

AGENDA ITEM: 9 Page nos. 147 - 180

Meeting	Audit Committee
Date	28 September 2006
Subject	Statement of Internal Control (2005/6)
Report of	Chief Executive
Summary	Presentation of the Statement of Internal Control for consideration and approval of the above Committee

Officer Contributors	Director of Resources Chief Finance Officer Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A – 2005/06 Statement on Internal Control (Draft) Appendix B – Use of Resources Judgement for 2005/6 Appendix C – Risks Identified in the Mini SIC Process Appendix D – Risks Identified in the Corporate Plan
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A

Contact for further information: Mark Burgess, Head of Corporate Services 020 8359 7014

1. RECOMMENDATIONS

- 1.1 That the Committee approve the attached draft Statement on Internal Control (SIC).**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee noted the draft Statement on Internal Control for 2004 / 5 on 31 August 2005

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 The SIC covers a review of the Internal Controls within the Authority that support the efficient and effective management of the provision of services in support of the Corporate Plan.
- 3.3 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.
- 3.4 The production of the SIC supports the 'Better Council for Better Barnet' priority which requires a strong and supportive governance framework.

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 the management assurance process.
- 4.3 Inability to demonstrate the strength in the internal control process could lead to lack of assurance that the Council is capable of achieving its corporate priorities.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 5.1 There are no direct financial, staffing, ICT or property implications from this document but failure to identify and address control environment weaknesses could lead to a less than optimum use of resources.

6. LEGAL ISSUES

- 6.1 The presentation of the Statement of Internal Control is a statutory requirement on the Council, and it must be submitted as a supporting document to the Final Accounts.

7. CONSTITUTIONAL POWERS

- 7.1 The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control

environment, and to oversee the financial reporting process. (Responsibility for Functions)

- 7.2 Constitution Part 3, Section 2, includes the functions of the Audit Committee including “to oversee the production of the authority’s Statement on Internal Control and recommend its adoption”.

8 BACKGROUND INFORMATION

- 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, the Council opted to produce an interim statement for 2004/5 and to produce a full statement for 2005/6.
- 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. The SIC will add value to the corporate governance and internal control framework of the Council.
- 8.4. Services’ Plans include actions to address the significant weaknesses identified in the SIC.
- 8.5 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.
- 8.6 The SIC seeks to bring together and evidence the controls in place within the Council. The SIC process relies on existing processes and documents and formally recognises things currently done across the authority and records them. This coordination of existing evidence will strengthen consistency of approach across the authority and promote corporate awareness of good practice.
- 8.7 The draft SIC for 2005-6 is attached at appendix A to this report. The statement is in its final draft, having been consulted upon by senior officers and external audit. It is envisaged that this will be signed off by the Chief Executive and Leader by the end of September.

Audit Assessment of SIC arrangements

- 8.8 External audit have reviewed the framework of documentation that has been introduced to support the production of the SIC (this involves a ‘mini-SIC’ for each service supported by a comprehensive Internal Control Checklist). They have commented very positively on the approach and will test the documentation for effectiveness as part of their work on the final accounts.
- 8.9 Internal Audit have been consulted on the development of this framework and have indicated they consider it a major development in the Council’s governance arrangements and that the information will enhance the production of annual and project

audit plans. The effectiveness and accuracy of service completion of these documents will be independently reviewed by them as part of the annual audit plan.

9 LIST OF BACKGROUND PAPERS

- 9.1 2004/5 Statement of Accounts;
2004/5 Statement on Internal Control;
Internal Audit Annual Report 2005/6, and
External Auditor's reports carried out between 2004/5 and 2005/6
- 9.2 Any person wishing to inspect the background papers should telephone 020 8359 7014.

Legal: JEL
CFO: JB

Appendix A - 2005 / 06 Statement on Internal control (DRAFT)

INTRODUCTION

In compliance with the Accounts and Audit Regulations 2003 the Authority is required to provide a 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 sets 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.

After its approval by the council and its External Auditors, the SIC is signed by the Leader and Chief Executive, indicating the acceptance of the SIC by the Council.

In considering whether to approve the SIC, each Head of Service or Director has been asked to produce, and sign, a mini SIC covering their area of responsibility focussing on the above criteria. This provides documented, relevant and reliable evidence to support the disclosures made.

Further consideration of the accuracy of the statements made in the SIC have been conducted by key officers within the council, including (but not exclusively) the Chief Financial Officer, and Chief Internal Auditor.

This process is further evidenced by an Internal Control Checklist process which seeks to identify strengths and weaknesses in the processes and procedures that manage governance and control across the Council.

The SIC seeks to explain the nature of control and material changes in control exercised throughout the whole accounting period. It identifies any weaknesses in control and sets out an action plan to address them.

The SIC 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 has been gained from publications by the Chartered Institute of Public Finance and Accountancy and our External Auditors, RSM Robson Rhodes.

2005/06 STATEMENT ON INTERNAL CONTROL

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 in providing value for money services to its residents.

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 and further improving value for money.

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 set out in the Corporate Plan which supports the Sustainable Community Strategy. These are cascaded through Service Plans and targets for service teams and individuals. Monitoring is via the FirstStat process, Finance and Performance Review meetings, Member Scrutiny.

Policy and Decision Making

The Local Government Act 2000 and secondary legislation 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.

- A Council Functions.
- B. Executive Functions.
- C. Urgent and Emergency Decisions.
- D. Overview and Scrutiny Committees.

The responsibilities of the above functions and their authorisations for decision making is clearly identified in the Council's Constitution. The Council's Constitution is reviewed annually by the Special Committee (Constitution Review) and recommendations are submitted to Council for consideration.

A record of the Special Committee (Constitution Review) with recommendations made can be found on the Council's record system COGNITE.

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 significant progress in enhancing the arrangements for risk management in the council during 2005-6, with further development of monitoring and reporting of risks across the Council, thereby providing the basis for effective risk management policies procedures.

- Risk Management processes embedded within the Council

- the Internal Audit unit continue to review and report on risk management arrangements in their interim and annual reports.
- the Finance and Performance Review (F&PR) process continues to review high level risks whilst encompassing close monitoring of service delivery performance, performance against budgets and budget reduction targets thus minimising the chances of unachievable savings being incorporated in the budget (see note below on the enhancements made to the F&PR process).
- all committee reports 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. (see note below on enhancements to the reporting of risk to Members).
- Internal Audit continue to provide a statement in all their interim and annual reports on the adequacy of risk management arrangements.
- Internal Audit's focus continues to ensure that identified risks have been adequately and cost-effectively addressed.

- 2005/6 developments to Risk Management

- the establishment of a Corporate Risk Manager post within Resources, which strengthens the development of risk management without removing the primary responsibility for risk management from service managers;
- increased External Audit focus on the effectiveness of risk management across the Council.
- the creation of risk registers by all Heads of Service, and the establishment of risk management monitoring process within their services.
- the introduction of risk assessment in the creation of Key Priority Plans (KPPs) and Service Plans thereby informing the selection of Corporate Risks and subsequent inclusion of those risks in the Corporate Plan.
- the responsibility of Heads of Service to incorporate risks associated with delivering service priorities in their Service Plans.
- a continuous review of risks that may that may impact on the ability to deliver in line with the commitments made in their Service Plans for 2006/7.

- the Finance and Performance Review (F&PR) process now operates on an exception basis arising out of risks emerging in budget or performance monitoring.
- the Chief Finance Officer (CFO) provides a comprehensive report to Council on the appropriate level of balances and reserves which incorporates an assessment of performance against forecast savings and potential risks.
- the Chief Finance Officer has developed a corporate financial risk register in tandem with work on financial forward planning. This register highlights financial uncertainties and opportunities.
- further improvements in capturing and reporting risk to members with all committee reports now include a section on risks, thereby contributing to Members being better informed prior to deciding on policy and making decisions and increases understanding and awareness of risk issues.
- all committee reports are recorded on the council's electronic reporting system including the section covering risk assessment and mitigation.
- a bi-annual Corporate Risks report is presented to Directors' Group for evaluation and reporting to Cabinet.
- progress on enhancing risk management is monitored by the Audit Committee.
- Risk Management is now included in the Leader and Cabinet Member for Resources portfolio.
- Internal Audit is now working more in the area of providing advice and guidance on construction and design of controls, which is in line with the draft updated code of practice for internal audit which CIPFA are consulting on.
- All projects managed via the Programme Office in Resources include a risk assessment in their project brief and have a dedicated risk log which is reviewed and reported to the Project Board in line with the requirements defined in the Project Initiation Document (PID).

- Improvements in Risk Management as a consequence of MCS.

During 2005/6 the Council implemented a new core finance system based on a SAP solution. The implementation of the SAP solution brought about significant changes in the Councils control environment.

- All financial transactions are now captured in one core system.
- All satellite finance systems outside of SAP (AXIS, Pericles, Swift) interface electronically with the SAP solution.
- All Department Managers now have direct access to real time financial information with drill down capability for variance investigation.
- All transactions in SAP are recorded and captured for scrutiny.
- All transactions can be traced back to user input.
- All user access rights are controlled via user roles which prevent users accessing parts of the system that are not appropriate.
- All user roles are reviewed and audited for possible issues around segregation of duties.
- All purchasing transactions are recorded in SAP. Failure to record the purchase orders and goods receipt within SPA prevents payment to the vendor.

- All claims for expenses are now captured and recorded electronically and payment is made through Payroll thereby reducing the need for petty cash or imprest accounts.
- Active participation with External Audit in Risk Management processes.

In July 2005 RSM Robson Rhodes conducted an audit on Corporate Risk Management arrangements and published their findings and recommendations in September 2005. These recommendations have been assessed and, where appropriate implemented across the Council.

Use of Resources.

Effective and efficient use of resources is achieved through a range of review processes linked to the annual service planning cycle. These include:

- In delivering on the 'Use of Resources' aspect of the Comprehensive Performance Assessment, a 'Better Use of Resources' project was established in November 2005 to address identified weaknesses in corporate systems which resulted in the authority being rated at 2 out of 4 in 2005. This project and associated board and delivery teams will continue to run through 2006/7 as an effective mechanism to address the most significant corporate level use of resources requirements.
- FirstStat and Finance and Performance Review (F & PR) - both processes have been developed to monitor business performance (including financial performance). FirstStat and F & PR are led by the Chief Executive and undertaken on an in-year rolling basis as well as in reviewing and setting the forward financial plan.
- Best Value reviews - conducted across a range of council services in accordance with corporate priorities and in meeting legislative requirements. Business and service planning is well established and constantly reviewed by the Budget Board.
- Member challenge - a rolling programme of finance and performance challenge is undertaken by lead members
- Procurement - the Strategic Procurement Team provides advisory and support services on all corporate procurement activity to ensure value for money
- Internal Audit - IA reviews consider the use of resources as part of the scoping exercise for each audit.

Financial Management

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

Corporate financial control is also exercised through targeted Finance and Performance Review meetings, challenge meetings for Heads of Service led by the Cabinet Members for Resources and Policy & Performance in addition to regular reporting of the forecasted position for both revenue and capital to Cabinet Resources Committee.

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

There have been a wide range of improvements and areas of progress during 2005/06 including:

- The implementation of the financial modules of SAP which has significantly enhanced the control environment for the core financial systems.
- Improved standardised reports from SAP along with increased on-line enquiries from the integrated modules within the system has greatly increased the information available to budget managers.
- The Statement of Accounts for 2004/05 were approved and the subsequent audit was completed in line with the revised timetable set by central government.
- A full review of the processes, procedures and guidance for both finance and non finance staff following the MCS implementation has been completed.
- All budget managers have been trained on SAP to enable them to take full responsibility for their budgets.
- In addition, targeted financial training was provided to managers within Adult Social Services following the identification of a potential risk by external audit.
- Revenue balances forecast to exceed the £10m identified by external Audit at 31 March 2006 having been £5m at 31 March 2005 and less than £1m at 31 March 2004.
- Introduction and maintenance of the financial risk register to inform the forward planning and budget monitoring processes.
- Development of the officer Budget Board as a mechanism to enhance corporate ownership of the forward planning process and to provide a clear mechanism for robust officer level challenge to service proposals.
- Further development of the role of the officer Capital and Assets Group to co-ordinate the approval of capital projects in line with corporate priorities.

Further planned work to build on the progress and success already achieved includes:

- The embedding of SAP to maximise the benefits and reinforce the new roles and responsibilities for financial management.
- The implementation of Cost Planner module to enable budget managers to accurately forecast and manage employee expenditure.
- The roll out of the Business Warehouse tool to enhance the reporting capability and provide additional flexibility for both finance and non-finance staff.
- The development of a wider corporate financial monitoring framework to incorporate revenue and capital, prudential indicators, cash flow, debt management and financial risks;
- Establishing the revised finance service within the Resources restructure to provide both support to front line services and clear strategic direction.
- Enhancing the Councils financial forward plan in a Medium Term Financial Strategy.

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 or quarterly returns from service areas) and Member challenge (Overview and Scrutiny) as well as by the Cabinet Member for Policy and Performance.

Replacement of Performance Management Plans (PMPs) with Key Priority Plans (KPPs) has ensured shared ownership across themed services for the delivery of key objectives. This has embedded a collaborative system based on robust data.

Best Value Performance Indicators (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. This year's pre-audit review process has been streamlined and all data trail evidence is being gathered electronically. Current procedures ensure formal sign off actions at the appropriate level (Head of Service) for BVPI data.

The Corporate Plan 2006/7 -2009/10 reviews the performance of Barnet Council over the last twelve months and sets out the priorities and targets for service improvement over the next three years. FirstStat monitors are priority based and monitor our performance against the Corporate Plan. Data is collected quarterly and the deadline is 17th of the month after the end of each quarter. The Business Improvement Team in the Corporate Performance Office (CPO) collect data from services for the Quarterly Performance Monitoring Tables (known as FirstStat monitors) and Best Value Performance Indicators (BVPIs).

The information presented in the monitoring tables is assessed by the Corporate Performance Office and Heads of Service to provide a traffic light rating on performance for each key measure linked to service objectives.

This information is then reported quarterly to Scrutiny Committees, to Finance & Performance Review meetings (F&PR), and placed on the intranet.

Best Value Performance Indicators (BVPIs) are collated annually in mid May. A new electronic audit sheet was introduced this year to aid the effective validation of BVPI performance data. BVPIs are reported in the Corporate Plan technical appendix and published by the 30th of June each year.

Services must ensure that the systems are in place to collect quarterly monitoring tables and BVPI performance data all year round. It is the service's responsibility to ensure.

- the accuracy of the data provided.
- the existence of detailed audit/management trails supporting this data.
- that data is robust.

Robust challenge and scrutiny through strengthened corporate governance (FirstStat, F&PR) has resulted in improving data quality, and performance improvement and a greater awareness, and ownership, of corporate and service priorities. The improvement in the council's data quality has been formally recognised and reported on in the Annual Joint Audit and Inspection Letter 2004/05.

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.

Key improvements in 2005/6.

1. The Modernising Core Systems (MCS) project went live in August 2005. One of the key benefits of implementing MCS was the significant improvements that a SAP based solution will bring to the control environment. The following benefits are now being realised;

A single Core Accountancy system bringing together all financial transactions into one system including, but not limited to, payroll, procurement, asset values, benefit payments, virements, grants management, accounts payable, income processing, accounts receivable and cash management transactions.

“Real time” budget status reports to Budget Managers providing them the ability to drill down into the accounts therefore allowing them to analyse variances and take immediate action to mitigate or eliminate overspends.

Clear authorisation structures and segregation of duties through strict user access built around role profiles which provides total transparency and traceability against any transaction recorded in MCS.

2. At the end of 2005/6 an Internal Control Checklist review was conducted across the Council taking input from Cost Centre Managers. The process required Cost Centre Managers to assess the strengths and weaknesses of their own internal controls covering the following areas;

General Risk Management	Performance Management
Financial & Financial Management	Legislation
Human Resources	Procurement & contracts
Information Technology	Project Management
Partnerships	Business Continuity Plans

Audit Recommendations

From the data collected, evidence was gathered that supports the effectiveness of the control environment and work plans were implemented that focussed on the actions and responsibilities required to strengthen the control environment.

It is anticipated that the Internal Control Checklist process will become a key Risk Management tool which will be used bi annually to review the strength of the Control Environment.

Internal & External Audit Arrangements

The external auditors rely on the work of Internal Audit on key financial systems and undertake selective reviews of internal control not included within the scope of internal audit. 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. Recommendations of the Committee are reported to the Council for ratification.
- Executive

Cabinet bi annually reviews progress on key corporate risks.

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

All committee reports include a section on risk.

The Audit 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 (except where decisions are exempt from call-in, which happens infrequently and only when necessary) to review all Cabinet decisions. These are automatically placed on the Committee's agenda and not implemented until after the Committee has met, 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 Committee**

The terms of reference of the Audit Committee were as follows:-

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.

Reassuring the Council that the scope and depth of external audit work and the annual External Audit Plan are sufficient and conducted competently, including communication with the external auditor on audit findings and material weaknesses in accounting and internal control systems, including endorsing the annual External Auditor's Letter. Meeting independently with the external auditor periodically, ensuring the independence and objectivity of the external auditor and in matters relating to the provision of non-audit services.

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.

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.

Reporting as appropriate to the Council and Cabinet.

These were the terms of reference for this committee in 2005-6, however revised terms of reference were adopted by the Audit Committee on 15 February 2006.

- **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 and follow-up audits 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 audit findings and risks 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 Committee.

The Chief Internal Auditor is a Chief Officer of the council, with a reporting line to the Chief Executive. The Chief Internal Auditor also reports to the Audit 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) provides;

- a specialist investigation service to the Authority.
- fully inclusive training programme of Fraud Awareness & Education to staff.
- providing advice and assistance on Fraud matters to assist managers in policy writing and procedure changes.
- intelligence gathering.
- corporate pro-active work, including joint working with other Service areas and Government Agencies where CAFT is now seen as a key player in the prevention and detection of crime.

The CAFT team operate completely independently of internal audit, maintaining a clear balance between process and investigation.

CAFT supports a ZERO tolerance agenda on Fraud and Corruption within Barnet.

CAFT operates within a Counter Fraud Framework which was approved by members 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 Whistleblowing policy.

CAFT always seeks 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, the Fraud Act (2001) and the Theft Act 1968.

CAFT is divided into five separate areas: Investigations, Verification, Intelligence, Compliance and Support functions.

Verification Team - responsible for verifying Housing & Council Tax Benefit claims.

Intelligence Team - is the single point of contact (SPOC) for the London Borough of Barnet and co-ordinates all information and intelligence flow to and from CAFT. and works in accordance with the guidelines set out in the National Intelligence Model.

Investigation Team - deals with both benefit and corporate fraud.

Compliance and Standards - continual facilitation of document verification to all council and schools staff involved in verifying identity documents, continual sample testing of assessed benefit claims to ensure accuracy and compliance, promotion of best practice amongst Benefit staff and external resident Social Landlord partners and considering best practice/performance in Barnet against other authorities, implementing change where necessary.

Support Team - provides full administrative support to the 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 has received and dealt with 71,437 telephone calls relating to Benefit information, Investigations and Verification visit enquiries.
- All support staff gained a BTEC in Housing and Council Tax Benefit Administration in 2005/6 and can now assess benefit claims.

Section 5 – Significant Internal Control Issues

When preparing the 2005-6 SIC, all significant risks that may impact on the Council's Corporate Objectives have been identified and actions required to mitigate these risks have been addressed.

An assessment of three key areas was conducted to identify the key risks to the authority. The three areas were;

1. Use of Resources Judgement for 2005 / 6.
2. Risks Identified in the mini SIC process.
3. Risks identified in the Corporate Plan.

1. Use of Resources Judgement for 2005/6 (See Appendix B for details)

The use of resources judgement assess how well LB Barnet manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services.

The key issues where they felt the Council failed to achieve Level 2 performance were:

- Quality of working papers to support the final accounts: Specifically, significant improvements were required in relation to the Housing Revenue Account and the

information received from the ALMO and the information used to support the Fixed Asset register, in particular from the in-house valuations service.

- Asset Management: Linked to the above point, significant improvements were required to address the historic completeness and accuracy issues in relation to the Fixed Asset Register and also ensure that appropriate plans are in place around backlog maintenance.
- Systems of Internal Control: the Council needed to continue to develop mechanisms to evidence senior officer involvement in the SIC and also ensure through the implementation of the SAP system that not only is there a complete set of procedure notes in place but that these are being followed in relation to all the Council's key systems.

Further detail can be found in the "Use of Resources Judgements 2005-06" document which is summarised in appendix B.

2. Risks Identified in the mini SIC process (See Appendix C for details)

The mini SIC process has identified key risks for each Service Area which are now monitored and corrective actions embedded within the Service Plans for each area. A separate document titled "Consolidated Key Risks for 2005-6" captures all Service Area risks and is available for scrutiny.

3. Risks Identified in the Corporate Plan (See Appendix D for details)

The Corporate Plan 2005/6 - 2008/9 identified the following areas where key risks to achieving the objectives are contained within them.

Modernising Core Systems.
Information Systems.
Parking Control.

Human Resources.
Regeneration.
Primary School Capital Strategy.

Internal Audit annual report 2005-6

The most recurring areas of control weakness across the council identified in the 2005/6 Internal Audit annual report are:

- Either no or inadequate policies and procedures (28 instances out of a total 182 reported risks made).

Findings 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.

The generic risks that result from these omissions include potentially: lack of consistency; standards not being set, understood or complied with; loss of knowledge due to staff changes; increased training time for new staff.

- Inadequate monitoring controls over resources (23/182)

The generic risks that result from these omissions include potentially: failure to achieve optimum benefit from resources; management unaware of misuse of resources or potential adverse budget circumstances.

- Inadequate data entry arrangements (22/182)

The generic risks that result from these omissions include potentially: ineffective decision making based on inadequate information; adverse external inspection finding on data integrity.

- Lack of monitoring, budgeting and administrative controls (20/182) The generic risks that result from these omissions include potentially: service objectives not being met efficiently and effectively due to an inadequate control environment.

Management action has been agreed to address weaknesses recorded in the respective reports, which, if implemented, will improve the overall control environment.

31% of risks were assessed by internal audit as 'Priority 1', signifying that there was a 'significant risk that either objectives will not be met efficiently and effectively or that fraud or irregularity is unlikely to be prevented or detected'.

68% of risks were 'Priority 2', signifying 'only limited assurance that objectives will be met efficiently and effectively and that fraud or irregularity will be prevented or detected'.

All Internal Audit work is followed up as a matter of course. Follow-ups indicate how the level of audit assurance has changed as a result of management implementation of agreed actions. Details of the assurance revisions on the 28 follow-ups conducted in the report period are detailed below. Whilst it is encouraging that 19 of the areas are now at a 'satisfactory' level of assurance, it needs to be noted that 9 remain at 'limited' indicating that further management action is required to fully implement agreed actions or mitigate identified risks.

Analysis of Assurance Levels on Follow-up	No.
No assurance still no assurance	0
Limited assurance still limited assurance	8
Satisfactory assurance to limited assurance	1
No assurance to limited assurance	0
No or limited assurance to satisfactory	11
Satisfactory assurance still satisfactory assurance	8
Total	28

External Audit Reports 2005-6

External Audit play a significant role in maintaining the control environment within the London Borough of Barnet through continuous assessments of the processes and procedures that contribute towards it.

In 2005-6, external audit issued reports on the following:

1. SAP implementation phase 1 report.
2. SAP implementation phase 2 report.
3. ESCR project management report.
4. MCS - Controls feedback interim assessment 1.
5. MCS - Control feedback interim assessment 2.
6. Valuation Processes for Other Land & Building and Non-Operational Assets.
7. MCS Pre-Implementation.
8. Best Value Performance Indicators Audit 2005/6.
9. Use of Resources.

10. Grants certification.
11. Follow-up of HR and Payroll.
12. The interim report.
13. Risk Management report.

These reports have been agreed by the Council and management action has resulted from any identified weaknesses. The Audit Committee is responsible for receipt of external audit report and ensures that recommendations are followed up and monitored until satisfactory completion.

Whilst each report contained a number of recommendations, it was not viewed that any of these recommendations contained a significant weakness to the Council's Internal Control Environment.

SIC 2005-6

Input from External Audit, presented to a special Management Board meeting on 16th August 2005, has been acted upon and significant improvements in the SIC have been forthcoming.

The process for production of the annual SIC has been significantly improved with the development of the Internal Control Checklist process and the development of mini-SIC reports that all Heads of Service have adhered to and which underpin the reliability of the Corporate SIC.

The Internal Control Checklist process is a comprehensive audit of the control environment across every Service Area and is conducted by those managers responsible for their own areas.

The feedback from this process enables Heads of Service to recognise weaknesses within their area of responsibility and to address those weaknesses through action plans embedded within their service plans and team plans.

This process ensures that all services effectively contribute to continuous improvements to the control environment which will provide further assurance on the effectiveness of the Council's ability to achieve its commitment to ensure;

- 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.

We are confident that the revised process, implemented during 2005/6, link together work on risk management and assurances obtained from all other sources.

These processes have provided input 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 scrutiny.

Leo Boland
Chief Executive

Mike Freer
Leader of the Council

Appendix B - Use of Resources Judgement for 2005/6

The key issues where the CPA Auditors felt the Council failed to achieve Level 2 performance were:

1. Quality of working papers to support the final accounts:

The Council was required to provide comprehensive working papers to support the accounts at the start of the final accounts audit and to the standard specified by the auditor.

There are a number of areas where working papers of a suitable quality were not provided at any point during the course of the audit, the most significant of were:

- Housing Revenue Account (HRA): The Council failed to ensure that all the appropriate information was made available at the start of the audit and much of the required information was received very late in the audit process; and
- Valuations: The auditors requested copies of a sample of valuation certificates to support the carrying value of the land and buildings within the fixed asset register and hence within the accounts. The Council failed to respond to the request until the week of the local government final accounts signing deadline, and there were significant weaknesses in the Council's in-house valuations service

Compliance with the SORP

For level 2 it is also necessary to ensure that the accounting treatments are in accordance with the Local Government Statement of Recommended Practice. There were a number of instances where the Council failed to comply.

Improvements suggested by the inspection

Although awarded a Level 2 for Key Lines of Enquiry (KLOE) 1.1, if the extent of the weaknesses of the valuations processes been known by the auditors it might have been a level 1

The appropriate arrangements needed to be put in place to provide working papers of a suitable quality

Above this, to achieve level 3 the following improvements would be necessary:

- The extent to which the draft accounts are subject to a robust member challenge.
- The need to provide members with appropriate supporting papers to interpret the accounts in a user friendly manner.
- Reduction in the number of adjustments required due to SORP non-compliance.

Achievements

Valuations completion (AMP1) and Improve valuations documentation (AMP2) are done.

Quality of final accounts working papers (FM4) :

- Quality of working papers has improved quite significantly in 05/06 due to new SAP system but further work is required to bring them up to the standard required.
- Standard template for the production of working papers was designed and distributed for all accountancy teams two months before closedown.

Member scrutiny of the Statement of Accounts (FM5) :

- Constitution amended to enable approval by Audit Committee.
- Audit Committee trained to increase their awareness as part of the Member Induction process.
- Statement of Accounts sent to Audit Committee with a covering report providing greater explanation of each statement and highlighting the key issues involved.

Final accounts statutory compliance (FM3)

- Initial review of SORP and BVACOP to ensure compliance with guidance completed. Will continue as part of ongoing closing work.

2. Asset Management:

The KLOE in relation to the Council's asset base is concerned with the effectiveness of the arrangements that the Council currently has in place to manage its asset portfolio.

The Council only achieved a Level 1, the Level 2 criteria the Council failed to meet were :

- Fixed Asset Register

There were serious concerns over the fixed asset register, although there were improvements planned through the implementation of the SAP system. Significant improvements in both the completeness and accuracy of the fixed asset register were necessary

- Maintenance Plans and Assessment of Backlog Maintenance

The Council failed to meet criteria for annual planned maintenance programmes and formal assessments of backlog maintenance and documents were not produced.

Improvements suggested by the inspection

The Council had introduced a Capital and Assets Group and improved arrangements for the management of its asset base more generally.

It needs to address the specifics above, as well as concentrating on getting the basics right, including systems of record keeping.

Achievements

Resolved issues with current SAP usage (AMP4)

- Issues with current SAP usage have been resolved except identification of rental / invoicing arrangements with BT.

Improve record keeping arrangements (AMP3)

- Most of AMP3 is now complete

3. Systems of Internal Control:

This includes the Statement on Internal Control (the SIC), the effectiveness of the Audit Committee, the quality of the Internal Audit function and the completeness of procedures notes.

The Level 1 may be indicative of the historical weaknesses, which may be addressed in part through the implementation of the SAP system.

Level 2 criteria the Council failed to meet:

Assurances to support the SIC

The production of the SIC was largely led by the Chief Internal Auditor with input from ourselves but there was insufficient documented input from senior officers and members.

This weakness has already been acknowledged by the Council and mechanisms were being put in place to implement a “mini-SIC” framework, led at a Service Area level.

Procedure Notes

The Council did not have a complete set of procedure notes in place for the 2004-05 financial year.

However, the SAP implementation may be seen as a vehicle to demonstrate that this has been addressed for at least part of the 2005-06 financial year (since the go-live date of 1st August 2005).

Partnership Register

The Partnership Register was incomplete, although this was being worked on.

Improvements suggested by the inspection

There were some areas of weaknesses within the Partnership Register. However there were also some areas of best practice identified in relation to the effectiveness of the Audit Committee. These areas of best practice would indicate the Council could satisfy Level 4 criteria in these areas.

In order to capitalise on this area the Council needed to continue to work towards addressing the current barriers and achieving the lower levels

Achievements

Development of the Mini SIC process (RIC2)

- All mini SICs have been completed. A Draft Corporate SIC has been published and feedback has been given by the External Auditors. The final Statement of Internal Control includes their feedback.

Development of procedures / manuals for business critical systems (RIC3).

- Identification of business critical systems and Draft Accountancy manual completed.
- Identification of mechanism to ensure annual review of procedures and guidance for all business critical systems to be incorporated into Service Planning.

Review of partnership agreements for all significant partnership arrangements (RIC5)

- Partnership log available at S:/New CPO/Partnerships/Partnership Registers.

Appendix C – Risks Identified in the mini SIC process;

Key risks in 2005/6 that affected quality of service delivery or had an impact on the control environment are detailed below by Service Area.

The resolution to these risks have been captured and incorporated into the Service Area Plans for 2006/7

Service Area - Environment & Transport

The following issues were identified during 2005/6 to have had a significant impact on service delivery provided from Environment & Transport. These issues have been assigned to an identified Senior Officer for monitoring and resolution.

A Parking (See Corporate Risk in appendix 2 of this report)

B Integration of systems (SAP) with local business processes to streamline and keep focus on service delivery.

Service Area - Housing

The following issues were identified during 2005/6 to have had a significant impact on service delivery provided from the Housing Service. These issues have been assigned to an identified Senior Officer for monitoring and resolution.

A Lack of financial information associated with delays in training budget managers in SAP and poor service from accountancy team.

B Improvement in SAP rating for council dwellings to meet LPSA targets

C Homelessness and use of temporary accommodation continuing to rise

D Joint work with London Fire Brigade (LFB) to reduce accidental dwelling fires and related injuries.

Service Area – Internal Audit

None

Service Area – Law & Probity

Area	Risk to service delivery in 05/06	Assigned
Legal	None	
Committee	None	
O&S	None	
Cabinet Support & Political Assistants	None	
CAFT	None	
Electoral Registration	None	

Emergency Planning (under review)	Lack of preparedness for Civil Contingencies Act requirements	Dorne Kanareck
CCTV	None	
Land Charges	None	
Registrar	None	

Service Area – Adult Social Services

A Data inputting into SWIFT:

SWIFT enables client records to be created and maintained as well as care decisions to be recorded. Incorrect data entry or late data entry had the potential to affect service delivery for service users and could affect payments to providers.

In Older Adults, this was highlighted as an issue and further capacity was brought in to support data entry.

Training was made available to staff, with proficient staff available on a 'floor walking' basis in office locations.

A SWIFT programme was established that addressed a range of issues associated with data errors, SWIFT support, SWIFT training, management reporting and performance guidance.

This has considerably improved the data in SWIFT and this can be seen in the improvement of the PAF performance indicators.

B Project capacity within Younger Adults:

This was identified as a key risk area. A business case was created through which resources for 3 project staff were identified. Recruitment to these posts will start in September.

Much of the partnership development will be supported by these posts and this will not only minimise risks to LB Barnet but also ensure that progress against national priorities is being achieved.

C Ensuring diversity issues are embedded within the Directorate:

Capacity has been brought into to develop an equalities and diversity framework which includes undertaking equal opportunities impact assessments on projects. Work is also being developed with staff from Black, Asian and Ethnic Minorities to ensure that a forum exists.

An Adult Social Services Assistant Director is also now a diversity champion within the Directorate.

D Underperformance in key targets

Where this has been identified within the Directorate, an individual member of the Directorate works to investigate what underpins the performance issue. The output is a remedial action plan which in all cases has resulted in the target having sustained improvement (example the number of carers reviews).

E Issues around the effectiveness of the mental health provision partnership:

These were identified and affirmative action was taken and internal audit were asked to

undertake a partnerships audit. A poor rating was given, and while this was not surprising it has given legitimacy to LB Barnet with NHS partners to ensure that an action plan is developed.

Service Area – Planning and Environmental Protection Services

A Unitary Development Plan/Local Development Framework

Concerns that delays in adoption of UDP and progression of LDF would:

1. Impact on the delivery of housing growth and targets, sustainable development objectives and planning decisions (in particular success at appeal) due to out of date policies.
2. Weaken the council's ability to negotiate community benefits and planning obligations (Section 106) contributions and deliver key policy and sustainability objectives.
3. Undermine the robustness of development plan (LDF) and alienate local communities from planning process through the lack of up-to-date Core Strategy and Statement of Community Involvement (SCI).

At this point in time the UDP is at the post direction modification stage and it is programmed for adoption April – June 2006. The Local Development Framework 2005/6 work programme is measured by nine milestones; of these the Statement of Community Involvement (SCI) is currently out to public consultation; the Core Strategy cannot be started until the UDP is adopted; Colindale and Mill Hill Area. Action Plans are to be commissioned March 2006; SPD on planning contributions has been approved; preparation has commenced on SPDs on Lifelong Learning and Affordable Housing; SPD on Sustainable Design and Construction has been commissioned and joint work on the Waste DPD has commenced.

B Local Development Scheme

Concerns that failure of GoL to approve LDS by target deadlines would result in an element of 2005/6 PDG being lost and CPA score adversely affected.

The Local Development Scheme was approved in February 2005 and the full PDG for this element was awarded in phase two 2005/6.

C Action Plans, Development Frameworks

Concerns that failure to produce Area Action Plans, Development Frameworks and other detailed planning and development/design briefs would not achieve sustainable communities, regeneration objectives or proper planning of the area; would make it difficult to achieve appropriate form of development and infrastructure improvements to accommodate growth; and may lead to prolonged delays in planning process and impact on success at appeals.

D Recruitment/Retention

Concerns that to recruit staff and appoint to key posts will affect performance and delay projects.

There have been difficulties in appointing suitable staff in all areas of the service during 2005/06 with posts remaining unfilled despite several advertisements.

During 2005/6 11 members of staff left the planning area of the service; 7 of these posts have been filled. However key posts in planning have now been filled.

Environmental Health Officers posts have been re-evaluated and agreement has recently been obtained to participate in a London region training scheme.

4 agency staff were employed in Building Control during 2005; this has now reduced to 3 and there is an intention to permanently appoint to vacant posts during 2006/7

E Regulatory and Enforcement Functions

Concerns that failure to improve regulatory and enforcement functions would not meet stakeholder's expectations and customer service targets would not be delivered. Risk of unauthorised developments going unchecked thus harming the environment and the risk of Council decisions being overturned on appeal.

The planning enforcement service has been reviewed to take account of the recommendations of the Overview and Scrutiny report on enforcement and the Best Value inspection of the Planning Service and new processes and procedures adopted to address the issues; a legal technician has been appointed to administer the enforcement notice procedures. There has been a significant improvement in performance.

The introduction of quality control to planning decision making, appointment of Appeals Officer, Member training and changes to delegated powers have reduced the risk of making poor decisions but the risk continues and is exacerbated by poor decision making of the Planning Inspectorate.

F Performance Targets

Concerns that failure to meet BVPI targets would adversely impact on Planning Delivery Grant (PDG) allocation and customer care. Risk of falling back into 'Standards Authority' designation.

Performance against these indicators has continued to improve and exceeds targets; PDG allocation reflects this performance. Risk of falling back into 'Standards Authority' designation is minimal but there is a significant risk that improvements cannot be sustained without additional investment in this area of the service.

G Licensing

Concerns that failure to achieve income could affect service delivery.

H Out break of Food Poisoning

Concerns that such a major outbreak would put pressure on resources and the service would be unable to deliver within acceptable deadlines.

Service Area – Resources

A HR Data Recording

In 2002/03 concerns relating to working days lost due to sickness absence were inaccurate and awarded a reserved judgement by External Audit.

Since then, sickness data as well as all other data related to HR employee information has been qualified due to queries relating to the accuracy and completeness of employee personal data held on Barnet's electronic and hard files.

These issues are being addressed through 2 projects;

- 1 The 'Identifying and Resolving BVPI 12 Sickness Monitoring Issues' project
- 2 The 'Post- SAP go live HR data cleanse' project.

HR data integrity has greatly improved as a result of the improvement work that was completed in 2005-6. Further work is required to maintain and improve the level of data input to ensure it does not compromise the improved data integrity

B Staff Recruitment Processes

Operation Windmill was set up to investigate weaknesses in the recruitment of staff. Its findings were that pre-employment checks were not being carried out sufficiently.

To ensure safe recruitment, a mandatory check list was introduced for all new recruits to ensure that all checks were carried out

C Inaccurate National Insurance details

The National Fraud Initiative investigated inaccurate national insurance details. Further investigation highlighted false documentation of employees as documents were not being verified due to a lack of staff training and equipment.

The staff found to have false documentation were reported to the appropriate authorities.

In response to this failing, documentation verification equipment and staff training has been provided to HR.

D Recruitment check lists

On 30/09/05 a 2 day operation occurred to investigate whether the check list was being adhered to. The results were not all positive.

In response to this the appropriate Heads of Service were notified and they are taking action to tighten up control.

E Taking forward Customer Services.

Improvement in customer service access have been seen in both Fenella and Barnet House with the refurbishment on the two main reception areas.

This was a significant milestone for the Customer Service Strategy and further work is scheduled to focus on improvements to telephony and First.Contact.

The responsibility for Customer Service now falls to the newly formed Organisational Development & Customer Service Division within Resources. This clarifies the reporting lines and provides greater focus on all aspects of Customer Service.

F Staff Appraisals

A target was set to ensure all staff within Resources received a formal appraisal in 2005/6. Resources managed to appraise 70% of all staff during 2005/6. (The corporate achievement was 50%)

Greater emphasis will be applied to all Managers in Resources to ensure ALL staff receive an appraisal and have clear defined objectives for 2006/7.

To further improve the quality of appraisals, Resources will be piloting a Competency Based Appraisal Programme. All Managers in Resources will be trained in delivering Competency based Appraisal to prepare them for appraising staff.

The SAP solution from MCS will also track appraisal progress and provide "real time"

management information to Senior Management within Resources giving an accurate indication of the progress to date.

G Property Asset Valuations

An issue was identified during 2005/6 that raised concern over the quality and accuracy of our property asset values.

To recover the situation the Property Services team were tasked with re-valuing all the authority's property assets and recording the information into the Corporate Finance System (SAP).

Progress on the issue is in line with the agreed 5 year rolling plan of which 70% of the total Property Asset Value has been completed.

Further valuations will be completed during 2006/7 in line with the agreed 5 year plan and regular progress reports will be provided from Property Services to the Resources Management Team.

Service Area – Education and Children & Families

During the end of 2005/6 and the start of 2006/7 both Education and Children & Families participated in a comprehensive audit of their areas as part of the Joint Area Review. Areas of weakness were identified and detailed in the Auditors final report which also covered Auditors recommendations and the Authority's response and action plan.

Both Education and Children & Families also comprehensively participated in the Internal Control Checklist (ICC) process. All Budget Managers within these Service Areas were asked to complete a full assessment of the control environment, in line with the ICC process conducted across the rest of the Authority.

The process asks them to identify those areas of the control environment where improvements can be made and to identify the course of action required to strengthen the control environment.

These actions were then incorporated into the Service Plans and Department Plans for implementation during 2006/7.

The Internal Control Checklist process will be repeated during 2006/7.

Appendix D - Risks Identified in the Corporate Plan;

Modernising Core Systems

At the start of the project it was anticipated that there would be multiple risks and issues that could affect the successful implementation of the MCS solution in terms of both its functionality and impact on the Business.

The major risks identified were

Key Risk 1 - Business Engagement with the implementation of MCS.

Action taken -

Funding was made available in the project costs to provide back fill funding allowing Services to release key people to the project and backfill with temporary arrangements.

Key Risk 2 - Preparing the Authority for working with MCS

Action taken -

To help them make the change from old ways of working to the new MCS processes a Change Management Team was included in the project team structure whose responsibility was to prepare the Authority for the migration to new business processes and procedures.

A Change Manager and Change Management Team was appointed to the project from within the Authority to lead on and own engagement issues and who were responsible for preparing the Authority for the migration to new business processes and procedures.

A Change Management network and structure was established which incorporated Senior Managers (as Service Champions) and other LBB staff as Change Agents from all of the Service Areas who were responsible for communicating within their own Service Areas and feeding information back into the Project Management Team via the Change Manager

Key Risk 3 - Supporting the Authority post go live

Action taken -

To ensure employees of the Authority had a period of time to come to terms with the revised processes and to move towards a continuous improvement program based on best practice using SAP, the Competency Centre was established to provide support to the user community on the technical process of a SAP solution, to develop strong effective and efficient business processes and to lead on process improvements.

The Competency Centre (now known as the Resources - Shared Service Centre) is now embarking on a further engagement program across the Authority looking to embed SAP based processes where they are deemed necessary.

Human Resources

The Strengthening HR Project identified three key areas of risk. The major risks identified were:

Key Risk 1 - Resolve HR and Payroll data integrity issues

Action taken -

Operation Windmill was established as a joint project with HR and the Corporate Anti-Fraud Team (CAFT), with CAFT taking the project lead.

The project focused on tackling systemic weaknesses relating to recruitment and potential fraudulent employee activity.

This has involved 'locking the door' in terms of recruitment processes, introducing an interim corporate checklist to ensure consistency of documentation required of new employees, chasing personal information data cleanse forms from all employees and following up on suspect National Fraud Initiative cases.

Actions from Operation Windmill include:

- The introduction of the corporate checklist
- Personal data cleanse activity
- Investigations into employees with temporary national insurance numbers
- Investigations into employees identified as suspect by the National Fraud Initiative report
- Initiation of safer recruitment pilots in 3 schools in the borough

Key Risk 2 - Resolution of systemic issues within Human Resources

Action taken -

Action plan developed to address the priority service performance and policy issues covering the following key objectives;

- Continuation HR data integrity, building on the work of Operation Windmill.
- Tackling the skills issues across HR.
- Development of a corporate HR strategy.
- Creation of HR policies and procedures to be applied consistently across the authority.

Progress to date against the action plan include:-

- Completion of two phases of Operation Windmill (see above).
- Establishment of project team to deliver cleansed HR files across the Authority in 2006.
- Plans in place to tackle other weaknesses in HR data.
- Review of HR model of devolution.
- MCS training delivered.
- HR strategy development underway in conjunction with Resources Overview and Scrutiny Committee.

ITP (now called Modernising Our Infrastructure)

Modernising Our Infrastructure Programme is managed under a structured Prince 2 protocol. A full risk management process is in place managed by the Programme Manager.

Key Risk 1 - IT infrastructure is not aligned with business, with the resultant risk of failure to meet corporate IS objectives, failure to satisfy business needs, misplacement of resources, poor integration with other initiatives and duplication or misapplication of resources

Action taken -

A comprehensive evaluation has been undertaken of all current IS systems and an interface approach between all interrelated systems is under development. This recovery project sits

under governance of IS programme board who are overseeing numerous IS developments to ensure they are aligned with the strategy

Key Risk 2 - Conflict with the organisation's financial strategy; leading to

- inability to afford the acquisition,.
- inability to cope with possible unforeseen additional costs.
- inability to afford additional business requirements identified in business case adding to overall project costs and the need for additional funding.

Action taken -

The budget for ITP was approved in Capital Programme 2005/2006. Professional Services costs will be fixed after design phase, but capped at 10% above submission at BAFO. Hardware costs will be procured under an open book pricing framework.

The Programme Manager meets with the Project Sponsor weekly to review the budgets and a report passed to the Project Board.

Any projected overspends are discussed with the Project Sponsor and action taken to reduce or seek authorisation for the forecast overspend.

This project is managed using VFM principles therefore some areas of budgeted spend may need to be addressed to accept greater cost which will deliver enhanced value.

Key Risk 3 - Lack of engagement across the Authority and active participation in relevant discussions at relevant forums could have an impact on the solution chosen

Action taken -

The project plan has clear milestones which are updated regularly and presented to the Programme Board / Project Board as necessary. A highlight report is issued via IS programme office.

Key Risk 4 - Incumbent supplier's performance falls to unacceptable levels towards expiry date

Action taken –

Relevant notice has been given to Xpert Systems for the termination of the support contract. Service Delivery Manager from Prime have been appointed and are now based on-site full time to manage transition.

Regeneration

An independent review of one of the largest schemes within the Regeneration programme was undertaken in June 2005 by 4P's and followed the Gateway review methodology. The results of this review were translated into risks and incorporated within the Council's risk register

Key Risk 1 - Failure to have in place a robust strategy plan to reflect clear deliverables and objectives for the Brent Cross Cricklewood Regeneration Programme.

Action taken -

Strategy plan and associated project management techniques now in place al.

Key Risk 2 - Failure to ensure that a business case has been established and approved which contains key aspects such as Business Objectives, Costs and Benefits and Performance Measures. This not a risk

Action taken -

Development of the business case is in progress. Developers business plans still to be tested. Delayed as a result of finalising the business plans by the developers. Key priority for Strategic Development Unit in 2006/07

Key Risk 3 - Failure to establish an organisational structure with appropriately trained and experienced staff to manage and oversee the overall success of the project. This not a risk

Action taken -

Organisational structure established with the Head of Strategic Development in post. Full Strategic Development Unit structure agreed by General Functions Committee on January 19th 2006

Key Risk 4 - Failure to establish a Management Board Structure which has clear lines of responsibility and terms of reference.

Action taken -

The Project Steering Group will be reconstituted at an appropriate time into the Project Management Board. The composition of the Project Management Board has been agreed and the terms of reference will be adopted at its meeting in June 2006.

Parking Control

The significant corporate risk for the parking service is a financial one. The councils parking controls are not implemented for the purpose of generating revenue (in line with legislative requirements) they are in place to put into practice the councils traffic and parking policies. The funds generated are ringfenced for use for transport improvements, street lighting etc. The generation of an annual surplus which must be budgeted for, and the Section must ensure that it manages this surplus in the best interests of the Council and should take steps to maximise the recovery of the revenue due.

Key Risk 1 - Failure to ensure Parking Control manages the annual parking surplus in the best interests of the Council and take steps to maximise the recovery of the revenue due.

Action taken -

Review each parking service element to identify opportunities for service improvement covering;

- Parking enforcement deployment has been reviewed, benchmarks have been established, and performance of individuals is measured against the benchmarks.
- Performance reports and monitoring of individual Parking Officers have been constructed
- Parking Penalties Processing team procedures are being rolled out to enable adequate scrutiny to take place at an early stage of the representation process.

Adjustments to the 2006/07 base budget have been made to reflect a more realistic level of surplus in line with 2005/06 outturn projections

Key Risk 2 - Failure to maximise the ability of parking attendants to identify and penalise vehicles contravening restrictions in order to achieve effective management of traffic and parking.

Action taken -

Quality loops have been set up to improve the “enforceability” of the streetscape by implementation of good quality signage and markings, and maintaining it to current legal standards.

Primary School Capital Strategy

Key Risk 1 - Failure to address investment need

Action taken -

The financial model including sensitivity analyses are being run, taking account of the latest estimates on land valuations and construction prices.

Key Risk 2 - Achievability of land valuations and receiving these amounts in line with the projected programme spend profile.

Action taken -

Land valuations have been reviewed. An independent assessment of land values was conducted and a significant gap between LBB Property Service figures and the independent assessor was identified.

A procurement model has been explored with external legal advisors which would test how land is handled in the programme and how the council can be more confident that it is getting value for money. This proposed model will form part of the report going to Cabinet Resources Committee on 28 June.

The proposed tendering process will require all bidders to submit two tender returns, one including land and the other excluding land, thus allowing LBB to make an accurate assessment using value for money principles.

Under this model the final contract let would include an override clause which will allow LBB to receive a share of any realised values which are above the forecast levels.

Key Risk 3 - Failure to address construction capacity and pricing issues.

Action taken -

There are several medium sized construction companies which continue to express interest and capacity to undertake the programme. These contractors would not normally be engaged on major schemes such as the Olympics or the large secondary school projects under the Building Schools for the Future programme.

A review of construction costs has been undertaken and fed into the financial model.

Key risk 4 - Failure to achieve the roll projections

Action taken -

Roll projections have been reviewed by an external advisor using GLA information.

Key risk 5 - Failure to engage actively with stakeholder and manage their expectations and perception of the project.

Action taken

The Chief Education Officer held separate meetings at each Wave 1 school with parents, governors and staff. There was also an open meeting in NLBP. A consultative group of head teachers is being set up to consider aspects of the programme in more detail.

Key risk 6 - Failure to appreciate the market appetite for this project.

Action taken

Soft market testing has been undertaken to assess the appetite for the programme. This has indicated strong on-going interest.

Key risk 7 - Failure to gain the appropriate approvals from the various governing bodies. (planning, school organisation, DfES)

Action taken: Planning advisors have been engaged to produce an over-arching planning strategy for the programme and to examine issues at each site. This work is designed to build information for S77 DfES and Sport England approval processes. An analysis of the School Organisation process for amalgamations is being undertaken.

Key Risk 8 - Failure to provide proactive support to stakeholder throughout the project life cycle

Action taken

The consultation exercise (Key risk 5) demonstrated a high level of support for the programme in most schools. There was concern where amalgamations were proposed.

It should be stressed that these are just risks at this point; i.e. they have been properly identified as part of management's risk management arrangements. The appropriate officers seek to ensure that the mitigating controls, described in the appendices to this report, operate effectively to ensure the risks do not materialise.

Qualification of BVPIs in Adult Social Services

Adult Social Services currently has six best value performance indicators (BVPIs) as part of its set of 31 PAF indicators set by the Department of Health. The Council's External Auditors (RSM Robson Rhodes) raised concerns with regards to the accuracy and quality of BVPI data and reserved all seven BVPIs in 2003-04 and all eight for 2004-05. They further commented that reservations were due to a combination of historical weaknesses dating back to the operations of CRISSP and more recently due to implementation issues with regards to the SWIFT system.

A BVPI audit action plan was created in July 2005 to act on the recommendations of the external audit and ensure un-reservation of all BVPIs in 2005/06. A subsequent audit was carried out by LBB internal audit in December 2005 and the plan was revised in the light of those findings.

As part of Adult Social Services' e-enablement strategy, the implementation of the Electronic Social Care Record in Barnet in 06/07 has meant that the method of matching paper files to relevant databases (as per the audit tests) to validate information on Swift can no longer be considered satisfactory. The dynamic nature of a client's care package, and the increased autonomy available to the client, means that paper records are no longer effective mechanisms for holding definitive client data.

With this in mind, Adult Social Services started the implementation of new data validation processes in early 2005, which have since led to substantial improvements in data quality. At the time of the audit, these systems had completed their first phase of cross-validation in the purchasing teams, but were not yet being routinely cross-checked against care management information.

The new systems of cross-validation highlights our approach to managing the completeness, accuracy, reliability and timeliness of data on Swift in comparison with legacy approaches which look to paper files.

It is recognised that the work already undertaken, including all-team training, process documentation and substantial cross-system validation has resulted in us fulfilling the audit recommendations.

Further consolidation of the last year's activity, and the introduction of sustainable processes will help to engage staff at all levels in the pursuit of data quality and Internal Audit are reviewing arrangements for producing BVPIs within Adult Social Services.