

**AGENDA ITEM: 8**

Page nos. 98 - 106

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Meeting	Audit Committee
Date	16 December 2009
<b>Subject</b>	<b>Progress on the Internal Control Improvement Plan</b>
Report of	Interim Head of Compliance
Summary	To note and comment on progress on the Internal Control Improvement Plan

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Officer Contributors	Patrick Clackett - Interim Head of Compliance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	None
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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## **1. RECOMMENDATIONS**

- 1.1 That the Committee notes and comments on progress on the Internal Control Improvement Plan presented as Appendix 1.

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 None.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1 Implementation of the improvement plan is essential to strengthen the councils internal control environment and to therefore safeguard the council's objectives.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The Internal Control Improvement plan has specific actions to improve and enhance the council's approach to risk management.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 Strong internal controls is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)**

- 6.1 Effective internal controls are key to the council making best use of its resources.

## **7. LEGAL ISSUES**

- 7.1 None other than what may be contained in the body of the report.

## **8. CONSTITUTIONAL POWERS**

- 8.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including to consider the Council's compliance with its own and other published standards and controls.

## **9 BACKGROUND INFORMATION**

- 9.1 In May 2009, the Council commissioned an external high level review of its system of internal control with a view to assessing its robustness, identifying any other potential areas of weakness, and providing practical recommendations for improvements.

The review concluded that although the council currently scored adequately for use of resources and has made substantial improvements to its financial management over the last few years, the review identified some urgent issues that need to be addressed quickly to avoid a repetition of the weakness identified in relation to Treasury Management and to put LBB in a more secure position going forward.

In response to the review, and also to address issues arising from last year's Annual Governance statement, the Corporate Directors Group agreed an Internal Control Improvement plan. Progress on this plan is being monitored through the Statutory Officer group meetings.

## 9.2 **Key Issues**

There has been progress on most of the key issues outlined in the improvement plan:

- a scheme of delegation is being drafted,
- compliance reporting is being developed to provide greater assurance to the CFO,
- the Internal Control Checklist process has been improved and a new approach will start from January 2010 onwards,
- risk registers are being reviewed by this committee,
- an interim Chief Internal Auditor has been appointed to develop a new audit strategy and approach,
- there is regular contact between risk management and Directors, and
- the process for the Annual Governance statement is being revised.

However, key issues still to be progressed are:

- Identifying managers with responsibility for ensuring a robust control system is put in place in respect to all processes within their service(s), for testing compliance with these controls by themselves and Internal Audit,
- Failures in control systems identified by compliance testing to be immediately notified by the responsible manager to the Director.
- Responsible managers to report bi-annually (September & March) through to Directors on (i) the appropriateness of the control systems in place, (ii) the level of compliance testing undertaken by themselves (and/or nominated staff) and the outcomes of that testing, and (iii) actions taken on recommendations outstanding from Internal Audit Reviews since the last bi-annual report.

The Head of Compliance and the Chief Internal Auditor are working jointly on a framework to address the above issues.

Compliance testing of the internal control systems will be matched to internal audit findings around common causes of systems weaknesses and external auditor reporting on the internal control system to ensure that all weaknesses have been addressed.

**9.3 Further Action**

The framework for accountability and compliance testing of control systems will be developed during December and will be reported to a subsequent meeting of this committee.

A map of the councils internal control environment has been developed and once refined and discussed with Directors will also be presented to the committee to assist members with a strategic view of key issues and concerns.

**10. LIST OF BACKGROUND PAPERS**

10.1 None.

Legal: MAM  
Finance: JW



Action	Timing	Update – Nov 09	Responsibility
1 Establish a common Scheme of Delegation for all Directors, supplemented by service specific elements.	September 2009	A group chaired by the Director of Corporate Governance is developing a common Scheme of Delegation together with revised Financial Regulations. The group is at drafting stage.	Director of Corporate Governance + all Directors
2a Directors, in conjunction with their management teams, to identify named managers that are responsible for ensuring a robust control system is put in place in respect to all processes within their service(s), and for testing compliance with these controls.	August 2009	A new Interim Chief Internal Auditor has been appointed and is meeting with Council Directors to discuss a new audit approach and strategy; Directors have yet to identify leads and local governance arrangements.	Directors & Management Teams
	Ongoing	Internal audit is now taking a pro active approach to controls design. Audit planning for 2010/11 is about to commence and this will include a change in direction to ensure a balance of audit work related specifically to compliance testing of key financial systems.	Responsible managers
2b Responsible managers are entitled to consult Internal Audit on (i) the design of control systems (e.g. separation of duties, recording of actions/decisions), and (ii) the balance of compliance testing to be undertaken by themselves (and/or nominated staff) and Internal Audit.	Ongoing	A pro forma will shortly be issued jointly by the Head of Compliance and the Chief Internal Auditor to enable responsible managers to undertake and record compliance testing of the systems they are responsible for.	Responsible managers
2c Any failures in control systems identified by compliance testing to be immediately notified by the responsible manager to the Director.	Ongoing	Failures in control systems will be reported to responsible managers and the Chief Finance Officer will receive an immediate report on such failings with clear action plans to address them.	Responsible managers
2d Responsible managers to report bi-annually (September & March) through to Directors on (i) the appropriateness of the control systems in place, (ii) the level of compliance testing undertaken by themselves (and/or nominated staff) and the outcomes of that testing, and (iii) actions taken on recommendations outstanding from Internal Audit Reviews since the last bi-annual report.		A summary compliance report is being developed for the CFO which will identify amongst other issues; <ul style="list-style-type: none"> <li>• Results of management compliance tests</li> <li>• Contract compliance issues/reporting</li> <li>• Key financial systems performance and error/reconciliation reports(e.g duplicate payments,</li> </ul>	Interim Head of Compliance

Action	Timing	Update – Nov 09	Responsibility
		<ul style="list-style-type: none"> <li>• Revenue/capital budget monitoring and performance</li> <li>• Treasury management performance</li> <li>• Performance information from internal audit and CAFT</li> <li>• Tracking of external audit/close of accounts reports and issues</li> <li>• Income/debt performance and write offs</li> <li>• Use of resources action planning milestones</li> </ul> <p>Bi annual reporting on the appropriateness of control systems needs to be built into the Annual governance statement and Internal Control Checklist process</p>	Director of Corporate Governance
<p>3 The Internal Control Checklist (ICC) process to be improved by the following measures:-</p> <p>3a The key corporate themes / risks to be tested during each cycle of the ICC to be agreed in advance by the Meeting of Statutory Officers.</p> <p>3b The ICC to incorporate service specific items agreed between the Director, Head of Insurance &amp; Risk and Chief Internal Auditor in each cycle.</p> <p>3c Weaknesses identified by the ICC process to be incorporated in Directorate risk registers, and revised internal control systems as appropriate.</p>	<p>August 2009</p> <p>September 2009</p> <p>Ongoing</p>	<p>Statutory officers group has agreed the key corporate risks/themes for testing during the ICC process. A report summarising results of last years ICC process and setting out the approach for 2009/10 has been prepared and will be presented to Corporate Directors Group in December.</p> <p>Service summaries from the 2008/9 cycle have been reported back to service performance leads to address weaknesses. Services are required to verify evidence of effective controls and put in place service improvement plans for any red/amber response of 60% or more and team improvement plans for remaining red responses.</p> <p>Risks arising from the issues identified by the ICC need to be built into service improvement plans and reported as part of regular service monitoring reports.</p> <p>Directors are being asked to champion and challenge the ICC process, to nominate responsible officers and to review ICC question to ensure they are inclusive of service specific issues. Some changes – to finance and</p>	<p>Head of Insurance &amp; Risk and Chief Internal Auditor</p> <p>Directors, Head of Insurance &amp; Risk and Chief Internal Auditor</p> <p>Directors</p>

Action	Timing	Update – Nov 09	Responsibility
		<p>performance – have already been identified. The ICC will form a regular agenda item as senior management teams. The ICC cycle for 209/10 will commence in January 2010.</p> <p>Risk registers are being tested by the Head of compliance/Chief Internal Auditor to ensure that they have been revised for weaknesses identified through the ICC process and that control systems have been revised as appropriate.</p>	
<p>4 Directorate and major project risk registers to be presented to the Audit Committee at least annually.</p>	<p>Ongoing</p>	<p>Agreed with Audit Committee and a cycle is being agreed. Risk registers going to AC will be presented to the Statutory Officers Meeting first.</p> <p>The Adult Social Services register is being presented to the December meeting of the Audit Committee.</p>	<p>Directors and Chief Internal Auditor</p>
<p>5 Interim Chief Internal Auditor to establish an Audit Strategy, to be considered initially by the Meeting of Statutory Officers and subsequently CDG, and which:-</p> <ul style="list-style-type: none"> <li>i) incorporates recommendations on internal and external resources</li> <li>ii) fosters productive links between Internal Audit and senior management</li> <li>iii) incorporates a framework for review, and measuring the effectiveness of Internal Audit.</li> </ul>	<p>August 2009</p>	<p>An interim Chief Internal Auditor has been appointed and a revised Audit Strategy is being presented to the December meeting of the Audit Committee</p>	<p>Chief Internal Auditor</p>



Action		Timing	Update – Nov 09	Responsibility
6	The Annual Audit Plan (AAP).			
6a	The AAP will clearly indicate “key systems” as determined in consultation with the External Auditor.	December 2009 and ongoing	Internal audit have met with external audit to agree the key systems relevant to the opinion of external audit and also those that although not material should be an essential part of internal audit coverage.	Chief Internal Auditor
6b	The AAP will comprise a mixture of risk based systems reviews, compliance audits, end to end process reviews, value for money audits, etc.	December 2009 and ongoing	The AAP is being developed in response to these action points.	Directors and Chief Internal Auditor
6c	The final draft of the AAP will be prepared by the Chief Internal Auditor, after consultation with Directors, and be submitted for endorsement to CDG prior to being reported to the Audit Committee.	2010/11 audit cycle and ongoing		Chief Internal Auditor and Audit Committee
6d	The AAP will be reported to the Audit Committee for member approval. A mid-year progress report and year end report will also be reported to the Audit Committee.			
7	Chief Internal Auditor and Insurance & Risk Manager to maintain regular contact with Directors and their management teams.	Ongoing	The Risk Manager has been meeting has been meeting with service performance leads and is attending SMT’s re risk management (including demonstrating a new IT system for risk management) and discussing the ICC process	Directors & management teams, Head of Insurance & Risk and Chief Internal Auditor
8	The Triennial review of the internal audit function will be completed as a matter of urgency.	March 2010	Terms of reference for the triennial review have been agreed and the exercise will commence shortly.	Chief Internal Auditor and External Audit
9	Electronic versions of all finalised internal audit reports are to be held centrally for <u>all</u> officers and <u>all</u> Members to view, review and appreciate emerging	March 2010	In progress with support from IS	Chief Internal Auditor

Action	Timing	Update – Nov 09	Responsibility
control issues that may have an impact on a broader range of services.			
10 Meeting of Statutory Officers to comprise Chief Executive, Director of Resources/Finance, Director of Corporate Governance, Chief Internal Auditor, Insurance & Risk Manager. For safeguarding matters, the Director of Adult Services and Director of Children’s Service will attend as well.	Ongoing	Complete	Chief Executive supported by officers detailed in action description
<p>11 Annual Governance Statement (AGS).</p> <p>11a The draft AGS to be considered first by the Meeting of Statutory Officers, prior to it going to CDG and then onto the Audit Committee.</p> <p>11b The AGS covering report to the Audit Committee to include a recommendation that ... the Audit Committee having considered and commented on the AGS, recommends the Leader and Chief Executive to sign it.</p> <p>11c Regular progress reports on actions in the AGS to be made to the Meeting of Statutory Officers.</p>	Ongoing	Planning for the AGS process is underway, linked to the arrangements for the ICC process	Director of Corporate Governance
12 Audit Committee terms of reference to be reviewed.	August 2009	Initial review complete and consideration to be given to developing the AC’s role in relation to risk management by enhancing the ToR.	Audit Committee
13 This action plan to be reported to the Audit Committee, along with progress reports (after first having been reviewed by the Meeting of Statutory Officers).	Next Audit Committee and ongoing	This action plan is being reported to the December Audit committee.	Audit Committee Statutory Officers Meeting



