

AGENDA ITEM: 8

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Meeting	Audit Committee
Date	20 September 2007
Subject	Statement on Internal Control (2006/7)
Report of	Chief Executive
Summary	Presentation of the Statement on Internal Control for consideration and approval of the above committee

Officer Contributors	Executive Director of Resources, Chief Finance Officer and Head of Internal Audit and Ethical Governance
Status (public or exempt)	Public
Wards affected	N/A
Enclosures	Appendix A – 2006/07 Statement on Internal Control Appendix B – Use of Resources Judgement for 2006/7 Appendix C – 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) for 2006/7.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee noted the draft Statement on Internal Control for 2005 / 6 on 28th September 2006, Decision Item 9.

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 the 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 SIC annually as detailed in paragraph 8.1 of this report.
- 3.4 The production of the SIC supports the 'More choice, better value' 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. EQUALITIES AND DIVERSITY

- 5.1 Consideration of equalities and diversity issues does not constitute part of the Statement of Internal Control and is therefore not considered in the body of this report.

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 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.

7. LEGAL ISSUES

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

8 CONSTITUTIONAL POWERS

- 8.1 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)
- 8.2 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".

9 BACKGROUND INFORMATION

- 9.1 The London Borough of Barnet has a responsibility to ensure that its business is conducted in accordance with the law, that public money is safeguarded, properly accounted for, and is used economically, efficiently and effectively.
- 9.2 In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates effective delivery of the authority's functions and which includes monitoring compliance, providing assurance and the management of risk.
- 9.3 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it delivers services, having specific regard to a combination of economy, efficiency and effectiveness.
- 9.4 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 an accompanying statement on internal control with each years financial statements.
- 9.5 The purpose of the SIC process is to provide a continuous review of the effectiveness of an organisation's internal control environment 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.
- 9.6 CIPFA's proper practice requires the most senior officer and the most senior Member to sign the SIC, therefore 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.
- 9.7 To support the above and to provide assurance to the Chief Executive and the Leader of the Council each Service Area is required to produce a SIC along side their services plans. The service plans include actions to address the significant weaknesses identified in their SIC. Each Director or Head of Service is required to provide a signed

statement covering an assessment of the strength of the control environment operating within their Service Area.

- 9.8 The SIC for 2006-7 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 2007.

10 LIST OF BACKGROUND PAPERS

- 10.1 2006/7 Statement of Accounts
2006/7 Statement on Internal Control
Internal Audit and Ethical Governance Annual Report 2006/7
External Auditor's reports carried out between 2005/6 and 2006/7
- 10.2 Any person wishing to inspect the background papers should telephone 020 8359 7014.

Legal: MM
CFO: CM

Appendix A - 2006 / 07 Statement on Internal Control

INTRODUCTION

In compliance with the Accounts and Audit Regulations 2003 the Authority is required to provide a publication of a SIC with the annual financial statements.

Although it is published with the annual 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, and
- services are delivered efficiently and effectively.

After its approval by the Council, the SIC will be signed by the Leader of the Council and the 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.

The process of creating the mini-SIC required all Directors to complete a comprehensive review of the controls within their own Service Area. During the process of review any areas of weakness need to be recorded and corrective action embedded in the coming year service delivery plan. It is made clear to all Directors that any statements made in the mini SIC must be evidenced and open to scrutiny. The mini SIC provides documented, relevant and reliable evidence to support the disclosures made. The mini SIC process requires all Directors to demonstrate that they have strong and robust processes and procedures to cover the following areas of a control environment;

- An executive summary of their control environment;
- A description of the core services provided;
- A review of the arrangements in place to manager contractual partnerships;
- The process used to monitor the performance of contractual partners;
- Identification of the IT systems used in delivering services;
- A description of the financial controls in place to manage their resources;
- Confirmation that an appropriate and effective scheme of delegation exists;
- A description of the overall control environment that exists within the Service;
- A statement on compliance with corporate policies and procedures;
- A statement on assurance that an appropriate risk management framework exists;
- Identification of key risks that have had an affect on service delivery, and
- A statement on assurance and understanding of the importance of the SIC

Internal Audit and Ethical Governance then use the mini-SICs to inform the audit programme and to become a key document in any coming audits of Service Areas.

Further consideration of the accuracy of the statements in the SIC have been conducted by key officers within the Council, including (but not exclusively) the Chief Financial Officer, and Head of Internal Audit and Ethical Governance.

This process is further evidenced by an Internal Control Checklist process which seeks assurance from line management of the effectiveness of the control environment operating across the Council, seeking to identify weaknesses in the processes and procedures that manage governance and control.

The process requires line managers to complete a survey of their own control environments that supports the areas of their responsibility. The survey asks line managers to consider all aspects of a good control environment by asking them to consider the following areas;

- Risk management
- Performance management
- Budget management
- Financial management
- Governance requirements
- Human resource management
- Procurement and contract management
- Information management
- Project management
- Partnership arrangements
- Business continuity planning, and
- Audit awareness.

It is made clear to line managers that any statements made must be substantiated with evidence and open to possible scrutiny.

Any areas of weakness are then documented and supported by either a Corporate Improvement Plan where the weakness is common across all services, or by a Team Improvement Plan where the weakness is specific to individual Departments.

2006/07 SIC

The SIC is divided into five sections, as follows:-

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|-----------|--|
| 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. |
| Section 6 | Sources of assurance |

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, Grant Thornton UK LLP.

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.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates effective delivery of the authority's functions and which includes monitoring compliance, providing assurance and the management of risk.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way it delivers services, having specific regard to a combination of economy, efficiency and effectiveness.

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 an accompanying SIC with each years financial statements.

CIPFA's proper practice requires the most senior officer and the most senior Member to sign the SIC, therefore 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.

Section 2 – Purpose of the System of Internal Control

The purpose of the SIC process is to provide a continuous review of the effectiveness of an organisation's internal control environment 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 Statement on Internal Control will add value to the corporate governance and internal control framework of the Council.

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.

A. Corporate Priorities

The Council's corporate priorities are set out in the Corporate Plan 2007-2010. The Corporate Plan sets out the Council's vision for the organisation. It affirms the values and aspirations of Barnet for the place, the people and the organisations. The corporate priorities are clearly defined in the Corporate Plan which demonstrates how we will get to where we want to go over the next four years and it looks back at our progress to date.

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 Challenge.

B. 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.

1. Council Functions.
2. Executive Functions.
3. Urgent and Emergency Decisions.
4. Overview and Scrutiny Committees.

The responsibilities of the above functions and their authorisations for decision making are 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.

C. Compliance

Assurance on compliance with policies, procedures, laws and regulations is provided, in part, by Head of Internal Audit and Ethical Governance, which 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.

D. Risk Management

There has been continuous improvement in the arrangements for risk management in 2006-7, with further development of embedding risks management across the Council, thereby providing the basis for effective risk management policies and procedures.

Internal Audit continue to review and report on risk management arrangements in their interim and annual reports, and provide a statement on the adequacy of risk management arrangements across the Council.

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.

All committee reports include a section on risks, which contributes to Members being better informed prior to deciding on policy and decision making. This also raises the awareness and increases Member and Officer understanding of risk and the risk management process.

A comprehensive Corporate Risk Register exists, providing clarity and ownership of those potential risks that may have a direct impact to the corporate priorities. Each risk within the Corporate Risk Register is owned by a member of the Executive Management team who are required to monitor the risk and provide regular updates to the Corporate Risk Management team. Progress on the management of these risks and the inclusion of new corporate risks is discussed and agreed at Directors Group.

Risk management forums are now arranged between Corporate Risk Management and Service Area Performance Officers, who are responsible for risk management processes

within their service areas. The forum allows for a two way communication process covering the continued effectiveness of the risk management processes within the Council, and allows an opportunity for continuous improvement in the risk management process and procedures used across the Council.

The risk management strategy, guidelines, standard risk register have been reviewed, updated and made available on the Corporate intranet. All three documents were presented and accepted by Council in March 2007. The revised documents formed part of an agenda item for discussion at the risk management forum.

As part of the annual budget and Council Tax setting, the Chief Finance Officer identifies the potential financial risks and contingent liabilities facing the authority in reaching his view on the adequacy of balances. These risks are captured and monitored in a comprehensive financial risk register which also tracks the mitigating actions required to minimise the likely impact on the Council.

The financial risk register is owned by the Chief Finance Officer and forms part of the regular financial monitoring programme to Cabinet Resources Committee.

E. 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:

The 'Better Use of Resources' project, established in November 2005, was successful in its initial ambition of raising the Council's rating to level 3 and the project board has continued to meet throughout 2006/07 as it has demonstrated to be an effective mechanism for driving corporate improvement. Amongst the many improvements implemented to ensure an effective and efficient use of resources have been:

Accessible information – development of mechanisms, such as summary Statement of Accounts and an annual report which fully integrates the review of finance and performance, which enable the Council's stakeholders to receive information on the performance of the authority in a more accessible way than through the documents required by statute.

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 Lead Member for Policy and Performance and the Executive Director for Resources 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. Although it is no longer a statutory requirements for Local Authorities to carry out Best Value Reviews the council's Business Improvement team is delivering an annual programme of Value for Money Reviews.

Value for Money reviews – Council Directors Group have agreed a process for delivery of the Value for Money reviews which are underway. The significance of an effective Value for Money review programme and its impact on Use of Resources has been recognised to the extent that the Chief Executive is sponsoring the 2007/8 programme. The Value for Money process considers a wide range of elements including performance and efficiency, total cost of ownership, and customer satisfaction. The reviews intend to deliver sustainable service delivery solutions which support the achievement of corporate priorities.

Member challenge - a rolling programme of finance and performance challenge is undertaken by the Leader.

Procurement - the Corporate Procurement Team provides advisory and support services on all corporate procurement activity to ensure value for money and compliance with procurement legislation. The Contract Procedure Rules and Procurement Code of Practice are essential policies that ensure the Council's procurement activities conform with the legislative requirements and demonstrate value for money. Both documents are regularly reviewed and published on the Corporate intranet providing ease of access to those in the Council performing procurement responsibilities.

Internal Audit and Ethical Governance – Internal Audit reviews consider the use of resources as part of the scoping exercise for each audit.

F. 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 financial monitoring reports to every meeting of 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 2006/07 including:-

- Approval of the Council's first, formal Medium Term Financial Strategy.
- Further embedding and development of the financial modules of SAP which has significantly enhanced the control environment for the core financial systems.
- The Statement of Accounts for 2005/06 were approved and the subsequent audit was completed with an unqualified audit opinion.
- 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.
- Revenue balances have increased to over £12m with further earmarked reserves of the same order of magnitude giving the authority much greater financial flexibility and scope to manage risks.
- Development of the identification, quantification and monitoring of financial risks and contingent liabilities facing the Council.
- Embedding 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.
- Establishment of the revised finance service within the Resources restructure to provide both support to front line services and clear strategic direction.
- Development of the officer Budget Steering Group and embedding of the officer Capital & Assets Group to ensure that available resources are directed to corporate priorities and away from non priority areas.

- Enhancement of the corporate financial monitoring report by combining revenue and capital monitors into a single document and through the inclusion of sections on the prudential indicators, debt management, collection rates and creditor payments performance.
- Complete update of the Council's financial regulations and contracting standing orders.

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

- Introduction of a formal debt management policy to cover all monies owed to the Council.
- Further development of the wider corporate financial monitoring framework to enhance existing sections and incorporate cash flow, financial risks, insurance, section 106 and pensions.

G. 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.

H. 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) collects 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 2005/06.

Section 4 – Review of Effectiveness

The Council has a responsibility to conduct, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit and Ethical Governance, which reviews the development, maintenance and implementation of internal control across the Council.

The Internal Control Checklist process also informs the review by providing an overview of the effective and efficient nature of the control environment as experienced by Line Managers across the Council. The process required Line Managers from all services to assess the strengths and weaknesses of their own internal controls covering the following areas;

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

From the data collected, evidence was gathered that supports the effectiveness of the control environment. Where weaknesses were identified, continuous improvement plans are being developed to ensure actions and responsibilities are identified to strengthen the control environment.

The Internal Control Checklist process is now a key risk management tool which is conducted annually with reviews on progress of the Continuous Improvement Plans conducted throughout the year.

Partnership management

The success of the Council rests on its' leadership role in bringing together all partners including other public services, the voluntary and community sector and the business community.

This work is co-ordinated through the Local Strategic Partnership (LSP). An Executive, chaired by the Leader of the Council, brings together the most senior leaders from the main agencies that deliver public services in the Council, and the Council has recruited a Community Steering Group, which represents the consumers of public services in Barnet and

advises the Executive. The Council also holds a Civic Network twice a year to bring together the widest range of organisations in Barnet to help shape future strategy.

Barnet's Sustainable Community Strategy, 'Barnet: A First Class Suburb', was launched on 1 April 2006 following extensive analysis of the issues facing Barnet and residents' priorities. It sets out a shared vision for Barnet in 2016 and contains four themes:

Investing in children and young people;
Safer, stronger, and cleaner Barnet;
Growing successfully;
Healthier Barnet (including older people).

Each of these is supported by more detailed ambitions and an Action Plan of activities that will make a real impact on these priorities is updated annually and overseen by the LSP.

There are key partnership arrangements in the following areas, each have their own risk management and internal control processes that monitor and manage efficient and effective delivery;

1. Primary Schools Capital Investment Programme (PSCIP)

The Primary School Capital Investment Programme is at the procurement stage. The programme is procuring a strategic partner through the competitive dialogue process to take responsibility for the design and build of up to 9 primary schools. A programme board is in place with responsibility for delivery. A Programme Director manages activities on a day to day basis.

The council will establish a strategic partnering agreement with the selected contractor and will manage the individual builds through specific JCT design and build contracts for each school in the programme. It should be noted that at this stage of procurement there are dialogue meetings with three participating bidders to develop the contracts. We expect to select the successful contractor in April 2008 at which time the strategic partnering agreement will be signed.

The PSCIP Programme Board is responsible for the strategic direction of the programme and provides leadership to the Programme Team on any strategic or corporate issues arising. The Programme Board meets every 6 weeks and receives reports on the progress of the programme from the Programme Director who attends. The Director of Social Affairs and Deputy Chief Executive chairs the Board.

The risk management process is robust and is a continual process. The risk register is updated when appropriate and the High risks are reported to programme board every 6 weeks, and the full risk register is reported every quarter. The risk management group meets every quarter to update and scrutinise the register prior to the programme board. The risk management group lead ensures the owners of each risk take responsibility for their risk.

The revenue costs for the programme are forecasted up to the end of Stage 3 (procurement stage) and costs are monitored against this. This is updated monthly.

2. Private Finance Initiative (PFI) – Street Lighting

PFI contracts differ from the traditional type of contract as the Service Provider takes on additional responsibilities and risks. The contract documentation is output based with the authority identifying the required lighting standards for each road and the required response times in dealing with defects, contract management, administration and correspondence. It is for the Service Provider to identify how he will achieve the outputs by a series of method statements which are contractual. Traditionally the Authority would have specified methods, materials and outcomes and been involved in design, consultation and correspondence.

The authority role is to act purely as a monitor of performance against agreed contract requirements. The monitoring team consists of a senior Engineer, two clerks of Works and a Technical Admin Officer as well as a contract lead who is the Highways Manager – Network Management.

The Service Provider is responsible for designing the lighting schemes for each road included in the Corporate Investment Programme (CIP). All designs are submitted to the authority for comment prior to the commencement of a consultation process with residents and ward members. Where the Service Provider can not comply with the required lighting standards they should apply for a Design Variation Approval from the authority prior to commencing consultation. In order for the authority's monitoring team to supply comments and/or approvals the Service Provider must provide adequate supporting design calculations and documentation.

The CIP includes for approximately 20,000 new lighting columns (replacement of 67% of the stock) to be designed and installed within the 5 year CIP programme. The first year programme includes the installation of approximately 2,707 new columns. The programme incorporates a number of milestones which must be met to avoid Default Termination Points (DTP) accruing. If the contractor accrues three DTP's the authority may terminate the contract due to non-performance.

Following installation of the new columns an independent certifier checks that the installation complies with the contract requirements (inspection includes a 90 item checklist) and assuming he is satisfied that compliance has been achieved the certified columns count towards the milestone.

There is a requirement for the contractor to inspect all Apparatus on a weekly basis to check for defects. Where defects have been identified these should be rectified within specific timescales depending on the type of defect.

The Service Provider is required to provide and maintain a Management Information System (MIS) and a Customer Care System in order to assist with the management of the contract and to hold records of all aspects of activity covered by the contract.

The MIS is a specialist street lighting IT package which holds a full inventory of all the items of apparatus which are the subject of the contract. The system incorporates mapping of all apparatus and provides detailed information on the description of each item of apparatus. The record information relating to each item of apparatus consists of up to 250 data sets. Prior to service commencement the authority provided the Service Provider with its MIS data which should have formed the basis of the initial data held by the Service Provider. The Service Provider has been given one year to check the data for accuracy and to update the data as necessary to ensure that the data sets achieve 99% accuracy and are maintained at this level for the duration of the contract.

Due to the importance of maintaining an accurate MIS the contract requires the Service Provider to update the data sets within specific timescales and there are tests to ensure that the data entered is accurate. The Authority monitors the MIS on a daily basis to ensure that defects are logged, that response periods are identified are in accordance with contract requirements and that they have been completed and updated on time and with the correct information.

A Customer Care System (CCS) is also in place to record all correspondence and responses by the contractor. The authority monitoring team have read access to this system and can monitor how correspondence is being handled.

The Service Provider is required to provide a Monitoring Report and a Payment Report at the end of each month. The Monitoring Report should identify the performance related to all aspects of the contract during the previous month and this information is used to determine the payments which should be due to the Service Provider for that month. The contract sets out the detail of information which the Service Provider should include in the Monitoring Report. The MIS data is interrogated to provide the reporting data.

The Payment Report identifies the payments due to the contractor and this is identified by feeding the monitoring data into a Payment Mechanism. The Payment Mechanism is aligned with performance targets set out in the Output Specification. Where the service performance is identified as not meeting the specification, adjustments are applied to the payments which would have been due to the Service Provider. Where the performance is particularly bad a service Default Termination Point will accrue and when the adjustment level is at or above 25% of the monthly payment sum (assuming full compliance) a Default Termination Point accrues.

As well as the monthly monitoring reports and meetings further regular meetings are held to discuss and resolve issues relating to designs, communication and working practices.

A Project Board exists consisting of senior members of the Authority and Contractor which meets quarterly to discuss issues and attempt to find suitable guidance and solutions to operational managers.

The Director of Environment and Transport has also been keeping a close watching brief on the performance of the contract and as and when it has been considered necessary has met with the contractors Chief Executive to demand improvements and action plans for improvement.

3. Regeneration projects

The approach to the management of risk within major regeneration projects follows the general principle of risk transfer.

In all of the schemes the major component is a land/asset transaction which when developed delivers a comprehensive scheme and the regeneration impact. The land/asset is owned by the Council and its immediate financial risks are to secure best consideration for this asset.

The Council uses a Principle Development Agreement as a vehicle to address delivery and risk. The principle of these agreements is that the Developer partner has

responsibility for the development, financing and delivery of these schemes along with associated risk and risk management issues.

Specific risks within each project where the Council could be exposed to a financial penalty or other detriment (such as failure to transfer land at an agreed point in time with the necessary free of ties) will be addressed in specific programme risk registers when these programmes have been agreed with developers.

Until such time a number of high level strategic risks remain for the Council, such as delays and loss of reputation to the Council. These are covered in the Strategic Development Unit risk register.

Internal and External Audit Arrangements

The external auditors rely on the work of Internal Audit and Ethical Governance for their review of 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 Leader of the Council 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 and Ethical Governance 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) to review all Cabinet decisions, which happens infrequently and only when necessary. 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 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.

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

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.
2. To consider summaries of specific internal audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of internal audit services.
4. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the external auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the Council's external auditors.
9. To commission work from the internal and external audit.

Regulatory Framework

10. To maintain an overview of the Council's constitution in respect of contract procedure rules and financial regulations.
11. To review any issue referred to it by the Chief Executive or a Director, or any Council body.
12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.
14. To oversee the production of the authority's SIC and to recommend its adoption.
15. To consider the Council's compliance with its own and other published standards and controls.

Accounts

16. To review and approve 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.

17. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Review of Effectiveness

18. To conduct an annual review of the effectiveness of the Audit Committee.

- **Internal Audit and Ethical Governance**

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

ENPEYZ, who undertake all school audits and external assessment of Financial Management Standards in Schools.

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 Head of Internal Audit and Ethical Governance, 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 Head of Internal Audit and Ethical Governance publish an annual report to the Management Board and Audit Committee.

The Head of Internal Audit and Ethical Governance is a Chief Officer of the Council, with a reporting line to the Director of Corporate Governance. The Head of Internal Audit and Ethical Governance 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 Head of Internal Audit and Ethical Governance on the adequacy and effectiveness of the overall control environment.

Section 5 – Significant Internal Control Issues

When preparing the 2006/7 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 were conducted to identify the key risks to the authority. The three areas were

- A. Use of Resources Judgement for 2005 / 6.
- B. Risks identified in the Corporate Plan.

C. Weaknesses identified in the Internal Control Checklist process.

A. Use of Resources Judgement for 2006/7 (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 needed to strengthen its arrangements in 2007 were:

- o Having comprehensive working papers available at the start of the audit.
- o The level of non trivial errors within the Statement of Accounts.
- o The arrangements around partnerships.
- o Financial management arrangements.
- o The management and monitoring of debt management.
- o Procedure notes for key systems.
- o Demonstration of Value for Money outcomes.

Further detail can be found in the "Use of Resources Judgements 2006" document which is summarised in appendix B.

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

The Corporate Plan 2007 - 2010 identified the following areas where key risks to achieving the Corporate Priorities are contained within them.

C. Weaknesses identified in the Internal Control Checklist process

An analysis of the results from the Internal Control Checklist process has identified a number of areas across the Council which are considered as "Corporate " issues.

i. Audit Awareness –

Need to raise the awareness across all Line Managers of the annual Internal Audit programme and the priority recommendations that are published at the conclusion of an audit.

ii. Risk management responsibilities –

Manager responsibilities for managing risk is clearly stated in the risk management strategy document but not all job descriptions include risk management as a core responsibility of managers in LB Barnet. Need to discuss including a standard core responsibility into all line manager and above job descriptions.

iii. Recording partnership arrangements in the Corporate Partnership Register –

Need to raise awareness of the Corporate Partnership Register and ensure all Line Managers are aware of and complying with the instruction to record all partnership arrangements held with LB Barnet.

iv. Business Continuity in general –

The Council recognised the need to improve its business continuity planning and has engaged external consultants to work with managers

and staff to provide an injection of qualified and specialist support to address the most urgent needs but also to make recommendations about the longer term investment in business continuity.

The brief provides for the consultants to:

- Assess Barnet's current Business Continuity Management (BCM) policies and plans and identify shortfalls.
- Develop a Business Continuity Management action plan to ensure Barnet meets minimum Business Continuity Management standards.
- Provide support to develop the Impact Assessment methodology and to complete these to an acceptable professional standard.
- To identify and work with 'champions' in service areas to complete Business Continuity Management Plans.
- Consider longer term action and future planning for the delivery of business continuity to ensure it is fit for purpose.

The detailed action plan with milestones and responsibilities is attached and these are summarised below.

- a. The nine 'risks' identified by Internal Audit are used as the starting point to develop and implement a comprehensive BCM programme for the borough.
- b. The proposed action plan should be considered by internal audit before a final report is issued.
- c. Some of the timescales set to deliver Priority 1 risks within 3 months, and Priority 2 risks within 6 months should be re-considered.
- d. Some of the draft audit report issues should be re-prioritised.
- e. Embedding BCM should be a continuous process and should therefore not be prioritised in the audit risk summary and is likely to be the responsibility of an internal, dedicated resource.
- f. The first step in Barnet's effective BCM programme development is to agree an action plan which plugs the immediate critical gaps.
- g. A further action plan which outlines the actions required in the in the medium to long term should be developed and agreed.
- h. It is recommended that a new Business Impact Assessment (BIA) template is developed through a fully facilitated BIA process across all service areas to quality assure existing BIA data and to fill in the BIA gaps.
- i. The BIA data should be interpreted into actions within BCM plans.
- j. A process similar to that which was used to develop the council's risk assessments should be considered for developing BCM plans.

- k. LB Barnet employs a full time, permanent, Business Continuity Officer to work in the corporate team.

Section 6 – Sources of assurance

A. Internal Audit and Ethical Governance annual report 2006/7

The most recurring areas of control weakness across the Council identified in the 2006/7 Internal Audit & Ethical Governance annual report are:

- Resources not used economically or effectively
- Either no or inadequate policies and procedures

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

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.

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

17% 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'.

78% of risks were 'Priority 2', signifying 'only limited assurance that objectives will be met efficiently and effectively or that fraud or irregularity will be prevented or detected'.

All Internal Audit work is followed up as a matter of course. The annual report provides summaries of the findings at follow-up audits. 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 26 follow-ups conducted in the report period are detailed below.

Analysis of Assurance Levels on Follow-up	No.
Limited assurance still limited assurance	5
Satisfactory assurance to limited assurance	1
No or limited assurance to satisfactory	12
Satisfactory assurance still satisfactory assurance	6
Satisfactory assurance to full assurance	2
Total	26

B. External Audit Reports 2006/7

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 2006/7, external audit issued reports on the following:

MCS Phase 2 Review.	BVPI/Data Quality report
Use of resources	Annual Audit Letter 2005/06
Barnet IT/IS Infrastructure Review	Grants 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.

C. CPA assessment by the Audit Commission.

The Audit Commission assess all Councils nationally, and judged Barnet to be a Council that is improving well and demonstrating 3 star overall performance.

The assessment is based on a number of inspections including:

- Inspections of individual services

Service area	2006
Benefits - The Council's performance in providing housing and Council tax benefit services. The assessment is made by the Benefit Fraud Inspectorate and is based on achievement against housing benefits/Council tax benefits performance standards.	3
Children and young people - Barnet's performance in providing children's services, such as children's education and social care. The joint assessment is made by the Commission for Social Care Inspection and Ofsted following a review of the Council's overall performance and key indicators.	3
Culture – The Council's performance in services, such as libraries and leisure, as assessed by the Audit Commission.	3
Environment - Barnet's performance in services, such as transport, planning and waste.	3
Housing – The Council's performance in community housing and housing management services.	2
Social care (adults) - The Council's performance in adult social care services. The assessment is made by the Commission for Social Care Inspection following a review of the Council's overall performance and key indicators.	2

- A Corporate Assessment of how the Council is run, which considers what the Council, together with its partners, is trying to achieve. The Council received a '3' (performing well) in this assessment which was conducted in June 2006.
- A Use of Resources judgement from the Audit Commission, which assesses how well local authorities manage their finances and provide value for money. The Council received a 3 (performing well) which was an improvement on our previous standing. (See Appendix B for further details)
- Capacity is increasing and the organisation continues to modernise. There are no significant failures in corporate governance that would prevent sustained improvement.

SIC 2006-7

The process used to create the SIC ensures that all services effectively contribute to the assurance assessment and continuous improvements to the control environment. This provides 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

The processes mentioned within this report 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 2006/7

The areas where the External Auditor felt the Council needed to strengthen arrangements in 2006/07 were:

1. Comprehensive working papers available at the start of the audit:

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

Whilst an improvement in the standard, layout and overall administrative arrangements for the working papers was noted by the external auditor, there remained gaps in the quality and existence of all requests outlined in the arrangements letter. The external auditor exercise discretion in their view that this should not prevent the Council achieving level 3 in the 2006 assessment but there are a number of areas where improvement is required for this to be maintained, the most significant of which were:

- Housing Revenue Account (HRA)
- Collection Fund
- Cash reconciliations, particularly those relating to schools

Action Taken

Ahead of and as part of the 2006/07 closure process, the following actions were taken:

- Detailed guidance provided to finance staff and budget managers on the requirements and timeliness of working papers.
- Standard template for the production of working papers was designed and distributed for all finance teams.
- Additional capacity created as part of the Resources restructure to enable an independent monitoring and review of working papers separate from the accounts closure team to ensure they are of sufficient quality.

2. Non trivial errors:

A number of non-trivial errors were found over the course of final accounts audit which, whilst they did not have an impact on Council balances, were material to the individual classes of assets and liabilities and covered a number of accounts. As there was no impact on the consolidated revenue account, the external auditor exercised discretion in awarding level 3 but this is an area that requires improvement for the score to maintained or improved in the future.

Action Taken

As part of the 2006/07 closure process, the following actions were taken:

- Analytical review of the major balances sheet categories to identify potential errors
- Additional capacity created as part of the Resources restructure to enable an independent monitoring and review of working papers separate from the accounts closure team that can review the accuracy of submitted papers

3. Partnerships:

The external auditor noted the progress the Council made in 2006/07 on partnerships but commented this was unlikely to be sufficient for future years when further assessment criteria become mandatory. It was recommended that the Council focuses attention on:

- Which partnerships are considered key
- Evidencing that sufficient governance relationships are in place

Action Taken

Through 2006/07 the following actions were taken and improvements achieved:

- Completion of the register of all partnership relationships
- Each partnership has established terms of reference which are kept on record
- Completion and publication of the Good Practice Toolkit
- Barnet's Local Area Agreement (LAA) has been developed through the Local Strategic Partnership (LSP) and other Partnership Boards using the Sustainable Community Strategy as a starting point.
- Risk registers have been produced for key partnerships
- Partnership working is referenced explicitly and embedded within standing orders, financial regulations.

4. Financial Management:

Due to the timing of the 2005 assessment, it was only possible to make limited progress on the Financial Management KLOE as it was largely aligned with the budget process for 2006/07 which had already commenced. The external auditor has commented on the subsequent improvements made and notes an expectation that an improved score will be achieved in 2007.

Action Taken

Through 2006/07 the following actions were taken and improvements achieved:

- Approval of the Medium Term Financial Strategy
- Embedding of the officer budget board process
- Development of the business case submission process for capital projects
- Embedding of the rolling programme of asset valuations

5. Debt Management:

The Council failed to achieve an improved score in Financial Standing due to the arrangements in place to monitor and recover debt. The external auditor noted that the debt recovery arrangements had initially slipped following the implementation of SAP but that this had improved in the early stages of 2006/07 with much more detailed information being report to Members.

Action Taken

Through 2006/07 the following actions were taken and improvements achieved:

- Introduction of debt management section to the Financial Monitoring report to Cabinet Resources committee
- Continuous development of the report including a focus on the most significant types of debt and debtors
- An overall reduction in the level of outstanding sundry debt of approximately £10m

6. Procedure Notes:

The external auditor noted considerable improvement on the level of procedure notes in place for its key financial systems. For the Council to maintain its score for this aspect, it will be necessary to evidence that this is a continuous process and that procedure notes are subject to regular review.

Action Taken

Through 2006/07 the following actions were taken and improvements achieved:

- Annual update of the Accountancy Manual completed
- Continued development of SAP user guidance
- Full review of the Council's financial regulations and standing orders completed

7. Value for Money Outcomes:

In the 2006 assessment, the external auditor identified areas that were relatively high cost and relatively poor outcomes but these were not considered a barrier to achieving level 3 as they were not material. For the future, it is important that the Council demonstrates either relatively low costs or the proportional quartile outcomes where costs are not considered relatively low. Any exceptions to this would have to be justified through clear strategic decisions and targets.

Action Taken

Through 2006/07 the following actions were taken and improvements achieved:

Appendix C - Risks Identified in the Corporate Plan

Objective	Risk Description
Deliver the Three Strands approach of Protect, Enhance and Grow	Deterioration in the quality of the suburbs, for example, a lack of enforcement or attention to quality of design
Delivering waste reduction through waste management	Inability to achieve Government targets leading to financial penalty.
To reduce the fear of crime.	The fear of crime by members of the community remains high causing damage to the Authorities reputation.
Delivering equality of service to all residents	Differential needs of communities poorly understood or not addressed, thereby leading to poorer outcomes and missed targets.
Maximise the independence of older people and those requiring care or support.	Insufficient range of social care services provided with poor choice of access and ineffective management of the change process.
Deliver the Housing Strategy to increase the availability of affordable housing and provide real alternatives to homelessness.	Low cost home ownership products developed that are not in demand or affordable
Maintaining child protection	Sustainability of the substantial progress made with respect to outcomes for our most vulnerable children.
Better outcomes for the Community through effective partnerships	Ineffective governance arrangements for partnerships. Poor services delivered through partnerships and low levels of satisfaction. Partnerships are not accountable, do not add value and objectives are not met.
Effectively manage the change agenda to deliver fit for purpose services.	Organisation resistant to change and services don't meet client needs.
Maximise residence satisfaction levels	Perception remains that "the Council doesn't do enough for people like me", and our lead over other London boroughs continues to erode.
Set Council Tax increases in line with the Medium Term Financial Strategy and maintain adequate reserves and balances.	Financial risks arising from council activities and projects, and factors outside the council's control (eg, Government grant levels and litigation).
To improve outcomes for vulnerable children (to be healthy, safe, enjoy and achieve, make a positive contribution and achieve economic well being)	Outcomes for vulnerable children do not improve.