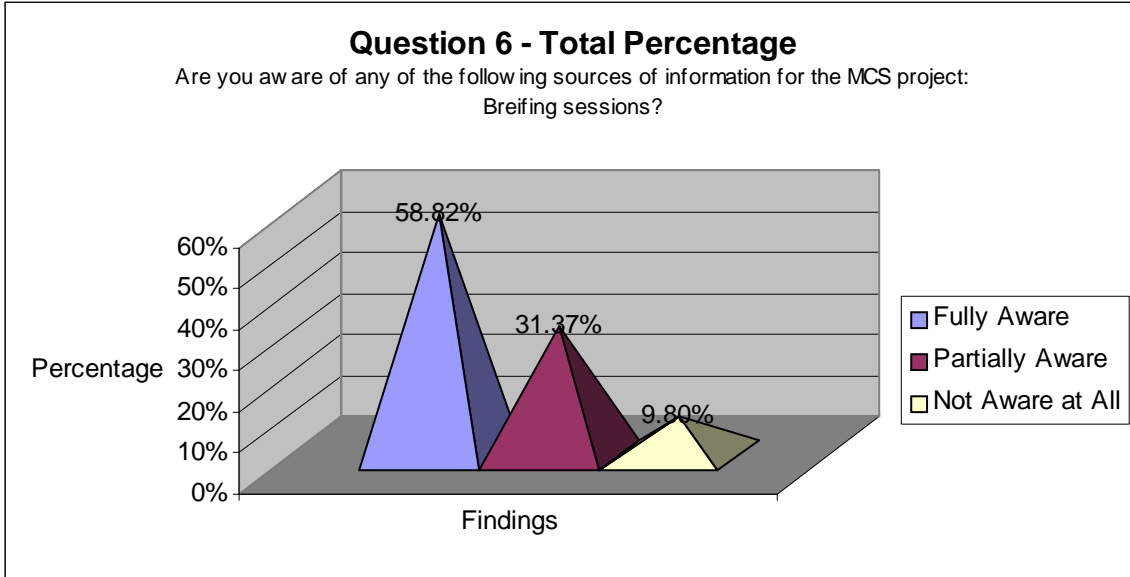
Appendix C: Summary of results from MCS end user survey

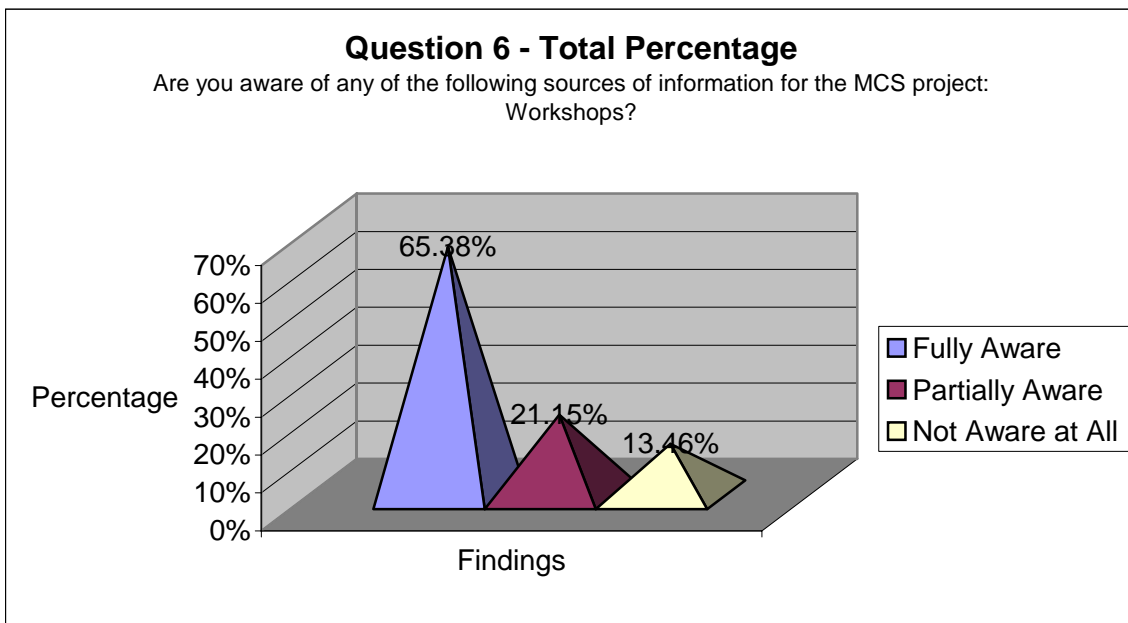
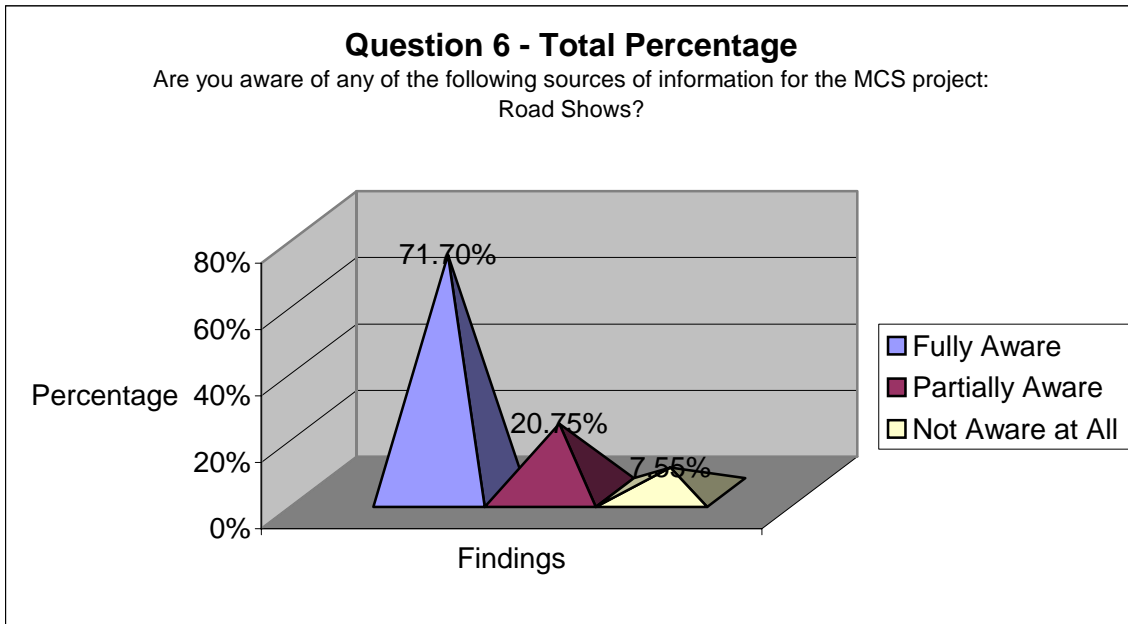


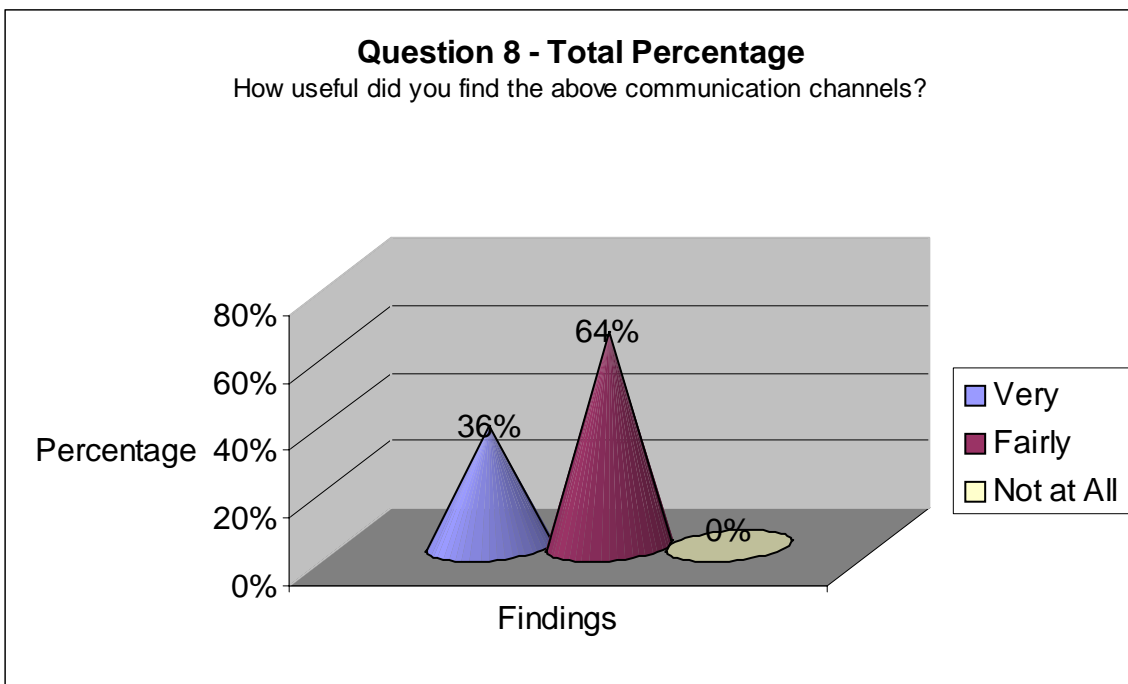
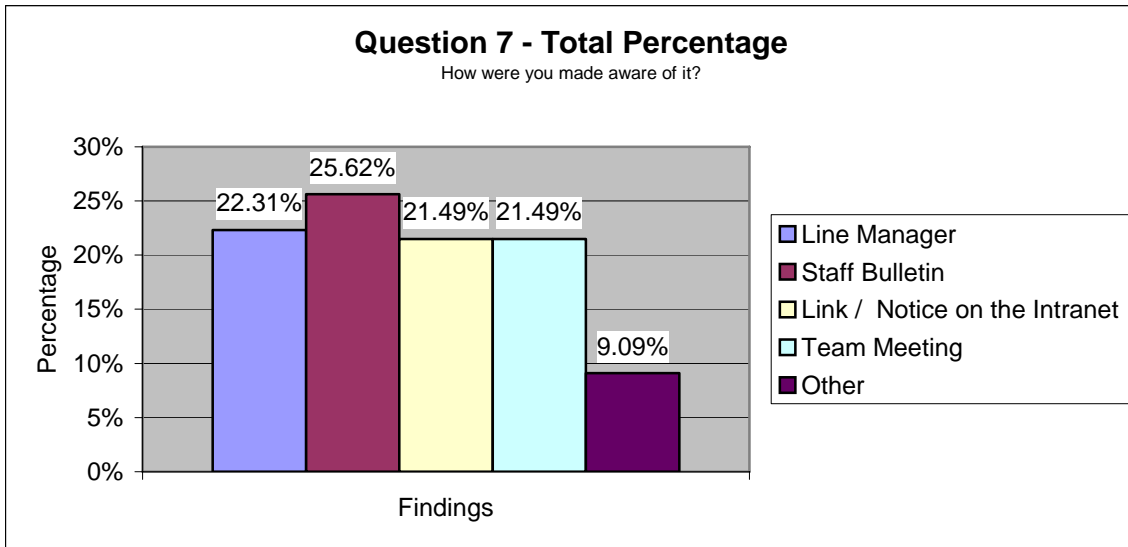


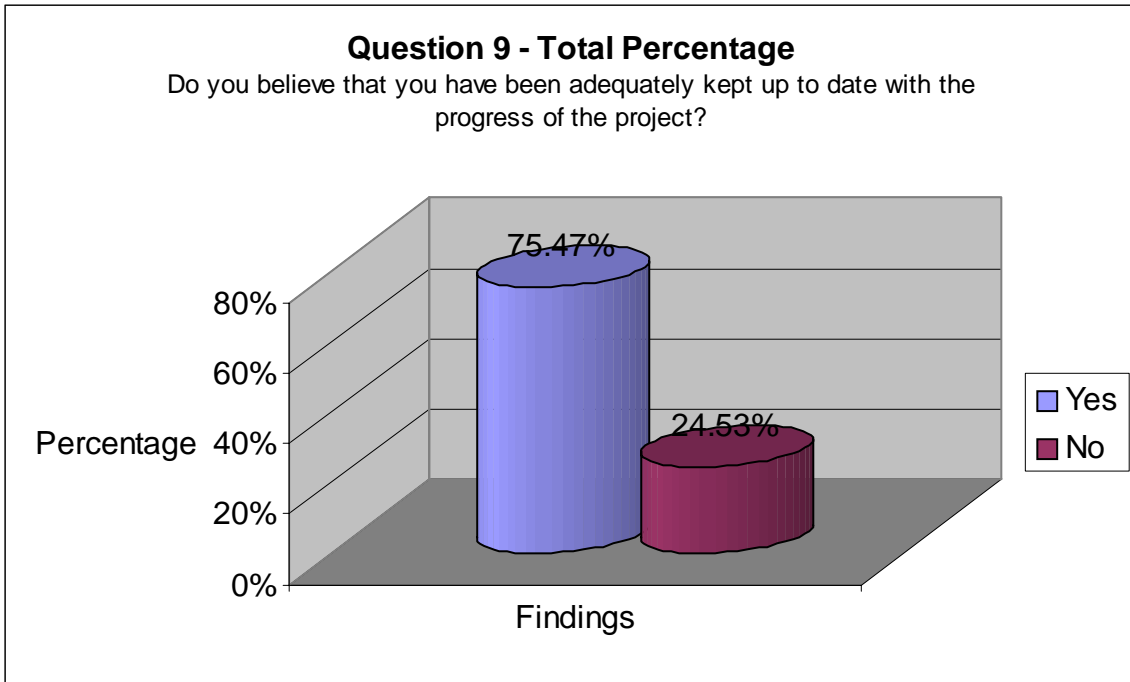












AGENDA ITEM: 13 Page nos. 197-296

Meeting	Audit Committee
Date	31 August 2005
Subject	Internal Audit Annual Report 2004-5
Report of	Chief Internal Auditor
Summary	The Committee is asked to note the 2004-5 Internal Audit Annual Report and appendices.

Officer Contributors	Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A: 2004-5 Annual Internal Audit Report Appendix B: Summary of work completed - generic weaknesses and analysis 2004-5 Appendix C: Internal Audit Performance Indicators to end of 2004-5 Appendix D: 2004-5 Audit Plan Update
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Michael Bradley, Chief Internal Auditor 020 8359 7151

1 RECOMMENDATIONS

- 1.1 That the Committee note the contents of the report

2 RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 9 June 2005 included in the work programme for 2005-6 a report on the Internal Audit Annual Report 2004-5.

3 CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council is committed to Best Value and to show that services represent value for money and that there is a continuous drive to improve quality, efficiency and effectiveness of the service (Corporate Plan).

4 RISK MANAGEMENT ISSUES

- 4.1 The purpose of the Internal Audit Annual Report 2004-5 is to highlight to the Chief Executive, Audit Committee, lead member, Corporate Management Team and External Audit, the findings of Internal Audit work conducted in 2004-5 (for work that has not previously been reported in the 2004-5 Interim Annual Report).
- 4.2 The report identifies those areas which are of significant risk in the work undertaken by Internal Audit during this period.

5 FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 None

6 LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including "Satisfying the Council that the internal auditor carries out sufficient systematic reviews of the internal control arrangements, both operational (relating to effectiveness, efficiency and economy) and financial".

8. BACKGROUND INFORMATION

Introduction

- 8.1 The report provides summary details of all Internal Audit reports which have been agreed and finalised with clients as at 30 June 2005. The report identifies those areas which are of significant risk

Executive Summary

8.2 Although it is impractical to give an overall opinion on the control environment, generic control weaknesses are identified in the analysis document at Appendix B. As can be seen, the most recurring areas of weakness are:

- Either no or inadequate policies and procedures (26 instances out of a total 159 recommendations made).

Recommendations in this area do not necessarily mean that policies and/or procedures do not exist but that improvements or additions to existing policies and/or procedures may be required.

- Inadequate monitoring of management information to ensure objectives are achieved (17/159) and
- Lack of monitoring and administrative controls over the reliability and integrity of data (15/159)

8.3 The first two of these were identified as key weaknesses in the Internal Audit interim annual report for 2004-5 and all three in the annual report for 2003-4.

8.4 We have made recommendations to address all weaknesses in the respective reports, which, if implemented, will improve the overall control environment.

8.5 39% of recommendations were 'priority 1' i.e. 'significant risk that either objectives will not be met efficiently and effectively or that fraud or irregularity will not be prevented or detected'.

8.6 58% of recommendations were 'priority 2' i.e. 'only limited assurance that objectives will be met efficiently and effectively and that fraud or irregularity will be prevented or detected'.

Follow-ups

8.7 All Internal Audit work where a recommendation has been made is followed up as a matter of course. The annual report provides summaries of the findings at follow-up audits. Follow-up excerpts also indicate how the level of audit assurance has changed as a result of management implementation of recommendations. Details of the assurance revisions on the 50 follow-ups conducted in the report period are detailed below.

Risk Category	No.
High to low/Medium to Low:	22
High to Medium:	6
Low to Low:	4
High to High/Medium to Medium:	18
Total	50

Corporate Governance and Risk Management

Corporate Governance

- 8.8 We conducted a corporate governance review in 2002-3. The follow-up review was completed in 2003-4 and concluded that significant improvements have been made but identified that further improvements are required regarding performance management, risk management and financial systems. At the time of writing this report we are finalising the fieldwork on a further audit review of corporate governance. The findings of this review will be reported in the interim annual audit report 2005-6 which will be reported to this Committee on 21st December 2005.

Risk Management

- 8.9 We undertook a formal audit of the processes and arrangements in place to deliver an embedded risk management structure in 2003-4. The overall conclusion was limited assurance that objectives would be achieved as implementation was at an early stage. Robson Rhodes conducted a further full audit of Risk Management in 2005-6 which included following up the recommendations made in the Internal Audit report. We have relied on the work of external audit in this area. External Audit's final report came to the conclusion that:

‘the current arrangements and processes form a good foundation for further developing risk management so that the areas for improvement identified during our review can be addressed.’

Anti-Fraud Work

- 8.10 The Corporate Anti Fraud Team (CAFT) was set up on 1 April 2004. Internal Audit continues to liaise closely with the team to ensure that maximum improvements are delivered to the Council's control environment. CAFT report independently to the Audit Committee.

9. LIST OF BACKGROUND PAPERS

- 9.1 None

MO: JEL

BT: CM

Appendix A

Internal Audit Annual Report 2004/5

For a copy of this appendix please telephone 020 8359 2205

Appendix C

Internal Audit Performance Indicators to the End of 2004-5

PI Ref	PERFORMANCE INDICATOR	TARGET 2004/05	Q1 2004/05	Q2 2004/05	Q3 2004/05	Q4 2004/05
1	The average score achieved from quality assessment questionnaires*	Lower than 3 (quarterly) 1=excellent 2 = highly effective 3 = satisfactory 5= unacceptable	Systems Audits = n/a Schools Audits = 1.0	Systems Audits = n/a Schools Audits = 1.6	Systems Audits = 1.1 Schools Audits = 1.7	Systems Audits = 2.0 Schools Audits = 1.6
2	Percentage of audit plan completed by end of March 2005, compared to what was planned.	82% (annual - cumulative)	0% complete or at draft report 25% at various stages of work in progress	7% complete or at draft report plus 38% at various stages of work in progress	33% complete or at draft report plus 45% at various stages of work in progress	83% complete or at draft report plus 17% at various stages of work in progress
3	Cost of providing Internal Audit as a percentage of Barnet's total employee costs**.	< 1% (annually) cumulative	0.09% (72,574/78,324,366)	0.13% (201,698/159,239,712)	0.12% (300,940/243,590,638)	0.15% (503,943/328,631,654)
4	Percentage of (2004/05) final reports issued within 7 working days of agreement at exit meeting***	> 75% (quarterly)	n/a No 2004/05 audits issued in Q1	88% (8 issued, 7 within 7 days of agreement)	100% (11 issued, 11 within 7 days of agreement)	80% (20 issued, 16 within 7 days of agreement) Note: By 18/07/05 a further 13 2004/05 reports had been issued
5	Percentage of Audit reports followed up within 12 months of issue of final report	100% (annual & cumulative)	13% of planned follow-ups started	20% of planned follow-ups started, 5% completed.	78% of planned follow-up audits started, 14% completed.	98% of planned follow-ups started, 82% completed. Note: By 18/07/05 100% of planned follow-ups had been started and 93% completed.

* Figures are cumulative.

** Figures for cost of providing IA have been updated with year-end figures.

*** Figures for draft reports are not included

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Notes:

1. Audit work highlighted in red is additional work not shown on original 2004/05 Audit Plan which includes:

Newly commissioned work
Work carried forward from 2003/04
Work deferred from 2003/04

2. Under 'Original Quarter Planned' numbers in brackets indicate new start quarter for jobs which have been moved.

3. Under 'Title of Audit/Project' titles in italics indicate that the audit has been renamed.

4. Under 'Job Type' the key is as follows:

KC = Key Control
P = Project
S = System
F = Follow-up
CF = Carry Forward job

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Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
CORPORATE				
CE	CF	Civil Protection & Emergency Plan	F	Issued 18/06/04
CE	CF	Corporate Governance	F	Issued 25/05/04
CE	CF	Corporate Plan	S	Issued 12/07/04
CE	CF	LPSA's	S	Issued 01/07/04
CE	CF	Overtime	F	Issued 29/01/05
CE	CF	Partnership Arrangements	P	Management letter & report issued 23/12/04
CE	2 (4)	Corporate Plan	F	Issued tbc - moved to Q4 2004/05 as audit still in progress
CE	3	Corporate Governance	S	FW stage
CE	3	Freedom of Information Act	F	Issued 21/01/05
CE	3	IIP	F	Issued 02/03/05 - deferred from 2003/04
ACE	3	LPSA's	F	Issued 06/05/05
CE	3	Review of Constitution	F	Issued 07/03/05
CE	4	Best Value	F	Issued 08/04/05
CE	Ongoing	Information Review (<i>Freedom of Information Act</i>)	P	Issued 13/09/04
ACE/BIM	2	BVPI's	S	Deferred to Q1 2005/06 at client's request
CE	3	Partnership Arrangements	F	Deferred to Q2 2005/06
CE/ACE	2	Corporate Plan - 2003/04 PMP Process Residual Issues	S	Cancelled as CPO already addressing the issues
CE	3	Risk Management	F	Cancelled as this has been covered by Robson Rhodes' review
CORPORATE SUPPORT: Consultation, Corporate Performance Office & Communications				
COM	CF	Communications Function	S	Issued 07/06/04
COM	3	Communications and Marketing (<i>Communications Function</i>)	F	Issued 21/03/05
COM	2	Central Complaints	S	Issued 24/02/05
LAW AND PROBITY including Committees, Member Support, Mayors Office & Scrutiny				
BS	CF	Registration of Electors	F	Issued 22/09/04
BS	CF	Use of Barristers	S	Issued 21/06/04
BS	1	RIPA	S	Issued 25/11/04
BS	2 (3)	Scrutiny	S	Issued 01/04/05 - deferred from 2003/04
BS	3	Legal Services Practice	F	Issued 24/02/05
BS	3	Use of Barristers	F	Issued 01/03/05

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BOROUGH TREASURER				
BT	CF	Insurance	S	Issued 20/04/04
BT	CF	NNDR	F	Issued 12/05/04
BT	CF	Payments	P	Issued 19/10/04
BT	CF	Social Services Income & Assessment	S	Issued 29/07/04
BT	CF	Welfare Rights	S	Issued 18/08/04
BT	1	Budgetary Control	F	DR stage
BT	1	Pensions (KC)	S	Issued 06/12/04 - deferred from 2003/04
BT	1	Stock Systems (KC)	S	Issued 20/09/04 - deferred from 2003/04
BT	1	VAT (KC)	S	Issued 01/10/04
BT	1	Verification Framework	S	Issued 02/12/04
BT	2	Banking (KC)	S	DR stage
BT	2	Cashiers (KC)	S	Issued 24/03/05
BT	2	Closure of Edgware School	S	Issued 27/10/04
BT	2	Debit/Credit Cards	F	Issued 15/03/05
BT	2 (4)	External Audit Issues	P	Issued 25/04/05 - moved to Q4 2004/05 at client's request.
BT	2	Fixed Assets (Valuation & Accounting for) (KC)	S	Issued 29/11/04 - deferred from 2003/04
BT	2 (3)	Prudential Framework	S	Issued 11/07/05 - moved to Q3 2004/05
BT	3	Corporate (Anti-) Fraud Team	S	Issued 02/02/05
BT	3	Capital Expenditure	F	FW stage
BT	3	Cash Book Reconciliation (KC)	S	Issued 05/01/05
BT	3	Council Tax (Income & Expenditure)(KC)	S+F	Issued 27/04/05
BT	3	Debtors (KC)	F	Issued 01/04/05
BT	3	Financial (Systems & General) Ledger	S	Issued 04/04/05
BT	3	Treasury Management (KC)	S+F	Issued 29/03/05
BT	4	Bailiffs	S	Issued tbc
BT	4	Creditors (Payments Project)	F	Issued 15/06/05
BT	4	Debt Management	F	Issued 15/03/05
BT	4	Insurance	F	Issued 22/03/05
BT	Ongoing	Replacement Revenues & Benefits System	P	Issued 20/01/05
BT	Ongoing	Grants	P	Planning stage
BT	Ongoing	NFI	P	Issued 14/10/04
BT	2	Fixed Assets (Valuation & Accounting for) (KC)	F	Deferred to Q3 2005/06 (incorp in Fin Sys & Gen Ledger KC) as audit completed Q3 2004/05.
BT	2	Stock Systems (KC)	F	Deferred to Q3 2005/06 (incorp in Fin Sys & Gen Ledger KC) as audit completed Q2 2004/05.
BT	3	BACS (KC)	S	Deferred to Q3 2005/06 to tie in with BACs system change.
BT	3	Social Services Income & Assessment	F	Deferred to Q1 2005/06 as audit completed in Q2 2004/05.
BT	4	Welfare Rights	F	Deferred to Q2 2005/06 as audit completed in Q2 2004/05
BT	3	NNDR (KC)	S	Cancelled due to implementation of Pericles

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RESOURCES: Human Resources, Information Systems, Procurement & Valuers				
HR	CF	Equalities	S	Issued 03/06/04
HR	CF	Health & Safety	S	Issued 27/07/04
HR	CF	Teachers Pensions	S	Issued 14/10/04
HR	1	Payroll & HR (KC)	S + F	Issued 18/10/04
HR	2 (3)	Equalities	F	FW stage - moved from Q2 to Q3 2004/05
HR	2	LG Pensions Service	S	Issued 03/02/05
HR	2	Use of Consultants	S	DR stage
HR	4	Training & Development	F	Issued 24/02/05
HR	4	Closure of the Training Skills Unit	S	Issued 17/02/05
HR	3	Teachers Pensions	F	Deferred to Q2 2005/06 as audit completed in Q3 2004/05
HR	4	Health & Safety	F	Deferred to Q2 2005/06
HR	1 (3)	HR Strategy	S (P)	Cancelled - due to restructure of Resources
HR	2	Recruitment/HR Operations	S	Cancelled - issues to be covered in HR Strategy project.
HR	4	LG Pensions Service	F	Cancelled - changed to a systems audit for Q2 2004/05
HR	4	Mill Hill Training	F	Cancelled - Unit will cease operation in April 2005
HR	Ongoing	Payroll Development	P	Cancelled and replaced with the Modernising Core Systems project
IS	CF	E-Government	F	Issued 24/06/04
IS	CF	Intranet	S	Issued 20/04/04
IS	CF	IS Follow-ups	F	Issued 06/07/04
IS	CF	TROVE	S	Issued 28/05/04
IS	1(2)	Anti-virus Control (KC)	S	Issued 15/12/04
IS	1 (4)	Intranet	F	Issued 10/05/05
IS	1 (4)	Software Management Review	F	Issued 10/05/05
IS	1	Telecommunications	F	Issued 10/05/05
IS	2	Business Continuity (KC)	S	Management letter issued 24/09/04 & audit deferred to 2005/06
IS	3 (4)	E-Government	S	DR stage
IS	3	IS Developments	F	Issued 10/05/05
IS	3	Operating Systems	S	FW stage - deferred from 2003/04
IS	3	Strategic Information and IT System (GIS)	F	Issued 11/02/05
IS	4	Document Management Systems	S	DR stage - deferred from 2003/04
IS	4	IT Security	F	Issued 10/05/05
IS	Ongoing	Replacement Core Financials Project (<i>Modernising Core Systems</i>)	P	Issued interim reports on 05/05/04, 27/05/04 & 14/07/04. Issued final management letter 30/12/04. Auditor working fulltime on this project from 18/08/04.
IS	Ongoing	Modernising Core Infrastructure 04/05	P	Management letter issued 06/09/04 & 17/05/05
IS	1	Document Image Processing (<i>Document Management Systems</i>)	F	Deferred to Q3 2005/06 as audit was deferred to Q4 2004/05
IS	2 (3)	Upgrade Control (KC)	S	Deferred to Q4 2005/06 at client's request
IS	4	Computer Misuse & Law (KC)	S	Deferred to Q1 2005/06
IS	1	Helpdesk	S	Cancelled - this will now be covered in the Service Desk 05/06 audit
IS	1	Operating Systems	F	Cancelled - work already covered in 2003/04 IS follow-ups
IS	1	Software License Control (KC)	S	Cancelled - this will now be covered in the Service Desk 05/06 audit
IS	2	ICT Investment Strategy	F	Cancelled - dealt with in IS Recovery Plan
IS	2 (4)	Internet (KC)	S	Cancelled - this will now be covered in the Infrastructure Transformation Project
IS	2	IT Asset Management	S	Cancelled - this will now be covered in the Service Desk 05/06 audit
IS	2	Mainframe	S	Cancelled - as mainframe being replaced with another system. F-up will now be re-instated for 2005/06.
IS	3 (4)	Remote Access (KC)	S	Cancelled - this will now be covered in the Infrastructure Transformation Project
IS	3	TROVE	F	Cancelled - as recs in original audit related to new system which are not yet in place. Trove Replacement audit planned for 05/06
IS	4	Networks (KC)	S	Cancelled - this will now be covered in the Infrastructure Transformation Project

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PRO	CF	Strategic Procurement Team	S	Issued 02/06/04
PRO	1	Strategic Procurement Team	F	Deferred to Q1 2005/06 due to recommendation dates
VAL	1	Disposals & Capital Receipts	S	Issued 02/06/05
VAL	1 (3)	Asset Management	F	Issued 21/04/05 - moved to Q3 2004/05
VAL	1 (4)	Management of Shops	S	DR stage - moved to Q4 2004/05 due to change in priority of risk
VAL	3	Properties for Sale	F	Cancelled - f-up issues included in Disposals & Capital Receipts audit
CHILDREN'S SERVICES: Children & Families, Cultural Services & Education				
C&F	CF	Laming Report	S	Issued 16/06/04
C&F	CF	Social Work for Children at Home	S	Issued 28/05/04
C&F	2	Hospital Social Work	S	Issued 01/02/05
C&F	3	Disabled Children	F	Issued 21/03/05
C&F	4	Children & Families Investigation: Double Payment	S	Issued 06/07/05
C&F	4	Social Work for Children at Home	F	Planning Stage
C&F	2	Children's Trusts (<i>Act</i>)	S	Deferred to Q1 2005/06
C&F	3	Laming Report	F	Deferred to Q1 2005/06
C&F	3	Social Work for Children in Care (<i>Looked After Children</i>)	S	Deferred to Q1 2005/06
CS	CF	Branch Library & IT	S	Issued 22/04/04
CS	CF	Leisure Partnership	S	Issued 27/05/04
CS	CF	Translation & Interpretation Service	F	Issued 19/08/04
CS	3 (4)	Branch Libraries	F	Issued 31/03/05
CS	3	Health & Sports Development	F	Issued 08/02/05
CS	3	Marketing, Printing & Design Service	S+F	Issued 19/04/05
CS	3	Mobile Libraries	F	Issued 15/03/05
CS	3	Museums	F	Issued 24/02/05
CS	4	Leisure Management	F	Issued 11/02/05
CS	2	Translation & Interpretation Service	S	Cancelled - due to efficiency savings process
ED	CF	Capita	F	Issued 04/06/04
ED	CF	Nursery Education	S	Issued 29/03/04
ED	1	Exclusions	S	Issued 07/03/05 - deferred from 2003/04
ED	1	Music Service	S	Issued 10/09/04
ED	1 (4)	Research & Management Information I	S	FW stage - moved to Q4 04/05 at client's request
ED	1	Sixth Form (Schools)	P	Issued 27/07/04
ED	3	Contract Procurement and Management in Schools	F	Issued 15/03/05
ED	4	Complaints	F	Issued 08/02/05
ED	4 (2)	Nursery Education	F	Issued 04/02/05 - moved to Q2 2004/05
ED	4	Play Service	F	Issued 05/04/05 - new work as result of cancellation of Youth & Play Service audit
ED	4	Exclusions	F	Deferred to Q3 05/06 as audit not issued until Q4 2004/05.
ED	4	Performance Management of SEN Specialist Services	S	Deferred to Q2 2005/06 at client's request
ED	4	Performance Management of SEN Specialist Services	F	Deferred to 2006/07 as audit has been deferred to Q2 2005/06.
ED	3	Youth & Play Service	S+F	Cancelled (systems audit) - Youth Service to be re-organised
ED	4	Research & Management Information II	S	Cancelled - as agreed with client as R&MI didn't start until Q4 2004/05

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ENVIRONMENT: Environment & Neighbourhood Services, Highways and Design & Planning				
E&NS	CF	Transport	F	Issued 27/05/04
E&NS	1	Environmental Services (Residential Services)	S	Issued 27/01/05
E&NS	1	Graffiti	F	Issued 20/12/04
E&NS	2	Abandoned Vehicles	F	Issued 14/10/04
E&NS	2	Care & Repair	F	Issued 28/09/04
E&NS	2	Civic Amenity Sites	F	Issued 29/09/04
E&NS	2	Trade Waste	F	Issued 11/03/05
E&NS	2	Vehicle Maintenance	S	Issued 02/03/05
E&NS	3	Arboriculture	F	Issued 15/03/05
E&NS	3	Grounds Maintenance	S	DR stage
E&NS	3 (2)	Street Cleaning	S	Issued 17/02/05 - moved to Q2 2004/05 at client's request
E&NS	4	Waste Collection (<i>Domestic & Trade</i>)	S	DR stage
E&NS	1 (4)	Licences	S	Deferred to Q1 05/06 due to delay in licensing regime
E&NS	2 (3)	Street Enforcement Service	S	Deferred to Q2 2005/06 at client's request
H&D	1	Transport for London	P	Issued 14/07/04
H&D	2	Customer Care - PHD	F	Issued 10/12/04
H&D	2	Prudential Borrowing - Roads	S	Issued 21/06/05
H&D	2 (4)	Road Safety	F	Issued 15/03/05 - moved to Q4 as one of the recs to be implemented Dec 2004
H&D	2	Traffic Management	F	Issued 15/03/05
H&D	3	Building Control	S	DR stage
H&D	3	Gully Cleansing	F	Issued 01/03/05
H&D	3	Highways Maintenance Service	S	Issued 15/04/05
H&D	3	Parking Unit	P	Issued 12/04/05
H&D	3	RASWA 1991	F	Issued 29/04/05
H&D	4	Controlled Parking (KC)	S	DR stage
H&D	4	Transport for London	F	Issued 15/06/05
H&D	Ongoing	PFI Investment Plan for Roads, Pavements & Streetlights 04/05	P	Issued 30/06/05
H&D	1	Road Structure Responsive	F	Cancelled as work covered in Highways Maintenance Service audit
P	CF	Planning Service	S	Issued 13/07/04
P	1 (3)	Fees Income	S	Issued 01/04/05 - moved to Q3 2004/05
P	2	Planning & Compulsory Purchase Bill	P	Issued 04/05/05
P	4	Regulatory Services	S	DR stage
P	3	Planning Service	F	Deferred to Q2 2005/06 as audit completed in Q2 2004/05

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COMMUNITY SERVICES: Adult Services, Housing & Strategic Development Unit				
AS	CF	Information Management/SWIFT	P	Issued 01/04/04
AS	CF	Younger Adults	F	Issued 27/09/04
AS	1	Recruitment & Retention	S	Issued 25/01/05
AS	2	CC Bus Plan: Performance Management/SWIFT	P	Issued 04/03/05
AS	2	Data Capture	F	Issued 31/03/05
AS	2	Data Quality	P	Issued 15/10/04
AS	3	Community Care Grants Systems	S	DR stage
AS	3 (4)	Learning Disabilities	F	FW stage - moved to Q4 2004/05
AS	3 (4)	Mental Health	F	Issued 11/05/05 - moved to Q4 2004/05
AS	3	Older Adults	F	DR stage
AS	3	PAF C31 2003-04	P	Issued 15/01/05
AS	3	Respite Care	F	Issued 17/06/05 - deferred from 2003/04
AS	2	CC Bus Plan: Commissioning (& Contracting)	S	Deferred to Q1 05/06 & renamed Procurement & Contract Management (CS)
AS	2	CC Bus Plan: Financial Management & Invoicing (<i>Financial Management, Payments & Invoicing</i>)	S	Cancelled as work will be carried out by Robson Rhodes
HSG	CF	ALMO Development Project	P	Issued 13/07/04
HSG	CF	Homelessness	S	Issued 28/04/04
HSG	CF	Housing Benefits	S	Issued 13/08/04
HSG	CF	Housing Income	F	Issued 25/08/04
HSG	CF	Rent Deposit Schemes	S	Issued 01/06/04
HSG	1	Safer Community	F	Issued 04/06/04
HSG	2	Barnet Homes Monitoring	S	Issued 30/11/04
HSG	2	Housing Strategy	S	Issued 23/11/04
HSG	3	Temporary Accommodation	S	Issued 24/05/05
HSG	4	Homelessness	F	Issued 15/03/05
HSG	4	Temporary Accommodation Income	F	Issued 22/03/05
HSG	3	Housing Benefits (KC)	S + F	Deferred to Q2 2005/06 as HB audit completed Q2 2004/05
HSG	4	Rent Deposit Schemes	F	Deferred to Q1 2005/06
HSG	2	Non-office Accommodation & Community Facilities	F	Cancelled - follow-up already completed December 2003
SD	1	Regeneration & Development: Graham Park	P	Management letter issued 06/07/05
SD	2	Cricklewood & Brent X Regeneration	P	FW stage following 4Ps review
SD	3	Regeneration & Development: Stonegrove	P	Cancelled - issues will be covered as part of other regeneration projects
SD	3 (4)	Regeneration & Development: West Hendon	P	Cancelled

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BARNET HOMES				
BH	CF	Saffron Rents Module	P	Issued 14/07/04
BH	CF	Viewing & Signing Tenancy Agreements	S	Issued 23/08/04
BH	1	Leasehold Management	S	Issued 21/02/05 - deferred from 2003/04
BH	2 (3)	Housing Management - Lettings	F	Issued 11/03/05 - moved to Q3 2004/05
BH	3 (4)	HRA Management	S	FW stage - moved to Q4 2004/05
BH	4	Housing Rents 04/05 (KC)	S	Issued 11/07/05 - deferred from 2003/04
BH	4 (3)	Procurement & Contract Management	S	Issued 04/03/05 - moved to Q3 2004/05
BH	3	Housing Rents (KC)	F	Deferred to 2005/06 as audit is yet to be completed
BH	4	Home Ownership - Leaseholders (<i>Leasehold Management</i>)	F	Deferred to 2005/06 as audit still in progress.
BH	4	Tenancy Management (<i>Viewing & Signing Tenancy Agreements</i>)	F	Deferred to 2005/06 as audit completed Q2 2004/05
BH	2	Account Management & Arrears	S	Cancelled - work will be covered in Housing Rents (KC).
BH	3	Housing Building Repairs (<i>Revenue Repairs & Maintenance</i>)	F	Cancelled as this system now set up under Barnet Homes
BH	4	Capital Expenditure & Programmed Repairs	S	Cancelled on 12/04/05 at client's request as partnering arrangements still tbc