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Meeting	Audit Committee
Date	28 February 2007
<b>Subject</b>	<b>Use of Resources – Internal Control Update</b>
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.

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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

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## **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:

<b>Key Line of Enquiry</b>	<b>2005</b>	<b>2006</b>	<b>2007 Target</b>
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
<b>Internal Control Overall</b>	<b>2</b>	<b>3</b>	<b>3 / 4</b>

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)	<b>Completed:</b> 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	<b>Completed</b> 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	<b>Robson Rhodes have alluded that it is Level 4 already:</b> 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.