

AGENDA ITEM: 7 Page nos. 28-77

Meeting	Audit Committee
Date	21 December 2005
Subject	Internal Audit Interim Annual Report 2005/6
Report of	Chief Internal Auditor
Summary	The committee is asked to note the Internal Audit Interim Annual Report for 2005/6 and appendices.

Officer Contributors	Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	<p>Appendix A: 2005/6 Internal Audit Interim Annual Report</p> <p>Appendix B: 2005/6 Internal Audit Recommendation Analysis Summary</p> <p>Appendix C: 2005/6 Internal Audit Performance Indicators</p> <p>Appendix D: 2005/6 Internal Audit Annual Audit Plan Update</p>
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 Tel No 0208 359 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 Interim Annual Report 2005/6.

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 Interim Annual Report 2005/6 is to highlight to the Chief Executive, Audit Committee, lead member, Corporate Management Team and External Audit the findings of Internal Audit work conducted so far this year (as well as that work carried forward from 2004/5 not previously reported).

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 Part of this Committee's work programme is to review the Internal Audit Interim Annual report for 2005/6.

8.2 Appendix A attached provides summary details of all Internal Audit reports produced for all 2005/6 projects which have been agreed and finalised with clients as at 10th November 2005. Additionally 2004/5 projects, which had not previously been reported to the Committee, are included.

Executive Summary

8.3 Although it is impractical to give an overall opinion on the control environment in such a diverse organisation, generic control weaknesses are identified in the analysis document at Appendix B. Although the areas of weakness are spread quite evenly, the most recurring areas of weakness are:

- Inadequate monitoring controls over resources (19 instances out of a total 110 recommendations made)
- Either no or inadequate policies and procedures (17/110)

(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 (11/110).

(Recommendations in this area do not necessarily mean that objectives are not being achieved.)

8.4 All three of these were identified as key weaknesses in the Internal Audit Interim Annual Report 2004/5 and the second and third in the Annual Report 2004/5.

8.5 36% 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 60% 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'.

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

8.8 Follow-ups

All Internal Audit work where a recommendation has been made is followed up as a matter of course. The Interim 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 13 follow-ups conducted in the report period are detailed below.

Risk Category	No.
Medium to Low:	5
High to Medium:	1
Medium to Medium:	5
Medium to High	2
Total	13

8.9 While the risk exposure in these areas remains as stated, we are satisfied that management are aware of the need to implement the recommendations and actions are in progress. We are in the process of preparing the audit plan for 2006-7 and all of these areas will be considered for inclusion.

8.10 Internal Audit will continue to monitor implementation in these areas.

Internal Audit Performance Indicators

8.11 Attached at Appendix C are Internal Audit's performance indicators to the end of the second quarter 2005/6.

Progress against 2005/6 Annual Plan

8.12 Attached at Appendix D is a detailed breakdown regarding progress against the 2005/6 annual audit plan.

Corporate Governance and Risk Management

8.13 An important part of the Internal Audit annual reporting process is to give an opinion on the corporate governance and risk management arrangements within the organisation.

Corporate Governance

8.14 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. A summary of the findings of this review will be included in the 2005-6 annual audit report which is scheduled to go to the Audit Committee in September 2006 (provisional calendar).

Risk Management

- 8.15 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 that limited assurance could be given that objectives would be achieved as implementation was at an early stage. Robson Rhodes, the external auditor, 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'.

- 8.16 The Council's external auditors have acknowledged in their 'Use of Resources' report that the embedding of risk management is ongoing. Further arrangements will be addressed as part of a much wider 'Use of Resources' action plan.

Modernising Core Systems

- 8.17 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.
- 8.18 The Audit Committee has identified the need to monitor the progress of the project because of the risks and opportunities it presents to the organisational control environment and the need for the project to deliver cultural change.
- 8.19 A progress report on these aspects of the MCS project and associated programmes will be presented to the Audit Committee after sufficient time has elapsed to evidence the changes to the organisational culture and control environment. This is likely to be in the third quarter of 2006/7 and will be presented by the Resources Directorate
- 8.20 Internal Audit work, in the interim, will focus on providing an opinion on whether the project has/is likely to deliver the anticipated benefits within reasonable timescales.

9. LIST OF BACKGROUND PAPERS

- 9.1 None

Legal: JEL
BT: CM

Appendix A

Internal Audit Interim Annual Report 2005/06

For a copy of this appendix please telephone 020 8359 2205

Internal Audit Performance Indicators 2005-6

PI Ref	PERFORMANCE INDICATOR	TARGET 2005/06	Position at end of:			
			Q1 2005/06	Q2 2005/06	Q3 2005/06	Q4 2005/06
1	Percentage of systems audits completed by end of March 2006, compared to what was planned.	84% (annual - cumulative)	0% complete or at draft report 20% at various stages of work in progress	10% complete or at draft report plus 35% at various stages of work in progress	At 31/10/05: 17% complete or at draft report plus 45% at various stages of work in progress	n/a
2	Percentage of Audit reports followed up within 12 months of issue of final report	100% (annual & cumulative)	0% complete or at draft report 17% at various stages of work in progress	30% complete or at draft report plus 18% at various stages of work in progress	At 31/10/05: 41% complete or at draft report plus 51% at various stages of work in progress	n/a

2005/06 Annual Audit Plan Update @ 31st October 2005

Notes:

1. Audit work highlighted in red is additional work not shown on original 2005/06 Audit Plan which includes:

Newly commissioned work 2005/06

Work carried forward from 2004/05

Work deferred from 2004/05

2. Under 'Original Quarter Planned' numbers in brackets indicate original 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

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
CORPORATE				
CE	CF 2004/5	Corporate Plan	F	Issued 19/07/05
CE	CF 2004/5	Corporate Governance	S	FW Stage
CE/CPO	2	Constitution	S	FW stage
CE	2	Freedom of Information Act 05/06	S	Planning stage
CE/CPO	2	Partnership Arrangements	F	Issued 17/10/05
CE/RES	3	Business Continuity	S	Not started
CE/CPO	3 (1)	BVPs	S	Planning stage
CE/RES	3	Letting of Contracts/DPRs	S	Planning stage
CE/CAFT	3	Money Laundering	S	Not started
CE/RES	3	Safer Recruitment	S	Not started
CE/RES	3 (1)	Trove Replacement System (<i>RDT System</i>)	S	Planning stage
CE/CPO	4 (2)	Consultation	S	Not started
CE	Ongoing	Emergency Planning Service	P	Issued 05/09/05
CE/CPO	3	Corporate Governance 05/06	KC	Deferred to 2006/07 as 2004/05 audit still in progress
CE/CPO	2	Community Plan	S	Cancelled as a revised CP strategy in place; management no longer consider this a high risk area.
CORPORATE SUPPORT: Consultation, Corporate Performance Office & Communications				
CPO	3	Central Complaints	F	Planning stage
LAW & PROBITY including CAFT, Democratic Services, Elections & Land Charges, Legal, Overview & Scrutiny and Registrars				
L&P	1	Money Handling	S	FW stage
L&P	2	Elections	S	Issued 29/11/05
L&P	3	Births, Deaths & Marriage Certificates	S	Not started
L&P	3	RIPA (Covert Surveillance)	F	Planning stage
L&P (BT)	4	CAFT/Verification Framework	F	Planning stage
L&P	4	Scrutiny	F	Planning stage
L&P	2	Municipal Elections	S	Deferred to 2006/07 at client's request

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
BOROUGH TREASURER				
BT	CF 2004/5	Budgetary Control 04/05	F	Issued 28/09/05
BT	CF 2004/5	Banking (KC)	S	Issued 03/08/05
BT	CF 2004/5	Capital Expenditure	F	Issued 17/10/05
BT	CF 2004/5	Bailiffs	S	Issued 16/08/05
BT	2	Cash Collection Axis System	S	DR stage
BT	2	Council Tax Income & Expenditure	KC	FW stage
BT	2	NNDR 05/06	S	FW stage
BT	2	Treasury Management	KC	DR stage
BT	2	Welfare Rights	F	Issued 15/09/05
BT/RES	3	Asset Management	S	Not started
BT	3	BACs 05/06	S	Planning stage
BT	3	Cashiers	F	DR stage
BT	3	Creditors 05/06	KC	Not started
BT	3	Financial Systems & General Ledger	KC	Planning started (Including Stock Systems & Fixed Assets f-ups)
BT	3	Purchasing Cards	S	Planning stage
BT	3	VAT 05/06	KC	Not started
BT	4	Cashbook Reconciliation & Banking	KC	Not started
BT	4 (2)	Debt Management/Debtors 05/06	KC	Not started
BT	4	External Audit Issues (SAS 610)	F	Planning stage
BT	4	Milly Apthorpe	S	Issued 07/09/05
BT	Ongoing	Grants	P	Not started
BT	Ongoing	Pericles: Council Tax	P	FW stage
BT	3	Budgetary Control 05/06	KC	Deferred to Q1 2006/07 at client's request
BT	4	Grants	F	Deferred to 2006/07 as Grants project not started

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
CHILDREN'S SERVICES: Children & Families and Education				
C&F	CF 2004/5	Social Work for Children at Home	F	Issued 05/12/05
C&F	1	Children's Act	S	Planning stage
C&F	1	Looked After Children	S	FW stage (Deferred from 2004/05)
C&F	1	Out of Hours Service (Laming Report)	F	FW stage
C&F	3	Hospital Social Work	F	Planning stage
C&F	4	Looked After Children	F	Deferred to 2006/07 as audit CF to 2005/06 (<i>Prev Soc Work for Children in Care</i>)
ED	CF 2004/5	Research & Management Information I	S	DR Stage
ED	1	Music Service	F	Issued 27/09/05
ED	2	Education Finance	S	Planning stage
ED	3	Exclusions	F	Planning stage (Deferred from 2004/5)
ED (CS)	3	Marketing, Printing & Design	F	Planning stage
ED	3 (2)	Performance Mngt of SEN Spec Services	S	FW stage (Deferred from 2004/05)
ED	4 (2)	Human Resources Traded Services	S	Not started
ED	4	Research & Mngt Info I	F	Not started
ED	Ongoing	Primary Capital Programme	P	Not started
ED		Performance Mngt of SEN Spec Services	F	Deferred to 2006/07 as audit was deferred to 2005/06
ED	2	People's Network	S	Cancelled as work covered in Branch Libraries audit

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
COMMUNITY SERVICES: Adult Services, Housing & Strategic Development Unit				
AS	CF 2004/5	Community Care Grants Systems	S	Issued 19/08/05
AS	CF 2004/5	Learning Disabilities	F	Issued 31/08/05
AS	CF 2004/5	Older Adults	F	Issued 01/08/05
AS	1	Information Management/SWIFT 05/06	S	DR stage
AS	1	Social Services Assessment	F	Issued 16/09/05
AS	2	Direct Payments	S	Planning stage
AS	2 (1)	Homecare	S	Planning stage
AS	2 (1)	Procurement & Contract Management	S	FW stage
AS	4 (2)	Community Care Income	S	Planning stage
AS	4 (2)	Drug & Alcohol Purchasing	S	Planning stage (in conjunction with Strategic Planning audit)
AS	4	Recruitment & Retention	F	Planning stage
AS	4 (2)	Reviewing Team	S	Planning stage
AS	4 (2)	Strategic Planning & Health Partnership	S	Planning stage
AS	4	Community Care Grants	F	Deferred to Q2 06/07 due to timing of recommendations
HS	1	Affordable Housing	S	FW stage
HS	1	Rent Deposit Scheme	F	Issued 27/09/05
HS	2	ALMO Monitoring	S	FR stage
HS	2	Housing Benefits 05/06	S	FW stage
HS	3	Barnet Homes Monitoring	F	FW stage
HS	3	Housing Rents 05/06	KC	Not started
HS	3	Housing Strategy	F	FW stage
HS	4	Temporary Accommodation	F	Planning stage
HS	Ongoing	Pericles: Housing Benefits	P	FW stage
SD	CF 2004/5	Cricklewood & Brent X Regeneration	P	Issued 27/06/05 & ongoing
SD	Ongoing	Grahame Park Regeneration 05/06	P	Planning stage

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
ENVIRONMENT: Environment & Neighbourhood Services, Highways & Design and Planning				
E&NS	CF 2004/5	Grounds Maintenance	S	Issued 10/08/05
E&NS	CF 2004/5	Waste Collection (<i>Domestic Refuse</i>)	S	Issued 09/09/05
E&NS	1	Licensing Act 2003	S	Issued 22/11/05
E&NS	1	Trading Standards	S	DR stage
E&NS	2 (1)	BVPI 199	S	Not started
E&NS	2	Highways Maintenance Service	F	Planning stage
E&NS	2	Street Cleaning	F	FW stage
E&NS	2	Street Enforcement Service	S	Planning stage
E&NS	2	Vehicle Maintenance	F	Issued 25/10/05
E&NS	3	Residential Services	F	DR stage
E&NS	4 (1)	ECT Contract Monitoring	S	FW stage
E&NS	4	Refuse Commercial	KC	Not started
E&NS	4	Waste Collection (<i>Domestic Refuse</i>)	F	Not started
E&NS	4 (2)	Waste Minimisation	S	Not started
E&NS	2	Grounds Maintenance	F	Deferred to Q2 06/07 due to timing of recommendations
E&NS	4	Licenses	F	Deferred to Q3 06/07 due to timing of recommendations
H&D	CF 2004/5	Building Control	S	Issued 03/07/05
H&D	CF 2004/5	Controlled Parking 04/05 (KC)	S	DR stage
H&D	3	Rechargeable Works & Other Income	S	Not started
H&D	3 (2)	Transport for London Schemes	S	FW stage
H&D	4	Building Control	F	Planning stage
H&D	4 (3)	Parking Control 05/06	KC	Not started
H&D	Ongoing	PFI Roads, Pavements & Streetlights 05/06	P	FW stage
P	CF 2004/5	Regulatory Services	S	Issued 25/10/05
P	2	Planning Service	F	Issued 16/09/05
P	3	Fees Income	F	Planning stage
P	3	Regulatory Services	F	Deferred to Q2 06/07 due to timing of recommendations
P	4	Planning & Compulsory Purchase Bill	F	Cancelled as management letter contains no recommendations

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
RESOURCES: IS, Performance & Strategy, HR, Customer Services, Property Services & Valuations and Strategic Procurement				
IS	CF 2004/5	e-Government	S	Issued 28/10/05
IS	CF 2004/5	Operating Systems	S	Issued 23/09/05
IS	CF 2004/5	Document Management Systems	S	Issued 29/07/05
IS	1	Content Management System	S	FW stage
IS	1	Position Statement Preparation	F	FW stage
IS	2	Anti-virus Control	F	DR stage
IS	2	IS Development Review	KC	Planning stage
IS	2	IS/IT Strategy	S	FW stage
IS	2	Mobility	S	Issued 08/11/05
IS	3 (2)	E-mail 05/06	KC	Planning stage
IS	3	Intranet 05/06	KC	Not started
IS	4 (3)	Customer Relationship Management	S	Not started
IS	4	e-Government	F	Not started
IS	4	Physical & Environmental Review	S	Not started
IS	4 (1)	Service Desk	S	Planning stage
IS	4	Upgrade Control 05/06	KC	Not started
IS	Ongoing	Electronic Social Care Records	P	FW stage
IS	Ongoing	Infrastructure Transformation Project	P	Planning stage
IS	Ongoing	MCS Phase II: Authorisation	P	Not started
IS	Ongoing	MCS Phase II: e-Tendering	P	Not started
IS	Ongoing	MCS Phase II: Procedures	P	Not started
IS	Ongoing	MCS Phase II: Training	P	Not started
IS (BT)	Ongoing	MCS Phase I	P	ML3 issued 22/06/05 & ML4 issued 29/09/05
IS	1	Computer Misuse & Law	KC	Deferred to Q2 06/07 due to timing of recommendations
IS	3	Document Management Systems	F	Deferred to Q1 06/07 due to timing of recommendations
IS	3	Operating Systems	F	Deferred to Q2 06/07 due to timing of recommendations
IS	2	Mainframe	F	Cancelled as this f-up will be covered in the Position Statement Prep f-up process

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
HR	CF 2004/5	Equalities 04/05	F	Issued 06/09/05
HR	CF 2004/5	Use of Consultants	S	Issued 04/10/05
HR	2	Health & Safety	F	Issued 27/09/05
HR	2	Teacher's Pensions	F	Planning stage
HR	3 (1)	Devolved HR Operations	S	Not started
HR	3 (1)	Equalities 05/06	S	Not started
HR	3	HR Data from Schools	S	Not started
HR	3	LG Pensions Service 05/06	KC	Not started
HR	3 (1)	Payroll 05/06	KC + F	Planning stage
HR	4	Recruitment	S	Not started
HR	4	Use of Consultants	F	Deferred to Q2 06/07 due to timing of recommendations
HR	4	Transfer/Closure of Skills Training	F	Cancelled as Dir of Res to update BT on outstanding issues.
PS&V	CF 2004/5	Management of Shops	S	Issued 19/09/05
PS&V	4	Management of Shops	F	Deferred to Q2 06/07 due to timing of recommendations
SP	1	Strategic Procurement Team	F	Issued 27/09/05

Service	Original Quarter Planned	Title of Audit/Project	Job Type	Status
BARNET HOMES				
BH	CF 2004/5	HRA Management	S	Issued 04/10/05
BH	1	Budgetary Control (BH)	S	Issued 26/09/05
BH	2	Cash Book Reconciliation (BH)	S	Issued 26/09/05
BH	2	Leasehold Management	F	Issued 15/09/05
BH	2	Saffron Rents Module	F	Issued 17/10/05
BH	2	Viewing & Signing Tenancy Agreements	F	Issued 23/08/05
BH	1	ICT Strategy	S	Cancelled at client's request
BH	1	Partnering/Price Negotiations	P	Cancelled at client's request