

MEETING

AUDIT COMMITTEE

DATE AND TIME

WEDNESDAY, 28 FEBRUARY 2007

at 7.00 PM

VENUE

THE TOWN HALL, THE BURROUGHS,

HENDON, NW4 4BG

TO: MEMBERS OF THE COMMITTEE (Quorum 3)

Chairman: Councillor Jeremy Davies

Vice Chairman: Councillor Daniel Thomas

Councillors:

Danish Chopra

Dean Cohen

Geof Cooke

Richard Cornelius

Marina Yannakoudakis

Substitutes:

Councillors

Wayne Casey

Mukesh Depala

Monroe Palmer

Hugh Rayner

Alan Schneiderman

Agnes Slocombe

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

Janet Rawlings
Democratic Services Manager

Democratic Services contact: Flick Heron 020 8359 2205

CORPORATE GOVERNANCE DIRECTORATE

To view agenda papers on the website: <http://committeepapers.barnet.gov.uk/democracy>

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Town Hall, Hendon NW4 4BG

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8.	ANY OTHER ITEMS THAT THE CHAIRMAN DECIDES ARE URGENT	-	-

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AGENDA ITEM: 6 Page nos. 1-8

Meeting	Audit Committee
Date	28 February 2007
Subject	Use of Resources – Internal Control Update
Report of	Executive Director for Resources
Summary	To update the Committee on planned actions for the improvement of the Internal Control key line of enquiry within the Use of Resources judgement.

Officer Contributors	Executive Director for Resources Deputy Director for Resources & Chief Finance Officer Head of Internal Audit & Ethical Governance Head of Strategic Finance
Status (public or exempt)	Public
Wards affected	n/a
Enclosures	Appendix A – Key actions for improvement
For decision by	The Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Jonathan Bunt 0208 359 7249

1. RECOMMENDATIONS

- 1.1 That the Committee note the action plan for the improvement of the Internal Control key line of enquiry under the Comprehensive Performance Assessment Use of Resources judgement attached at Appendix A, and consider whether there are any areas on which they require additional action.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 A strong system of internal control, risk management, and anti fraud activity is a significant aspect of a strong and supportive corporate governance framework, contributing towards the Corporate Plan priority of a Better Council for a Better Barnet.

4. RISK MANAGEMENT ISSUES

- 4.1 Failure to achieve a higher or maintain the existing Use of Resources score could impact on the overall Comprehensive Performance Assessment for the Council.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Effective internal control provides assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community.

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 None specific.

7. LEGAL ISSUES

- 7.1 None specific.

8. CONSTITUTIONAL POWERS

- 8.1 The terms of reference for the Audit Committee include consideration of the external auditor's annual letter, relevant reports and report to those charged with governance.

9 BACKGROUND INFORMATION

- 9.1 The Use of Resources assessment forms part of the Comprehensive Performance Assessment and is one of the level one assessment blocks, alongside children and young people and social care (adult), as part of the overall judgement for the authority. As a result the Use of Resources

judgement has a very significant impact on the overall star rating that the authority can achieve.

9.2 The assessment focuses on financial management but links to the strategic management of the Council to ensure resources are allocated to Council priorities and is carried out annually by the Council's external auditor, RSM Robson Rhodes LLP. The judgement is split over five key lines of enquiry (KLOE):

- Financial reporting
- Financial management
- Financial standing
- Internal control
- Value for money

9.3 This Committee has a specific remit to consider the internal control arrangements for the authority and should therefore receive an update on progress and planned improvements on that area. The overall internal control KLOE is concerned with 'how well the Council's internal control environment enable it to manage its significant business risks', i.e. are there sufficient arrangements, systems and processes in place to mitigate the risk exposure of the authority, and three more detailed areas are reviewed:

- Management of significant business risks
- Arrangements to maintain a sound system of internal control
- Arrangements to promote and ensure probity

9.4 Each KLOE and sub KLOE are assessed between level 1 (below minimum requirements – inadequate performance) and level 4 (well above minimum requirements – performing strongly). The individual and overall scores for internal control are detailed below:

Key Line of Enquiry	2005	2006	2007 Target
Management of significant business risks	2	2	3 / 4
Arrangements to maintain a sound system of internal control	1	3	3
Arrangements to promote and ensure probity	2	3	4
Internal Control Overall	2	3	3 / 4

Whilst the overall increase should be noted, of particular significance is the improvement in the system of internal control moving from a position which generated specific concern from the external auditor to now being an area where they are highlighting areas of best practice as a result of the improvement implemented following on from the 2005 judgement. Improvements included the introduction of the 'mini' Statement of Internal Control for each service area, more robust and enhanced documentation of systems and associated procedure notes and the effectiveness of the Audit Committee.

9.5 As part of the judgement received, the external auditor identified potential areas for improvement ahead of the 2007 assessment. These suggestions

have been combined with the work of officers reviewing the revised requirements for the next assessment and the key actions are detailed in Appendix A. This action plan is monitored by officers as part of the overall Use of Resources monitoring.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: JL
CFO: JB

Appendix A – Key Actions for Improvement

Area	Level	Task	Lead Officer	Target Date	Progress
Risk Management	3	Partnerships should have formal risk assessments performed.	Andrew Nathan (Community Partnerships Manager)	May 2007	Work commenced on definition of a partnership
Governance & Probity	2	Governance arrangements should be reviewed for all partnerships considered key to strategic objectives.	Jeff Lustig (Director of Corporate Governance) / Andrew Nathan (Community Partnerships Manager)	September 2007	Work on this is commencing.
Internal Control	4	The standing orders, standing financial instructions and scheme of delegation make specific reference to partnerships.	Jeff Lustig (Director of Corporate Governance) / Andrew Nathan (Community Partnerships Manager)	September 2007	Reference in Financial Regulations regarding entering into partnerships but no defined guidance. Further work on this to be undertaken consequent upon other activity relating to partnerships
Risk Management	3	Risk management processes should be formally reviewed and updated annually.	Mark Burgess (Head of Corporate Services)	April 2007 (risk logs)	Completed: Currently in the process of migrating excel based risk logs over to WorkTogether. Target for completion is April 2007. Processes and procedures for updating WorkTogether, including Risk Management Guidelines, are in place.

Appendix A – Key Actions for Improvement

Area	Level	Task	Lead Officer	Target Date	Progress
Risk Management	3	All Members and staff should have appropriate risk management training scheduled on a yearly basis.	Mark Burgess (Head of Corporate Services)		Risk Management training is provided to the Service Area Performance Officers as and when required. - agreed that Risk Management training is not to be provided to all staff. - Planned Officer training and development will have an emphasis on “what does it mean to be a manager at Barnet.” - Mark Burgess setting up forum with performance officers. To be a mechanism for cascading down to services.
Risk Management	3	Risk management issues should be reported to Cabinet and Audit Committee on a regular basis throughout the year.	Mark Burgess (Head of Corporate Services)	February 2007 (Next Report to Cabinet and AC)	Provide bi-annual reports to both Cabinet & Audit Committee
Risk Management	4	The Council considers positive risks (opportunities) as well as negative risks (threats).	Mark Burgess (Head of Corporate Services)	02/2007	To be included in updated Risk Management Strategy. - Drafted. To be part of paper taken to Cabinet 26/2
Internal Control	2	All procedure notes for each key system should be reviewed and amended on a regular basis.	Alison Phelan (Shared Service Centre Manager)	Ongoing	Part of Business Continuity Planning

Appendix A – Key Actions for Improvement

Area	Level	Task	Lead Officer	Target Date	Progress
Internal Control	3	The Council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance, that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues.	Clive Medlam (Chief Finance Officer)	N/A	Completed The Council had an Audit Committee before the requirement to have one.
Internal Control	3/4	The standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate and makes reference to partnerships.	Clive Medlam (Chief Finance Officer) / Jonathan Bunt (Head of Strategic Finance)	March 2007	Revised financial regulations to be considered at Audit Committee in March 2007
Internal Control	2	The Council has a business continuity plan in place which is reviewed on a regular basis.	Dorne Kanereck (Deputy Director of Corporate Governance)	February 2007	To be considered by senior officers in February 2007
Governance & Probity	4	The Council should continue to review its ethical standards and conducts for all Members and staff and ensure that these are in line with written procedures and guidelines.	Jeff Lustig (Director of Corporate Governance)/ Michael Bradley (Head of Internal Audit and Ethical Governance)	Ongoing	To be part of the work programme of the Ethical Governance Manager (EGM) when appointed. Recrutiment of Ethical Governance Manager advertised – interviews to take place w/c 12/3/07

Appendix A – Key Actions for Improvement

Area	Level	Task	Lead Officer	Target Date	Progress
Governance & Probity	3	The Council is proactive in raising the standards of ethical conduct among Members and staff, including the provision of ethics training.	Jeff Lustig (Director of Corporate Governance) / Michael Bradley (Head of Internal Audit and Ethical Governance)	Ongoing	As above
Governance & Probity	3	Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and pecuniary interests. There is evidence that Members and staff are making appropriate disclosures in the registers and that they are regularly reviewed.	Jeff Lustig (Director of Corporate Governance) / Michael Bradley (Head of Internal Audit and Ethical Governance)	October 2007	As above – a review of the framework of controls around this area will be an early task for the EGM.
Governance & Probity	3	The Council can demonstrate that the counter fraud and corruption work is adequately resourced.	Dorne Kanereck (Deputy Director of Corporate Governance)	December 2006	Robson Rhodes have alluded that it is Level 4 already: Quarterly Performance Indicators are issued. Work programme and Annual Report is sent to Members.
Governance & Probity	3	Establish effective action in response to whistleblowing procedures.	Dorne Kanereck (Deputy Director of Corporate Governance)	December 2006	All in place. Policy and independent phone line.
Internal Control	2	Key financial systems and balances should be reconciled on a regular basis.	Jonathan Bunt (Head of Strategic Finance) / Julie Oldale (Head of Finance Support Service)	March 2007	Closing & Compliance team established within Finance Support Service to monitor the completion of the key financial reconciliations.

AGENDA ITEM: 7

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Meeting	Audit Committee
Date	28 February 2007
Subject	Work Programme for 2007/08
Report of	Deputy Director for Resources & Chief Finance Officer
Summary	To propose a work programme for the Audit Committee for the next twelve months.

Officer Contributors	Head of Strategic Finance
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – Work Programme 2007/08
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	-

Contact for further information: Jonathan Bunt, 020 8359 7249

1. RECOMMENDATIONS

- 1.1 That the programme of work for the Committee as set out in Appendix A be approved;
- 1.2 That the Committee gives its views on proposals for member briefings as set out in paragraph 9.9.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee, 15 February 2006, Decision 7 – resolved to recommend new terms of reference to the Special Committee (Constitution Review), to put in place a programme of training for its Members and to instruct the Chief Finance Officer to map out the likely work programme for the forthcoming year. The Chief Finance Officer delivered the work programme to Audit Committee, 4 April 2006. This was approved in Decision 9.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The audit plan is designed to review key systems, which in turn are designed to deliver key service objectives. These contribute to the delivery of Key Priorities and the Corporate Plan, in particular the priority of A Better Council for a Better Barnet.

4. RISK MANAGEMENT ISSUES

- 4.1 In recommending revised terms of reference to the Constitution Review Committee, the Audit Committee also accepted the following “Statement of Purpose” as part of the new terms of reference:-

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.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Effective systems of audit, internal control and corporate governance provide assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community.

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 None.

7. LEGAL ISSUES

- 7.1 None.

8. CONSTITUTIONAL POWERS

8.1 The Audit Committee’s terms of reference are noted in Part 3, Section 2 of the Council’s Constitution.

9. BACKGROUND INFORMATION

9.1 When considering new terms of reference at its meeting on 15 February 2006, the Audit Committee requested a further report outlining an annual work programme based on having five meetings a year – the first meeting to agree the work programme and the following four meetings to deal with reports. That is reflected in the scheduled dates for the committee over 2007/08:

2007

- 28 February
- 20 March
- 28 June
- 20 September
- 5 December

2008

- 27 February
- 19 March
- 25 June

9.2 Attached at Appendix A is a summary of the terms of reference, indicating the reports that it is felt appropriate for the Committee to consider. It is also shown the months that these reports could be considered, some of which are dictated by statutory deadlines, e.g. the statement of accounts must be considered before the end of June, and the Statement of Internal Control before the end of September.

9.3 Based on this, the Audit Committee should consider meetings at the following times:-

Meeting	Items
February	<ul style="list-style-type: none"> ● Consultation on annual review of council constitution, including:- <ul style="list-style-type: none"> ○ Audit Committee terms of reference ○ Financial Regulations ○ Contract Procedure Rules ● Data Integrity Report ● Annual review of Audit Committee’s Effectiveness ● Setting work programme for the coming year ● Use of Resources – Internal Control Assessment & Action Plan
March	<ul style="list-style-type: none"> ● Internal Audit Annual Plan ● Annual Audit & Inspection Plan (external) ● Annual Audit & Inspection Letter (external) ● Corporate Anti-Fraud Team (CAFT) Annual Plan ● Corporate Risks Update

	<ul style="list-style-type: none"> • Risk Management Strategy
June	<ul style="list-style-type: none"> • Internal Audit Annual Report • Corporate Anti-Fraud Team Annual Report (including whistle blowing) • Statement of Accounts
September	<ul style="list-style-type: none"> • Interim Audit Management Report (external) • Annual Governance Statement • ISA260 Report (external)
December	<ul style="list-style-type: none"> • Internal Audit Interim Report • Grants Audit Report (external) • CAFT Interim Report
As & When	<ul style="list-style-type: none"> • Appointment of External Auditors • Matters referred by the Chief Executive, Directors, Chief Finance Officer • Other reports agreed with Internal and External Audit

- 9.4 To focus the reports on the key issues and not become too detailed, it was agreed by the Audit Committee at the 15 February 2006 meeting that it would be good practice for the Chairman, Vice-Chairman and key officers to meet mid-way between Audit Committee meetings to review the agenda and progress with reports.
- 9.5 The Audit Committee agreed at the 15 February 2006 meeting that it should have access to reports from inspection agencies about the Council's financial management and governance, to provide a source of assurance and to compare with any relevant internal and external audit reports. It also acknowledged the need to monitor executive and management action arising from such reports. It was agreed, however, that these reports would not ordinarily be considered as agenda items at the Audit Committee other than in exceptional circumstances, and that these reports would just be circulated to Members of the Committee by way of background material.
- 9.6 In the same vein, the Audit Committee accepted its members should maintain an awareness of the work of overview and scrutiny committees, so that they could take account of issues relevant to the Audit Committee's areas of interest.
- 9.7 The Audit Committee agreed that in considering reports set out in Appendix A it should also review relevant strategies that the Council has in place to regulate its activities and control the actions of employees, elected members and contractors. These strategies might include:-
- risk management
 - value for money
 - anti-fraud and corruption
 - whistle blowing
 - complaints procedures.

Responsibility must rest with the relevant report authors to ensure the current position of these strategies is incorporated in their reports.

9.8 The reports on the annual Statement of Accounts and ISA260 bear further mention. The Audit Committee agreed at the 15 February 2006 meeting that in considering these reports it should focus on the following points:-

- the suitability of accounting policies and treatments, including any changes in these from the previous year;
- major judgemental areas (e.g. provisions);
- significant adjustments and material weaknesses in internal control reported by the External Auditor.

9.9 In finalising the annual work programme for 2006-07, the Committee was urged to bear in mind that it agreed to a programme of briefing sessions, workshops and seminars to be put in place for its members, which would run over a period of 12 months after the May 2006 elections. It was proposed that this could be delivered by having a further date in the diary one month prior to each of the Committee meetings, at which discussions and briefings could focus on the background to the issues on the agenda for the forthcoming meeting. Members views are sought as to whether these sessions, where run, have been beneficial and whether they should be continued ahead of the meetings in 2007-08.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: JL

CFO: JB

Audit Committee – 2007/08 Work Programme

	Terms of Reference	Reports	Report Author	Provisional Date
•	AUDIT ACTIVITY			
1	To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.	Internal Audit Annual Plan Internal Audit Interim Report Internal Audit Annual Report	HoIA&EG HoIA&EG HoIA&EG	March November June
2	To consider summaries of specific internal audit reports as requested.	Internal Audit Interim Report Internal Audit Annual Report	HoIA&EG HoIA&EG	November June
3	To consider reports dealing with the management and performance of the providers of internal audit services.	Internal Audit Annual Report	HoIA&EG	June
4	To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.	Internal Audit Interim Report Internal Audit Annual Report	HoIA&EG HoIA&EG	November June
5	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	Annual Audit & Inspection Letter Interim External Audit Management Report	HoSF HoSF	March / April September
6	To consider specific reports as agreed with the external auditor.	External Audit Grants Report Data Integrity Audit Report	HoSF BIM	November February
7	To comment on the scope and depth of external audit work and to ensure it gives value for money.	Annual Audit & Inspection Plan	EDoR	March/April

Terms of Reference		Reports	Report Author	Provisional Date
8	To liaise with the Audit Commission over the appointment of the council's external auditors.	-	-	Determined by Audit Commission
9	To commission work from internal and external audit.	It is envisaged that requests for ad-hoc reports would arise from the consideration of other scheduled reports.	-	At next available meeting (subject to time required to complete work), unless urgent.
• REGULATORY FRAMEWORK				
10	To maintain an overview of the council's constitution in respect of contract procedure rules and financial regulations.	To receive reports as part of the annual review of the council's constitution.	CFO	September to April
11	To review any issue referred to it by the Chief Executive or a Director, or any council body.	Ad hoc.	Person or body referring the matter.	At next available scheduled meeting, unless urgent.
12	To monitor the effective development and operation of risk management and corporate governance in the council.	Corporate Risk Update Risk Management Strategy (see also Annual Governance Statement)	EDoR EDoR	March March
13	To monitor council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the council's complaints process.	CAFT Annual Plan CAFT Interim Report (including whistle blowing) CAFT Annual Report (including whistle blowing)	DoCG DoCG DoCG	March November June
14	To oversee the production of the authority's Annual Governance Statement and to recommend its adoption	Annual Governance Statement	DoCG/CFO	September

Terms of Reference		Reports	Report Author	Provisional Date
15	To consider the council's compliance with its own and other published standards and controls.	Use of Resources – Internal Control Assessment & Action Plan	EDoR	February
•	ACCOUNTS			
16	To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.	Draft Statement of Accounts	HoSF	June
17	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	ISA260	HoSF	September
•	REVIEW OF EFFECTIVENESS			
18	To conduct an annual review of the effectiveness of the Audit Committee	Annual Review of Audit Committee's Effectiveness	CFO	February

Report Authors

EDoR	Executive Director for Resources
CFO	Chief Finance Officer
HoSF	Head of Strategic Finance
BIM	Business Improvement Manager
HoIA&EG	Head of Internal Audit & Ethical Governance
DoCG	Director of Corporate Governance