

**AGENDA ITEM: 9**

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Meeting	Audit Committee
Date	21 June 2010
<b>Subject</b>	<b>Internal Audit Annual Report</b>
Report of	Interim Assistant Director Audit and Risk Management
Summary	The Committee is asked to note the 2009-10 Annual Report and Opinion.

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Officer Contributors	Richard King - Interim Assistant Director Audit and Risk Management
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A: Internal Audit Annual Report Appendix B: List of completed audits and opinions
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 note the contents of the Annual Report**
- 1.2. That the Committee consider whether there is any areas on which they require additional information.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 The Audit Committee Work Programme which was approved at the Meeting on 11<sup>th</sup> March 2010 included the Internal Audit Annual report for inclusion at this meeting.

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

- 3.1 All internal audit planned activity is aligned with the Council's objectives and, thus, supports the delivery of those objectives by giving an auditor judgement on the effectiveness of the management of the risks associated with delivery of the service.
- 3.2 The Annual Assurance Opinion forms part of the Annual Governance Statement that is presented elsewhere to this Committee.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 All Internal Audit activity is directed toward giving assurance about risk management within the areas examined. By so doing the aim is to help maximise the achievement of the Council's objectives. Internal Audit does this by identifying areas for improvement.
- 4.2 Internal Audit work contributes significantly to increasing awareness and understanding of risk and controls amongst managers and thus, leads to improving management processes for securing more effective risk management.

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

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

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

- 6.1 None directly as a result of this Report but it is for management to determine whether any resources should be used to enhance the management of risks in the identified deficient areas.

## **7. LEGAL ISSUES**

7.1 None in the context of this report.

## **8. CONSTITUTIONAL POWERS**

8.1 The Constitution Part 2 Paragraph 3.3 recognises that the annual audit opinion plays an essential part in advising the Council that risk management procedures and processes are in place and operating properly.

## **9 BACKGROUND INFORMATION**

9.1 This report provides details of all of the audits carried out during 2009/10 and also gives the assurance level for each audit. This ultimately leads to the overall assurance opinion for the year which is in the Report at Section 8.

9.2 Performance data is included in the main report at Section 6.

## **10. LIST OF BACKGROUND PAPERS**

10.1 None.

Legal: PD

Finance: AT

## **Internal Audit Annual Report 2009/10**

### **1. Introduction and Background**

2009/10 has been a challenging year for the London Borough of Barnet particularly on issues concerned with the internal control environment. Against the background of the Icelandic Banks situation in 2008/9, an independent consultant's report highlighted a number of ways to improve internal control. The resultant internal control improvement action plan was presented to the Audit Committee in December 2009.

During the last year the Council has had a turnover of senior staff and the employment of a number of interim staff to fill vacancies and to augment skill levels and aid development. For Internal Audit, there has been a senior member of staff acting up as Chief Internal Auditor and, for the last 5 months of the financial year, an interim manager covering this position.

### **2. Core Activities**

2.1 Internal Audit is "an assurance function that provides an independent and objective opinion to the *Council* on the control environment, by evaluating *its* effectiveness in achieving the *Authority's* objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources"  
(CIPFA 2006)

2.2 The Section satisfies the Council's statutory responsibilities under the Accounts and Audit Regulations 2006 (The Regulations) "to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices."

2.3 The work of Internal Audit also assists the Deputy Chief Executive in the discharge of his responsibilities under the Regulations for accounting records and accounting control systems.

2.4 Internal audit also offers advice and guidance on internal control issues to the Council's officers in order to improve the

operation and effectiveness of risk management and thus the achievement of the Council's objectives.

### **3. Internal Audit Services**

The primary objective for Internal Audit is to provide an annual assurance opinion on the control environment. This opinion is based upon a planned programme of activity.

This programme, the Annual Audit Plan, is approved by the Audit Committee in March each year. The Plan is subject to changes as the year progresses to recognise the changing impact of risks that the Council faces.

In examining and commenting on the operation and effectiveness of risk management, Internal Audit contributes to the Council's corporate governance. In this way, Internal Audit plays its part in the achievement of the strategic aims and objectives of the Authority.

In recognition of the statutory requirement contained in the Regulations and in accordance with the CIPFA Code, the Council has enshrined in Financial Regulations ( Financial Administration, section 3) the various responsibilities and powers of Internal Audit. These are further identified in the Terms of Reference of the Audit Committee.

The main Internal Audit services provided in the year to fulfil these responsibilities are:

Systems audits	40 planned
Follow-up audits	44 planned
Key system audits	4 planned
Other project and compliance work	11 planned

### **4. Staffing**

Internal Audit work has been provided by a small in-house team of 4 together with contract staff. This arrangement provides additional flexibility for service delivery plus access to a broad and skilled base of professionally trained auditors. The contract for this

external provision of staff has now entered the 5<sup>th</sup> year and will be retendered for the year starting April 2011.

The Council's directly employed Internal Audit staff have the following professional qualifications:

- 2 x Chartered accountants
- 1 x MIIA – member of the Institute of Internal Auditor

## **5. Significant Issues during 2009-10**

The plan, as revised at the Audit Committee meetings, has been 96 % completed. Remaining audits have either been deferred until 2010-11 or cancelled.

An Internal Audit Strategy was prepared and approved at the Audit Committee on 16 December 2009. The Annual Plan for 2010-11 is based on this Strategy.

There is a strengthening of the Internal Control Environment resulting from the actions contained within the Improvement Plan. Included amongst these actions is a regular meeting between the Corporate Risk Manager and the Chief Internal Auditor.

## **6. Performance Results for the year to 31 March 2010**

Internal Audit's performance for the year was measured as follows:

- number of planned audits: 137 including 38 schools
- number of completed audits: 144 including 38 schools
- planned days: 1181
- actual days 1181

In addition, at the finalisation of each audit, the relevant manager is asked to complete an evaluation questionnaire. The number of returned questionnaires for the year was low but they show a very high level of satisfaction with the audits. For the current year, 2010/11, I will be seeking to increase significantly the number of questionnaires returned in order that a more representative evaluation can be given.

As agreed by members at the last meeting of this Committee, there will be a broader suite of performance targets to be achieved

by Internal Audit which should enable members, directors and senior managers to form a better judgement of Internal Audit's performance.

## **7. Internal Audit 2010 and Beyond**

### 7.1 Introduction

The approved Strategy recognises that Internal Audit practice at Barnet must be different in order to deliver the service that a successful London Borough needs. The Service needs to be more proactive and assist the Council in its developments. Future Shape offers a unique opportunity not only to the Authority as a whole but also to Internal Audit. Internal auditors' traditional approach will no longer be sufficient for a dynamic Authority that seeks greater efficiency and effectiveness in service delivery. Auditors will need to be more proactive and to establish working practices that assist an organisation to develop new and ground breaking delivery vehicles.

### 7.2 Staff Skills

To achieve this, auditors' skills and experiences will need to be developed. To this end, a Training and Development Plan will be prepared. This will identify the skills necessary for the Council's future and establish individual staff's abilities against these requirements. For each auditor, a personal development plan will be formulated and this will be summarised into the T & D Plan for the Section. This Plan will have to recognise the resource constraints for training and development budgets but it is hoped that some no cost development options will be available through working alongside the Internal Audit contractor and possibly also with the External Auditor amongst others.

### 7.3 Reporting to the Audit Committee

As proposed and accepted within the Internal Audit Strategy, progress against the agreed Annual Plan will be reported to each Committee meeting. The report to take a more narrative form and include:

- the subject of the audit
- the assurance level

- timing of the audit
- brief details of the subject area including quantitative and/or financial statistics
- the principal findings

I hope that this changed reporting will give members a better picture of the risk management in the area under consideration. Additionally within the detailed audit reports issued to directors and managers, the auditors will present positive aspects of the risk management alongside any areas for improvement.

#### 7.4 Follow-up Audits

In line with the Strategy, not every audit will be subject to a follow-up. Those audits with significant impact on the internal control environment will be revisited to confirm that the agreed actions have been implemented and that risk is, as a consequence, being better managed.

For those audits where follow-up is not planned, I will be looking to the relevant director/manager to confirm that the agreed actions have been implemented by the agreed date.

The Strategy recognised and articulated the responsibilities of directors and managers in terms of agreeing and owning the outcomes of internal audits. I confidently expect that this should lead to a much improved service from Internal Audit and greater coverage of the Council's significant activities.

#### 7.5 Internal Audit Performance

At present, there is a limited volume of performance data given to members and directors on Internal Audit performance. Greater transparency in this area should give more confidence in the value for money aspects of the Service.

In addition, Internal Audit will be participating in the Benchmarking Club of the Chartered Institute of Public Finance and Accountancy (CIPFA). This will enable me and the future Head of Internal Audit to assess our performance against other participants in the Club and make direct comparisons with a small peer group. This should lead to performance improvements. This comparative information will form part of future performance reports to members and directors.



## **8. Annual Opinion**

**Based on the internal audit work carried out during 2009/10, I can give limited assurance on the operation of the Council's internal control environment. The internal control environment comprises the systems of governance, risk management and internal control.**

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Audits have been carried out in accordance with auditing standards as contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom which have been accepted by members as the standards to which the Section works and against which performance is evaluated.

**Audit Opinions on 2009-10 Completed Audits**

<b>Systems Audits</b>	<b>Assurance</b>	<b>Follow-up Ref</b>
1 Data Quality in Environment & Transport	Full	
2 Accommodation Strategy	Satisfactory	
3 Cashiers	Satisfactory	
4 Children in Care	Satisfactory	
5 Children's Centre Service	Satisfactory	
6 Choice & Independence - Supply Management	Satisfactory	
7 Corporate Anti Fraud Team	Satisfactory	
8 Insurance	Satisfactory	
9 Money Laundering	Satisfactory	
10 Postal Remittances	Satisfactory	
11 Regeneration Skills Development Partnership Group	Satisfactory	
12 Regulation of Investigatory Powers Act 2000	Satisfactory	
13 Self Service - staff leave, expenses etc.	Satisfactory	
14 Anti Crime Agenda	Limited	<b>a</b>
15 Capital Expenditure	Limited	
16 Cleaning Contract -Safeguarding	Limited	<b>b</b>
17 Common Assessment Framework for children	Limited	
18 Disposal & Capital Receipts	Limited	
19 Internal Control & Risk Management in Children's Service	Limited	
20 Internal Control & Risk Management in Corporate Governance	Limited	<b>c</b>
21 Internal Control & Risk Management in Environment and Transport	Limited	
22 Internal Control & Risk Management in Planning Housing & Regeneration	Limited	
23 Income from Property	Limited	
24 Integrated Community Equipment	Limited	
25 Procurement and Contracts Children's Service	Limited	
26 Procurement Contracts & Accounts Payable	Limited	<b>d</b>
27 Project Support	Limited	
28 Public Transportation & Traffic Management	Limited	
29 Regeneration of homes for Council Tenants	Limited	<b>e</b>
30 Registration of Electors	Limited	
31 Remote Access to Council Computer Systems	Limited	
32 Temporary Accommodation	Limited	
33 Working with Partners	Limited	
34 Appointeeship	No	
35 Blue Badges	No	
36 Data Security & Handling	No	
37 Deputyship	No	
38 Leisure Management	No	
39 Meals	No	
40 Parking -Pay & Display Maintenance & Cash Collection	No	
41 Section 106 Payments	No	
42 Telecare	No	

## APPENDIX B

<b>Systems Audits</b>		<b>Assurance</b>	<b>Follow-up Ref</b>
43	Treasury Management (Icelandic Banks)	No	<b>f</b>
44	Use of Consultants	No	<b>g</b>

<b>Audit of Projects</b>		<b>Assurance</b>
1	Housing System Review	Satisfactory
2	Mill Hill Depot Relocation	Satisfactory
3	Contact Point	Limited
4	Individual Budgets	Limited

<b>Regularity or Probity Audits</b>		<b>Assurance</b>
1	Grant for Supporting People	Satisfactory
2	Grant for Stroke Service	Satisfactory
3	Milly Apthorp Charity Payments	Limited

<b>Follow-up Audits</b>		<b>Assurance</b>	<b>System Audit Ref</b>
1	Treasury Management	Full from No	<b>f</b>
2	Contact Point in Children's Service	Full from Ltd	
3	LG Pension	Full from Ltd	
4	Child Protection 2nd follow-up	Full from Sat	
5	Choice & Independence Programme Governance	Full from Sat	
6	Housing Benefit	Full from Sat	
7	Drugs & Alcohol Value for Money	Sat from No	
8	Telecare Alarm System for Vulnerable Clients	Sat from No	
9	Business Continuity in Adult Social Service	Sat from Ltd	
10	Barnet Homes Monitoring	Sat from Ltd	
11	Business Continuity 2nd Follow-up	Sat from Ltd	
12	Cash Collect, Banking & Treasury Management 2nd Follow-up	Sat from Ltd	
13	Cash Security Collection	Sat from Ltd	
14	Cashiers 2nd Follow-up	Sat from Ltd	
15	Consultation 2nd Follow-up	Sat from Ltd	
16	Electronic Document Record Management Phase 1 Project	Sat from Ltd	
17	Fair Pricing Tool	Sat from Ltd	
18	Free School Meals	Sat from Ltd	
19	Growth Area Funding -grant	Sat from Ltd	
20	Housing Revenue Account 2nd Follow-up	Sat from Ltd	
21	Housing Strategy & Performance	Sat from Ltd	
22	Meals 2nd Follow-up	Sat from Ltd	
23	Non-Housing Revenue Account Subsidy	Sat from Ltd	
24	Partnership Arrangements 2nd Follow-up	Sat from Ltd	
25	Principle Development Agreement 2nd Follow-up	Sat from Ltd	
26	Regeneration of homes for Council Tenants	Sat from Ltd	<b>c</b>
27	Respite Care	Sat from Ltd	
28	Administration of Term Contracts	Sat from Sat	
29	Barnet Connexions - Career Advice	Sat from Sat	

## APPENDIX B

Follow-up Audits	Assurance	System Audit Ref
30 Child Protection	Sat from Sat	
31 Data Quality (Key Lines of Enquiries)	Sat from Sat	
32 Data Quality Best Value Performance Indicators	Sat from Sat	
33 Depot Replacement Project	Sat from Sat	
34 Imprest Accounts	Sat from Sat	
35 Parking Control	Sat from Sat	
36 Strategic Planning	Sat from Sat	
37 Trading Standards & Licensing	Sat from Sat	
38 Transport Contract Project	Sat from Sat	
39 West of Borough Project	Sat from Sat	
40 LAA Grant	Sat from Sat	
41 Business Continuity	Ltd from No	
42 Customer Billing	Ltd from No	
43 Meals Audit	Ltd from No	
44 Parking Pay & Display Maintenance 7 Cash Collection	Ltd from No	
45 Use of Consultants	Ltd from No	<b>g</b>
46 Anti Crime Agenda	Ltd from Ltd	<b>a</b>
47 Central Contract Monitoring 2nd Follow-up	Ltd from Ltd	
48 Cleaning Contract Safeguarding	Ltd from Ltd	<b>b</b>
49 Final Accounts - contracts	Ltd from Ltd	
50 Homelessness	Ltd from Ltd	
51 Housing Revenue Account	Ltd from Ltd	
52 Internal Control & Risk Management in Corporate Governance	Ltd from Ltd	<b>c</b>
53 Partnership Arrangements	Ltd from Ltd	
54 Procurement Contract & Accounts Payable	Ltd from Ltd	<b>d</b>
55 SAP control over users and access	Ltd from Ltd	

**School Audits**

- 1 Barnfield
- 2 Bell Lane
- 3 Broadfields
- 4 Brunswick Park
- 5 Childs Hill
- 6 Christ College
- 7 Church Hill
- 8 Colindale
- 9 Cromer Road
- 10 Danegrove
- 11 Deansbrook Junior
- 12 Dollis Junior
- 13 East Barnet
- 14 Edgware Infant
- 15 Edgware Junior
- 16 Finchley Catholic High
- 17 Frith Manor
- 18 Garden Suburb Junior
- 19 Hendon
- 20 Holly Park
- 21 Hyde
- 22 Mapledown
- 23 Mill Hill High
- 24 Moss Hall Junior
- 25 Northway
- 26 Orion
- 27 QE Girls
- 28 Queenswell Infant
- 29 St John's CE N11
- 30 St Margaret's Nursery
- 31 St Mary's CE High School
- 32 St Mary's N3
- 33 St Michael's Catholic High
- 34 Summerside
- 35 Underhill Junior
- 36 Wessex Gardens
- 37 Whitefields
- 38 Woodcroft