

AGENDA ITEM: 6

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Meeting	Audit Committee
Date	27 February 2008
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 Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Jonathan Bunt, Head of Strategic Finance, 0208 359 7249.

1. RECOMMENDATIONS

- 1.1 That the Committee note the improvement in the Use of Resources judgement and particularly the achievement relating to Risk Management.**
- 1.2 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 Audit Committee 28 February 2007 (Use of Resources – Internal Control Update).

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 More Choice, Better Value.

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 A strong internal control system 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.

7. LEGAL ISSUES

- 7.1 None.

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 (paragraph 5), to monitor the effective development and operation of risk management and corporate governance in the Council (paragraph 12) and to consider the Council's compliance with its own and other published standards and controls (paragraph 15).

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, Grant Thornton UK LLP. The judgement is currently 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
Management of significant business risks	2	2	3
Arrangements to maintain a sound system of internal control	1	3	4
Arrangements to promote and ensure probity	2	3	3
Internal Control Overall	2	3	3

Whilst there has been no increase in the overall score for internal control, it should be highlighted that it has moved from a 'steady' score of 3 in 2006 to a very strong '3' in 2007. This is particularly pleasing as the requirements to achieve each level is tightened year on year to ensure Councils are seeking to continuously improve, i.e. an authority has to have better arrangements to achieve level 3 in 2007 than it did in 2006.

- 9.5 The most significant achievement has been the level 4 judgement for the arrangements for internal control, an area where the Council was not even able to demonstrate meeting minimum requirements in the 2005 assessment. This has been achieved through the improved documentation of key procedures, stronger arrangements for partnership working and the internal control checklist process for producing the Statement of Internal Control. This latter process has been recognised as 'best practice' by Grant Thornton.
- 9.6 As part of the judgement received, the external auditor identified potential areas for improvement ahead of the 2008 assessment. These suggestions have been combined with the work of officers reviewing the revised requirements for the next assessment, which is a significant further enhancement of the requirements, 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 Use of Resources report from Grant Thornton UK LLP. Anyone wishing to inspect the report should contact Jonathan Bunt on 020 83597249.

Legal – MM

CFO – CM

Appendix A – Key Actions for Improvement

Task	Lead Officer	Target Date	Progress
The quality of working papers provided is exemplary. (Need to ensure all working papers are available electronically)	Jonathan Bunt (Head of Strategic Finance)	June 2008	Approach agreed with external auditors.
All Members receive risk management awareness training appropriate to their needs and responsibilities.	Jonathan Bunt (Head of Strategic Finance)	Ongoing	Risk management briefings provided to the Audit Committee as part of ongoing training and development programme. Risk management covered in Members induction briefing.
Reports to support strategic policy decisions, and initiation documents for all major projects, require a risk assessment including a sustainability impact appraisal.	Jonathan Bunt (Head of Strategic Finance)	March 2008	Risk management section established in all committee reports. Guidance provided to officers in what is required in this section.
The council can demonstrate that its members and staff exhibit high standards of personal conduct.	Michael Bradley (Head of Internal Audit and Ethical Governance)	Ongoing	Very low levels of investigation or breaches of the code. Recent review of register of interests. Training sessions to members on Code of Conduct. Low levels of fraud by staff.
The council can demonstrate corporate involvement in/ownership of the process for preparing the governance statement.	Jeff Lustig (Director of Corporate Governance)	June 2008	Project group established that includes representation from across the authority. Statement will be reviewed by Council directors and approved by the Audit Committee.
The council has an effective scrutiny function to ensure constructive challenge and enhance performance overall.	Jeff Lustig (Director of Corporate Governance)	Ongoing	Members receive ongoing training. There is also a review of scrutiny going on.