

**MEETING**

**AUDIT COMMITTEE**

**DATE AND TIME**

**THURSDAY 8 DECEMBER 2011**

**AT 7.00PM**

**VENUE**

**HENDON TOWN HALL, THE BURROUGHS, HENDON NW4 4BG**

**TO: MEMBERS OF THE COMMITTEE (Quorum 3)**

Chairman: Councillor Lord Palmer  
Vice Chairman: Councillor Brian Schama

**Councillors:**

Alex Brodtkin	Sury Khatri	Hugh Rayner
Geof Cooke	Graham Old	

**Substitutes for Councillor Members:**

Jack Cohen	Mark Shooter	Andreas Tambourides
Alan Schneiderman	Agnes Slocombe	Susette Palmer

**Independent Members:**

Richard Harbord	Debra Lewis
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**You are requested to attend the above meeting for which an agenda is attached.  
Aysen Giritli – Head of Governance**

Business Governance contact: Chidilim Agada 020 8359 2037

Media Relations contact: Sue Cocker 020 8359 7039

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<http://committeepapers.barnet.gov.uk/democracy>*

**CORPORATE GOVERNANCE DIRECTORATE**

## ORDER OF BUSINESS

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**AGENDA ITEM: 5a**      Page nos. 1 – 3

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Meeting	Audit Committee
Date	8 December 2011
<b>Subject</b>	<b>Members' Item – Councillor Geof Cooke</b>
Report of	Head of Governance
Summary	This report informs the Committee of a Member's Item.

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Officer Contributors	Chidilim Agada – Business Governance Service
Status (public or exempt)	Public
Wards affected	All
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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Contact for further information: Chidilim Agada – Business Governance Service – Tel: 020 8359 2037.

## **1. RECOMMENDATIONS**

- 1.1 **That the Committee notes the Members' Item and instructs the Assistant Director of Finance - Audit and Risk Management and/or other relevant officers to provide a response.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 None.

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

- 3.1 As and when issues raised in this way are progressed they will need to be evaluated against the Corporate Plan and other relevant policies.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 None in the context of this report.

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

- 5.1 Members' Items allow Members of the Committee to bring a wide range of issues to the attention of the Committee in accordance with the Council's Constitution. All of these issues must be considered for their equalities and diversity implications.

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

- 6.1 None in the context of this report.

## **7. LEGAL ISSUES**

- 7.1 None in the context of this report.

## **8. CONSTITUTIONAL POWERS**

- 8.1 Council Procedure Rules Section 2 - Committees and Sub-Committees – Paragraph 7.1 states a Member will be permitted to have one matter only (with no sub-items) on the agenda for a meeting of a committee or sub-committee on which he/she serves.

## **9. BACKGROUND INFORMATION**

- 9.1 Councillor Geof Cooke has submitted the below Members' Item:

*“According to an Audit Commission survey of public bodies, criminals are using forged letters, based on information on web sites, and follow-up telephone calls to persuade councils to change bank details for payments. Nationally £7M has been lost in this way with a further £20M of frauds detected in time. Would officers confirm whether Barnet has been targeted in this way and what safeguards have been put in place to prevent non-approved switching of payments whether through fraud or otherwise?”*

- 9.2 The Assistant Director of Finance - Audit and Risk Management and the Head of Corporate Anti Fraud Team (CAFT), will arrange for officer comment to be given on the item at the meeting.

9.3 This item is also covered in the Procurement Controls and Monitoring Action Plan report already on the agenda for this meeting.

**10. LIST OF BACKGROUND PAPERS**

10.1 Email from Councillor Cooke dated 10 November 2011.

10.2 Any person wishing to inspect the background paper above should telephone 020 8359 2037.

Legal: JEL

<b>AGENDA ITEM: 6</b>	Pages 4 – 55
Meeting	Audit Committee
Date	8 December 2011
<b>Subject</b>	<b>Annual Audit Letter 2010/11</b>
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	This report advises the Committee of the Annual Audit Letter for 2010/11
Officer Contributors	Maria G. Christofi – Assistant Director, Financial Services Catherine Peters – Head of Finance, SAP Systems, Closing & Monitoring
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A - Annual Audit Letter 2010/11 Appendix B - Finance Resilience Report
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in	Not applicable
Contact for further information:	Catherine Peters , Head of Finance, SAP Systems, Closing & Monitoring 020 8359 7142

## **1. RECOMMENDATIONS**

**1.1 That the External Auditors Annual Audit letter for 2010/11 be accepted as a reasonable statement on the Council's position in respect to the Audit of the Accounts, Financial Performance, Value for Money and Financial Resilience.**

**1.2 That the Committee consider whether there are any areas on which they require additional information or action.**

## **2. RELEVANT PREVIOUS DECISIONS**

2.1 None.

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

3.1 The Annual Audit Letter summarises the key performance issues and achievements of the Council. Those areas of weakness must be addressed over the coming year, failure to do so carries the risk of adverse financial and/or reputational consequences.

## **4. RISK MANAGEMENT ISSUES**

4.1 The Annual Audit Letter has many positive things to say about the Council, but also highlights areas of weakness that must be addressed over the coming year. Failure to do so carries the risk of adverse financial and/or reputational consequences.

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

5.1 The Annual Audit letter covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community on an equal basis within enhanced characteristics.

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

6.1 This report deals with the council's audit of the accounts, financial performance, value for money and financial resilience. The External Auditor provided an unqualified audit opinion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

## **7. LEGAL ISSUES**

7.1 None in the context of this report.

## **8. CONSTITUTIONAL POWERS**

8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "To consider the external auditor's annual letter" and "To comment on the scope and depth of external audit work and to ensure it gives value for money"

## **9. BACKGROUND INFORMATION**

9.1 The purpose of the Annual Audit letter is to summarise the key issues identified by the council's External Auditor, Grant Thornton UK LLP, during their audit and inspection

activity. The letter is designed to communicate messages to the Council and external stakeholders, including members of the public.

9.2 The External Auditor will attend the Committee meeting to introduce their report and respond to questions. This covering report extracts the key messages from within the Annual Audit Letter 2010/11, which is attached to this report in Appendix A.

9.3 The following is drawn to the attention of this Committee:

9.3.1 The Statement of Accounts for 2010/11 have been issued an unqualified opinion on 16 September 2011, ahead of the statutory certificate deadline. The External Auditor's opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

9.3.2 The annual value for money (VfM) conclusion was issued on 16 September 2011 and concluded that for 2010/11 the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

9.3.3 Grant Thornton's VfM work highlighted that the Council's financial performance indicators were in line with expectations and overall compare favourably in the context of other London Boroughs. The Council has comparatively good levels of reserves to provide insulation against future financial shocks, as well as robust arrangements around financial planning, governance and control in overall terms. Grant Thornton have also highlighted Contract management for improvement and agreed to monitor management's progress against their action plan for implementation with the associated recommendations.

9.3.4 2010/11 was the first year that councils were required to prepare accounts under International Financial Reporting Standards (IFRS). The review of the Council's preparedness was undertaken in spring 2011 and assessed the arrangements for re-stating each line of the balance sheet on a RAG basis (Red, Amber, and Green). Overall, the Council's arrangements were classified as Green.

9.3.5 Certification programme for grant claims and returns for 2010/11 is still in progress. Once this work is completed Grant Thornton will report in full on the findings of their work.

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

10.1 None.

Legal: MM

Finance: MC/JH



London Borough of Barnet  
Annual Audit Letter 2010/11

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Appendix A

31 October 2011

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# 1. Executive summary

## Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at the London Borough of Barnet ('the Council') during our 2010/11 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved. (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4).

## Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## Our main audit conclusions for the year

**The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.**

**The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.**

## Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the national deficit whilst ensuring economic recovery. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated its aim to reduce top-down government and devolve power and give greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda that the Council is operating within.

## Key Messages

### Accounts audit

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. The Council planned for the move to IFRS at a very early stage and this is reflected in the outcomes of our audit, where there were no significant departures from the requirements.

We were presented with draft financial statements on 31 May 2011 and accompanying working papers on 6 June 2011. This is a month earlier than in prior years and we recognise the significant achievement by the Council's finance team in managing this. The working papers were of a high quality and co-operation in dealing with audit issues has been strong, such that we were in a position to issue the report to those charged with governance in draft, based on a substantially complete accounts audit, on 15 July 2011.

An unqualified audit opinion was issued on 16 September 2011. Further details can be found in section 2 of this Letter.

### Value for Money

An unqualified Value for Money ('VFM') conclusion was also issued on 16 September 2011 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. As part of this work we reviewed the Council's arrangements for securing financial resilience over the medium term and concluded that the Council is effectively planning to address known changes to levels of funding but will need to maintain a strategy that is flexible and responsive to future changes to funding levels. Further details can be found in section 3 of this Letter.

### Key areas for Council action

We highlight the following key areas that the Council should continue to focus on in 2011/12:

- Monitoring the Medium Term Financial Plan ('MTFP') during delivery, in particular in relation to changes to key assumptions such as the impact of demographic change, price inflation and the outcome of the Government's funding settlement for the final two years of the plan.
- Planning for future changes to financial reporting requirements, particularly in relation to the accounting treatment of schools and of heritage assets.

- Addressing service and financial risks associated with the transformation agenda against the backdrop of wider challenges brought about by the Localism Bill, the distribution of Business Rates, changes to the funding of the Housing Revenue Account and the impact of the Olympics on the borough.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A.

Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

### Acknowledgements

This Letter has been agreed with Council management and was presented to Audit Committee on 08 December 2011.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**31 October 2011**

## 2. Audit of the accounts

### Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 16 September 2011, significantly ahead of the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts gave a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Committee on 6 September and summarise only the key messages in this Letter.

We were presented with draft financial statements on 31 May 2011 and accompanying working papers on 6 June 2011. This is a month earlier than in prior years and we recognise the significant achievement by the Council's finance team in managing this. The working papers were of a high quality and co-operation in dealing with audit issues has been strong, such that we were in a position to issue the report to those charged with governance in draft, based on a substantially complete accounts audit, on 15 July 2011.

### International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in Spring 2011 and assessed the arrangements for re-stating each line of the balance sheet on a RAG basis (Red, Amber, Green). Overall we rated the Council's arrangements as being Green.

As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements. The Council started planning for the transition to accounting under IFRS in 2008 and this is reflected in the small number of adjustments made to the accounts as a result of this transition.

## Audit of the accounts

We recommended a number of adjustments to the draft accounts. Management agreed to make these adjustments which did not result in any change in the Council's General Fund balance.

We identified a small number of areas where improvements could be made to the processes in place to prepare the accounts. The actions agreed with the Council to minimise the chance of errors occurring in the 2011/12 accounts were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

## Financial performance

The Council's grant finding was reduced as a result of the government's comprehensive spending review in 2010/11, however, through rigorous review of its financial plans and regular financial monitoring, the Council met its agreed 2010/11 budget.

As at the end of quarter 2 (September 2011) of 2011/12, the Council was reporting a small adverse variance of £0.991m against its planned budget for the year. The Council understands the reasons for the variance against budget and has taken steps to ensure that departments formulate and implement action plans to ensure that they remain within their agreed budgets. In regard to savings plans, £0.723m, of the total £29.1m the council needed to deliver as part of the 2011/12 budget setting process, is still being identified as high risk.

The Council's General Fund reserve balances have remained stable in recent years. This is broadly consistent with the trend of the London borough benchmark group. The Council is in line with the London average for unallocated General Fund reserves during the three year period to 31 March 2010.

We will continue to keep the Council's financial position under review as part of our 2011-12 audit and the follow-up work we have planned on the Financial Resilience element of our VFM review.

### Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in four main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- high level review of the general IT control environment
- a data conversion review following the replacement of the Council's Revenues and Benefits system.

Our work did not identify any control issues that would present a material risk to the accuracy of the financial statements. Recommendations to enhance the accounts process made as a result of our audit have been agreed and the Council is progressing their implementation. We will follow up on the progress of this as part of our 2011/12 audit.

### Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) which in turn informs our VFM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council, subject to a small number of proposed adjustments, which management incorporated into the final versions of the documents. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the accounts.

### Elector matters

We received questions from local government electors on the accounts relating to senior officer remuneration disclosures and supplier payments. We considered the points raised, as required under the Audit Commission Act 1998, and included our response and conclusions in our September 2011 Annual Report to those Charged with Governance.

We certified the audit as complete on 16th September 2011.

### Whole of Government Accounts (WGA)

The Council submitted its draft WGA pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July. We were able to submit the audited WGA to the CLG by the deadline of 30 September based on there being no significant issues with the quality of the information contained in the pack.



## 3. Value for money

### Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

### Key Conclusions

We issued our annual VFM conclusion on 16 September 2011, at the same time as our accounts opinion, well in advance of the required deadline of 30 September 2011. We concluded that, for 2010/11, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

We assessed the Council as having proper arrangements in place to meet all the Code criteria, although there were some areas where the Council could improve its arrangements. These are detailed below.

### Securing Financial Resilience

As part of the work informing our 2010/11 VFM conclusion we performed a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position to enable it to continue to operate for the foreseeable future.

We reviewed the financial resilience of the Council by looking at its:

- key indicators of financial performance
- approach to strategic financial planning
- approach to financial governance
- approach to financial control.

Our findings were that the Council's financial performance indicators were in line with expectations and overall compare favourably in the context of other London Boroughs. The Council has comparatively good levels of reserves to provide insulation against future financial shocks. The Council has robust arrangements around financial planning, governance and control in overall terms.

Our overall conclusion is that whilst the Council faces significant financial challenges in 2011/12 and beyond its current arrangements for achieving financial resilience are robust. We are aware that the Cabinet has already agreed the 2011/12 budget.

### **Contract management**

Following the June 2011 Internal Audit Annual Report which referred to contract management, a number of actions were agreed by management including implementing the action plan for identified specific weaknesses, and carrying out a further internal review to quantify the extent of wider contract management compliance issues. Internal and external audit monitored and provided challenge of progress.

The Council's further investigation into contract management included extensive work in producing a current contracts register and collating underlying records. A report of the key findings was produced and presented to the Audit Committee in September 2011.

Our review of this work and further testing supported the conclusions reached by management we reported in September 2011 that the agreed actions due at that time had been carried out as planned. We also concluded that the Council recognised the need to carefully manage the completion of a number of actions to improve contract management controls, including ensuring that formal contracts are in place for all relevant expenditure and periodically reviewing these to ensure that the arrangements represent VFM.

Both internal and external audit will continue to review progress being made by management to resolve outstanding contract management issues during 2011/12.

### **Securing Economy, Efficiency and Effectiveness**

We have conducted targeted work to ensure that the Council has prioritised its resources to take into account budget constraints and whether it has delivered value for money in its priority service areas.

We based our review on an assessment of key risk indicators, in order to direct our detailed work for 2010/11. We have undertaken some specific pieces of work that support and inform our conclusion in respect of this criteria, summarised overleaf.

We reviewed the Council's arrangements to provide governance and scrutiny over management actions, focusing on the effectiveness of member scrutiny of key decisions and projects. We concluded that the overall arrangements were satisfactory and appropriate to ensure that management actions are reviewed effectively.

We followed up our 2009/10 report on the overall governance arrangements for the 'One Barnet' framework. We concluded that the recommended actions had been implemented appropriately or, where circumstances had changed, that appropriate compensating measures were in place.

We assessed the Council's performance against its strategic objectives as a measure of delivering value for money and found that, although performance levels varied across the services, with some targets not achieved, the Council had met the majority of its planned performance targets in 2010/11.

We considered the Assistant Director of Finance - Audit and Risk Management's 'limited assurance' internal audit opinion of the Council's system of internal control in 2010/11. Although the number of limited assurance conclusions is recognised as a concern, evidence demonstrated a marked improvement during the year in the implementation of internal audit recommendations, showing that the Council is taking action to address the issues raised.

### **Value for Money Conclusion**

Considering all of the findings and conclusions set out in this report, we provided an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

For the areas where systems and controls require improvement, these have been reported to the Audit Committee by management, internal and external audit along with agreed actions plans. Follow up of progress in implementing these actions will be reported to the Audit Committee by management and audit during 2011/12.

In 2011/12, we will focus on the two key VFM reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council.

## 4. Grants Certification

### Introduction

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2010/11 grant claims and returns. Once this work is complete we will report in full on the findings of our work in a separate report to the Audit Committee.

# Appendices

## A. 2010/11 reports issued

Report	Date Issued
Audit Plan	December 2010
Review of arrangements for implementation of IFRS	April 2011
Grants Certification Plan	June 2011
Audit Approach Memorandum (Accounts)	June 2011
Annual Report to Those Charged With Governance (ISA 260)	September 2011
Financial resilience and scrutiny reports (VFM)	October 2011
Annual Audit Letter	November 2011
Grants Certification Report	December 2011

## B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Total Code of Practice fee	£415,000	£415,000
Certification of grant claims and returns*	£85,000	TBC on completion of work

\*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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## London Borough of Barnet

Review of the Council's arrangements for securing financial resilience

September 2011

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# Section 1

## Executive summary

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Introduction

### Background

Barnet is a densely populated borough in north London with a population of over 340,000 people. The borough stretches from the prosperous neighbourhood of High Barnet in the north to Burnt Oak in the south west, that has high levels of deprivation. Barnet has a number of areas of high prosperity but is also close to the top third of most deprived authorities in the country . It is also diverse, with upwards of 32% of Barnet's residents belong to an ethnic minority group ethnic minority backgrounds.

Barnet retains a pattern of older "village" centres and open spaces alongside newer development. There are good rail and road links in and out of central London. The local economy is dominated by small and medium sized businesses and the borough has a higher proportion of self-employed residents than London or England generally.

### Context

The Chancellor of the Exchequer announced the 2010 Spending Review (SR10 ) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

## Our Approach

### Value for Money Conclusion

As part of the work informing our 2010/11 Value for Money (VFM) conclusion we have undertaken a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report .

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- It's approach to strategic financial planning;
- It's approach to financial governance; and
- It's approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces significant risks and challenges in 2011/12 and beyond its current arrangements for achieving financial resilience are adequate.

We have used a red / amber / green (RAG) rating with the following definitions.

#### Green

**No cause for concern.** Adequate arrangements identified and key characteristics of good practice appear to be in place.

#### Amber

**Potential risks and / or weaknesses.** Adequate arrangements and characteristics are in place in some respects, but not all . Evidence that the Council is taking forward areas where arrangements need to be strengthened.



#### Red

**High risk:** The Council's arrangements are generally inadequate and not in line with good practice or may have a high risk of not succeeding

Our findings are detailed between pages 10 and 32 of this report.

Where areas have been assessed as amber or red we have discussed these with officers and, as appropriate, made recommendations on pages 8 and 9. {



## Overview of Arrangements

Area	Summary observations	Summary level risk assessment
<b>Key Indicators of Performance</b>	<ul style="list-style-type: none"> <li>Benchmarked key indicators of financial performance indicate that, in general terms, Barnet has followed recent trends within the London Borough comparator group, for year on year reductions in liquidity, reducing DSG balances, and borrowing levels, but has demonstrated a year on year increase in all three for 2010/11, illustrative of a strengthening financial position.</li> <li>Barnet's useable reserves have increased over the three year period to 31 March 2011, whilst the London Borough average is on a decreasing trend. The level of forecast general fund reserves at 31 March 2011 for Barnet of £15.8m remains higher than the London borough average of £14.6m and has allowed for a further £7.9m to be transferred to useable Earmarked reserves, providing an additional buffer against future financial shocks and known risks.</li> <li>Due to the Council's comparatively low reliance on government grants, it has fared better than a number of other London boroughs in terms of spending power reductions.</li> <li>The capital programme underspent by £49.7m during 2010/11 (35% of the original budget). The Council has recognised that asset management planning is not well integrated into the business planning process, and capital programme delivery is not timely. An Estates Strategy and a Corporate Asset Management information system are close to being implemented which should help to improve performance.</li> <li>The Council has maintained a strong track record on sickness absence in recent years, and continues to maintain sickness absence at below average levels compared to other London Boroughs and nationally. This is indicative of a robust approach to staff resource management.</li> </ul>	 <b>Green</b>
<b>Strategic Financial Planning</b>	<ul style="list-style-type: none"> <li>The Council strengthened its most recent financial planning process in light of the Government's deficit reduction programme. It is clear that the Council took account of its corporate priorities when setting what was a generationally challenging budget. The approach used to identify savings opportunities was corporate led, and incorporates a wide ranging service reconfiguration process designed to maximise value for money in the delivery of services, while dramatically reducing costs.</li> <li>The Council was well placed to deal with the budget constraints imposed by SR10, and had already embarked on a cost reduction and reconfiguration programme in advance of the announcement. This meant that the Council was well prepared for the financial impact of the announcement: the Medium Term Financial Plan (MTFP) core 2011/12 budget and savings plans were already in place.</li> <li>The Council faces a number of financial pressures, most notably demand led pressures in Children's services and Highways. However, the planning process has recognised the underlying causes and action plans are in place to address them.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

## Overview of Arrangements

Area	Summary observations	Summary level risk assessment
<b>Financial Governance</b>	<ul style="list-style-type: none"> <li>The Council has a well established approach to financial governance that has delivered good results in recent financial years.</li> <li>There have been a significant number of changes affecting the financial governance process, including the centralisation of the finance support function, a move to quarterly corporate performance monitoring, additional cross service performance monitoring arrangements, significant strengthening of the internal audit function and changes to the responsibilities of Council Committees charged with governance. These processes will need time to fully embed and mature, although the early signs are that they reflect significant improvements in financial governance arrangements.</li> </ul>	 <b>Green</b>
<b>Financial Control</b>	<ul style="list-style-type: none"> <li>The Council's approach to financial and performance management, has helped the Council to deliver strong financial results in recent years. Budgetary control, including over savings plans, is robust and the Council has demonstrated the appropriate deployment of internal assurance mechanisms following improvements to the audit and risk function implemented in during the year. There have also been some notable improvements in financial control , including controls over purchase order processing.</li> <li>The Council is in the process of improving the internal management culture of the organisation in regard to compliance with controls and taking timely action to address identified control risks. There have been cases in the past where management had only partially implemented recommendations, which is the focus of the planned improvement.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of 'limited assurance' audit reports in the year. We acknowledge that this is indicative of the more robust approach taken to internal audit and risk assurance in 2010/11 that reflects a key improvement in the control environment.</li> <li>Whilst key financial systems have generally been reliable in enabling the Council to manage financial risks, there has been a notable weakness identified in the year in regard to the controls over supplier contracts linked to the procurement process. This highlighted areas of non-compliance with existing controls. As already noted, the Council understands the risks associated with these issues and is progressing mitigating actions.</li> </ul>	 <b>Amber</b>

## Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
<b>Key Indicators of Performance</b>	The Council should monitor the impact of the new Estates Strategy and a Corporate Asset Management information system to ensure that performance against the capital budgets is improved.  Medium Risk	Director of Commercial Services	Ongoing	The Investment Approvals Board has been reinstated to monitor progress of the capital programme against budget plans. This has been meeting on a monthly basis since July 2011.

Area of review	Recommendations	Responsibility	Timescale	Comment
<b>Financial Control</b>	The Council should carefully manage the completion of a number of current actions to improve contract management controls, including ensuring that formal contracts are in place for all relevant expenditure and periodically reviewing these to ensure that the arrangements represent VFM.  High Risk	Responsibility. Director of Commercial Services	Ongoing	The Assistant Director of Audit and Risk Management is producing an assurance report for the December meeting of the Audit Committee on completion of the required actions. The Assistant Director of Commercial Assurance is monitoring completion of the action plan weekly. Following on from this, implemented control improvements will be monitored by the Director of Commercial Services.





## Section 2

### Key Indicators

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Introduction




This section of the report include analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to DSG allocations
- Sickness absence levels
- Out-turn against budget

We have used the Audit Commission's nearest neighbours benchmarking group, which is the following authorities.



Greenwich London Borough Council  
 Wandsworth Borough Council  
 Southwark Council  
 Merton Council  
 Hounslow London Borough Council  
 London Borough of Ealing  
 London Borough of Tower Hamlets  
 London Borough of Lambeth  
 London Borough of Waltham Forest  
 London Borough of Enfield  
 Haringey London Borough Council  
 Brent London Borough Council  
 London Borough of Lewisham  
 London Borough of Hackney  
 Islington London Borough Council  
 Newham London Borough Council

## Overview of performance

Area of Focus	Summary observations	High level risk assessment
Liquidity	<ul style="list-style-type: none"> <li>Barnet's working capital ratio decreased from 1.9 in 2007 to 1.2 in 2009, but increased to 1.4 in 2010/11. This indicates that the council's liquidity levels are not out of step with other London Boroughs. The Council also maintains significant levels of short term investments in line with its treasury management policy in order to maximise investment income. Working capital will come under increasing pressure during SR10 and will need to be carefully monitored.</li> <li>The Council's collection rate for Council Tax for 2010/11 was 95.6% (against a national average of 92.6%), which dropped slightly from 96.2% in 2009/10 hampered by the implementation of a new system. The local government average for 2010/11 was 97.3%. However, the Council is not significantly out of step with other London Boroughs.</li> </ul>	 Green
Borrowing	<ul style="list-style-type: none"> <li>Barnet's long term borrowing to long term asset ratio of 0.15 for 2010/11 shows that long term borrowing does not exceed the value its long term assets. Barnet's ratio is lower than the average of authorities in its benchmarked group.</li> <li>Barnet's long term borrowing is less than it's tax revenue. Barnet's borrowing is relatively low in comparison to the benchmark group, a number of who's borrowing exceeds tax revenue.</li> </ul>	 Green
Workforce	<ul style="list-style-type: none"> <li>Sickness absence levels during 2010/11 was an average of 7.8 per FTE. This compares favourably to the London average of 9.4 and the national average of 12.3 for 2009/10.</li> <li>Long term sick management arrangements have started to show real results. A reduction of 23% (64 case to 49 cases) across the Council. Average days for each long term absence fell from 164 to 98. 8 cases that were longer than a year have been resolved with no current cases longer than a year.</li> </ul>	 Green

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern


## Overview of performance

Area of Focus	Summary observations	High level risk assessment
Performance Against Budget	<ul style="list-style-type: none"> <li>The Council's overall position has come in on budget at the end of 2010/11. Council's level of balances remains at £15.780m which is in excess of the target of £15m.</li> <li>Environment and Operations remains a specific area of concern. A shortfall of income in Parking income and winter pressures have put pressure on the service throughout the year. However, the parking recovery plan is on track in 2011/12 to achieve improved service and income levels</li> <li>The capital programme underspent by £49.7m during 2010/11 (35% of the original budget). The Council has recognised that asset management planning is not well integrated into the business planning process and capital programme delivery is not timely. An Estates Strategy and a Corporate Asset Management information system are close to being implemented which should help to improve performance.</li> <li>The HRA recorded a deficit of £261.5m, including £249.3m of Impairments and a 12.5m transfer to the major repairs reserve for 2010/11. The HRA balance brought forward therefore increased by £87k.</li> </ul>	 <b>Amber</b>
Reserve Balances	<ul style="list-style-type: none"> <li>The MTFP notes the general reserves target (excluding schools) for 2011/12 has been set at £15m which represents 5.6% of the Council's revenue budget. This level is the same as 2010/11. There are also a number of earmarked (£40.5m) and other useable reserves (£21.5m) of £62m at 31 March 2011. Total useable reserves (including schools) in 2010/11 was £92.5m or 7% of Gross Revenue Expenditure, which means the Council is approaching the top quartile of London Borough Councils for reserve levels.</li> <li>Barnet's General Fund reserve levels (excluding schools) is marginally higher than the London borough average of £14.6m.</li> <li>Between 2007/08 and 2010/11 the Council has bucked the trend of its benchmark group of London Boroughs, by significantly increasing its useable reserves over this period.</li> <li>Barnet's MTFP does not incorporate plans to reduce the General Fund reserve levels below £15m. This is because Earmarked and other useable reserves have been allocated for use in covering known costs, including transformation costs, as well as identified financial risks.</li> </ul>	 <b>Green</b>

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern

## Key Indicators

## Overview of performance

Area of Focus	Summary observations	High level risk assessment
Schools Balances	<ul style="list-style-type: none"> <li>Barnet's ratio of schools reserve balances to DSG grant, indicating the level of DSG grant unspent at year end, to has decreased by 1% each year over the thee years to 2009/10. This is in line with the broad trend of the benchmark group and Government policy to use reserves to cushion funding reductions in future years. In 2010/11 Barnet increased this ratio to 7% which remains in line with the average for London Boroughs, and strengthens the School's ability to absorb financial shocks in future years.</li> <li>The Council's schools reserve balances is comparatively high therefore providing good insulation against future financial shocks.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern



## Section 3

### Strategic Financial Planning

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Key indicators of good Strategic Financial Planning

### Focus of the Medium Term Financial Strategy (MTFS):

- Focus on the achievement of corporate priorities is evident through the financial planning process.
- The MTFS focuses resources on priorities

### Adequacy of planning assumptions:

- The Council has performed stress testing on its model using a range of economic assumptions including SR10
- The council operates within an appropriate level of reserves and balances
- The MTFS includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances and other financial parameters.
- KPIs can be derived for future periods from the information included within the MTFS
- Effective treasury management arrangements are in place.


### Scope of the MTFP and links to annual planning:

- Service and financial planning processes are integrated.
- Annual financial plans follow the longer term financial strategy.
- The MTFS is linked to and is consistent with other key strategies, including workforce.

### Review & responsiveness:

- There is regular review of the MTFS and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks

## Strategic Financial Planning


Area of Focus	Summary observations	High level risk assessment
<p><b>Focus of the Medium Term Financial Plan (MTFP)</b></p>	<ul style="list-style-type: none"> <li>The MTFP indicates that the Council is reviewing the outcomes and priorities for Barnet, and how these will be delivered. The Council agreed spending priorities and actions linked to these outcomes based on evidence of need and available resources for 2011/12.</li> <li>The current MTFP covers the three year period 2011/12 to 2013/14.</li> <li>The MTFP clearly sets out the Council's savings plans (Budget Book 2011-14 Appendix 2) . Savings plans include additional income generation (e.g. from fees &amp; charges) where applicable.</li> <li>The scale of the savings requirement meant that most services received a robust level of challenge and scrutiny.</li> <li>The overarching approach to identifying savings was via the allocation of targets to departments, and there has been a high degree of corporate control over the process.</li> <li>The main thrust of the savings plans in the short term are linked to the reconfiguration of the Council's organisational structure and in the medium term, on the reconfiguration of service delivery .</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern




**Strategic Financial Planning**

Area of Focus	Summary observations	High level risk assessment
<p><b>Adequacy of planning assumptions</b></p>	<ul style="list-style-type: none"> <li>Savings Plans - The Council has comprehensive savings plans forming a core part of its MTFP (see published Budget book for 2010/11).</li> <li>Scenario Planning - October Cabinet looked at options of 25% and 33% reductions in Grant Funding over 3 years (evenly spread). Figures were sense checked with the Asst. Dir of Strategic Planning and were based on 301m net cost less 155m Council Tax. Scenario planning was reasonably effective in predicting the impact of the CSR, but assumed even spread of reductions, did not anticipate front loading in yr 1 which the Council has had to deal with (this did not lead to a significant review of priorities). We looked at the modelling assumptions, including the work Barnet have done on Inflation sensitivities which is a key area of risk (with a corresponding earmarked reserve).</li> <li>Budget Contingency – For 2010/11 is £7m which includes £3.3m inflation, £400k for cost pressures and a £3m General Contingency.</li> <li>Council Tax – growth based on increased CT base, rather than changes in rates – estimated to be 2.5%. Have also modelled zero growth on CT base.</li> <li>Use of Reserves - The Council does not use reserves to cover funding gaps, but does include a contingency in the budget to cover unforeseen financial pressures. The Council also makes effective use of Earmarked 'Risk' Reserves to cover specific financial risks.</li> <li>General Fund Balance - The 2010/11 accounts confirm that the General Fund balance (excluding Schools) was maintained above the Council's Constitutional minimum, at £15.8m with no change from the prior year. In addition the Council was able to deliver a net increase its Earmarked Reserves (excluding Schools), by £5.6m. Earmarked Reserves incorporate £9.3m set aside for Transformation (One Barnet), and £13m to cover financial risks (including Iceland Banks and slippage in the savings plan).</li> <li>Iceland Banks – The Council have a £27m currently at risk due to investment in the Iceland Banks. The Council have followed recent CIPFA LAAP Bulletin guidance which rests on current legal rulings that give UK Councils preferential creditor status, indicating that in excess of 90% of the value is recoverable (recent legal challenge to this by Icelandic courts is in the process of being rebutted). However, the combination of the risk reserve and the general fund reserve are currently sufficient to cover the loss of the whole amount, which would allow the Council to remain theoretically solvent in the unlikely event that this occurs.</li> <li>Treasury Management - The Council has a Treasury Management strategy in place that is included in the MTFP that is approved by Cabinet and Council. The Audit Committee is also responsible for the scrutiny of treasury management activities primarily through review by Internal Audit. From review of minutes.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

Key: ● High risk area  
 ● Potential risks and/or weaknesses in this area  
 ● No causes for concern


## Strategic Financial Planning

Area of Focus	Summary observations	High level risk assessment
<b>Scope of the MTFP and links to annual planning</b>	<ul style="list-style-type: none"> <li>The Council's financial planning process begins at an early stage in the year, and successfully anticipated the impact of SR10.</li> <li>First Stat Meetings are held periodically, and the subject matter for a particular meeting will focus on an individual service, and a particular topic – currently financial planning in future years. The meeting is hosted by the Chief Executive and takes the form of a large scale presentation and QA session between leading managers in the divisions, and the audience. Importantly, the audience is made up of a wide range of officers (both corporate and from a range of services) and members (at the session observed, upwards of 50 people). This served the purposes of communicating the cost pressures, strategic considerations and the Council's strategy for dealing with it. The audience was then in turn given the chance to challenge and question the proposals. This is a good example of how to manage internal stakeholder consultation and how to promote a corporate approach (breaking down departmental silos).</li> <li>Financial Planning is different within each Service – e.g. Adults take a very strong line on managing budgets to deliver planned savings, also focusing on demand management. Children's have been much more focused on staff restructuring, with savings more a result of redesigning the process.</li> <li>The Corporate Finance managers and their teams are highly involved in the budget setting process. Service managers consider that this arrangement works well.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

## Strategic Financial Planning

Area	Summary observations	High level risk assessment
<b>Review &amp; responsiveness</b>	<ul style="list-style-type: none"> <li>• During the financial planning cycle, budget forecasts and savings options were developed by services and discussed at divisional management teams. Proposals were then reviewed by CRC and Cabinet. Portfolio holders were regularly engaged through this process as chairs of budget sub-groups. There were regular meetings of the Chief Executive, the Leader, and the S151 Officer, and managed a process to review services on a risk basis.</li> <li>• A review of the MTFP, focussing on 2012/13 and 2013/14 has already commenced.</li> <li>• We have noted that monitoring reports have been provided to the CRC in 2010/11 and that there is scrutiny of these reports. A review of the arrangements in previous years has not identified any issues.</li> <li>• The Council adapted it's MTFP during the most recent financial planning cycle, in particular in response to SR10 and the finance settlement. However, due to the effectiveness of the planning process, the level of change required was comparatively light.</li> <li>• Future years will be reviewed during the lifetime of the plan, and this process has already commenced for 2012/13.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern



## **Section 4**

### Financial Governance

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
<b>4.</b>	<b>Financial Governance</b>
5.	Financial Control

## Key indicators of effective Financial Governance

### Understanding the financial environment:

- The CFO is a key member of the leadership team
- Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation.
- The leadership foster an open environment of open challenge to financial assumptions and performance.

### Stakeholder engagement:

- There is engagement with stakeholders including budget consultations.
- There are comprehensive policies and procedures for Members, Officers and budget holders which outline responsibilities.


### Performance management:

- Actions have been taken to address key risk areas.
- Committees and Cabinet regularly review controls and performance and these are subject to appropriate levels of scrutiny.

### Management reporting:

- Regular reporting to Members.
- Reports include detail of action planning and variance analysis and other relevant details.
- Internal and external recommendations are implemented or there are effective recovery plans in place.


## Financial Governance

Area of focus	Summary observations	High level risk assessment
<b>Understanding the financial environment</b>	<ul style="list-style-type: none"> <li>The Council Constitution has been largely effective as a basis for the management and ownership of governance issues across the Council, supported by corporate performance reporting. There are regular meetings and training for key officer groups and members to ensure that good governance arrangements are completed and awareness raised.</li> <li>The Council has a Director of Corporate Governance who has a prominent advisory role on the Council's key Committees. The Council's constitution describes the overall areas of financial responsibility for Members of the Cabinet and for Committees and Sub-Committees. The S151 officer is a member of the Chief Executive's Management Board.</li> <li>As part of the finance reports to Cabinet and CRC, risks associated with achieving the MTFP are highlighted. Financial risks are also identified in the MTFP.</li> <li>The Council has recently focused on enforcing compliance with procurement contract management policies during 2011/12 in order to address known weaknesses and safeguard value for money. A number of key contracts are being reviewed in order to drive further savings.</li> <li>The Council has reviewed the use of agency staff and consultants and takes a flexible approach - i.e. not just uniformly driving down these costs but also considering how this kind of expenditure can offer better value for money, for example where services are earmarked for reconfiguration.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern


## Financial Governance

Area of focus	Summary observations	High level risk assessment
<b>Stakeholder engagement</b>	<ul style="list-style-type: none"> <li>• There is an appropriate level of engagement between senior management and member portfolio holders. Regular meetings taking place at Director and Assistant Director level.</li> <li>• The Council has undertaken significant work to engage with stakeholders in the budget setting process.</li> <li>• The council has consulted on service reconfiguration and its component projects, forming part of the business cases. This included consultation with staff and Unions, as well as local partners. The MTFP notes the public consultation and includes evidence that issues raised have informed the budget setting for 2011/12.</li> <li>• The Cabinet agreed to consult on strategic savings options totalling £46.2m. Consultation attracted significant interest, with over 5,000 visits to the budget ideas website from October through to early December. Following feedback on initial consultation, Cabinet agreed to remove £0.9m of cuts to voluntary sector funding. A number of budget ideas were also incorporated into detailed savings proposals.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

**Financial Governance**

Area of focus	Summary observations	High level risk assessment
<p><b>Performance management</b></p>	<ul style="list-style-type: none"> <li>• Savings plans are automatically factored into the agreed budget baseline for all services, and are therefore not reported directly as a separate analysis, at the corporate level (i.e. Cabinet &amp; CRC). However, the explanations provided for budget variances are used to explain shortfalls in the savings plans where this is applicable, so visibility is not lost.</li> <li>• The financial and business planning process includes the risk assessment (RAG rating) of savings plans and the Monitoring of savings through the Financial and Business planning group on a monthly basis.</li> <li>• As the budget was successfully delivered in 2010/11 and in previous years (with no material variance), the Council can demonstrate a good track record of delivering planned savings. In excess of £11m of savings were delivered in 2010/11. The MTFP sets out savings plans totalling £53.4m over the next 3 years, with £29m deliverable in 2011/12. Medium term savings are derived primarily from 'One Barnet' service transformation projects.</li> <li>• The monitoring process currently allows for projections against plan to incorporate alternative savings if the original savings target slips, or is not fully achievable. The process still highlights where slippage occurs to retain visibility, and all budget virements are policed by the corporate finance team. Budget virements require approval according to a delegated scheme that goes all the way to Cabinet depending on the scale of the proposed change.</li> <li>• The Council's key areas of financial concern in 2010/11 was the overspend in Children's services, partly attributed to demand outstripping efforts to control it and planning assumptions, but also due to some weaknesses in control within the service which were highlighted in a report from internal audit. Highways expenditure was also an area of extreme cost pressure, attributed to unplanned additional costs associated with the harsh winter. The level of scrutiny that these areas have received, including the delivery of key remedial actions, is illustrative of the high degree of financial control exercised by management.</li> <li>• The Council is in the process of improving the internal management culture of the organisation in regard to compliance with controls and taking timely action to address identified control risks. Overall governance arrangements to ensure that risks are addressed have been improved but will also take time to embed.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

Key: ● High risk area  
 ● Potential risks and/or weaknesses in this area  
 ● No causes for concern




**Financial Governance**

Area	Summary observations	High level risk assessment
<p><b>Performance Management (Continued)</b></p>	<ul style="list-style-type: none"> <li>• Challenge meetings have been held regularly between the Lead Member for Resources (deputy leader), the Cabinet member, the Service Director, Deputy Chief Executive (CFO), Assistant Chief Executive, and Assistant Directors for Strategy and Finance.</li> <li>• This has recently been supplemented by quarterly meetings between all Assistant Directors within the services and certain of the corporate officers noted above. This is in order to help breakdown silos between services, and improve awareness of the corporate position.</li> <li>• The new Quarterly performance monitoring process, allows a high degree of scrutiny by the Corporate Directors Group (CDG) and the Cabinet, including close scrutiny of the delivery of budgets and savings plans, alongside service performance KPIs. This provides visibility on the potential impact that budget reductions may have on service quality.</li> <li>• Monthly meetings of the Senior Management Team in each directorate includes a detailed review of financial and performance monitoring reports, focusing on key risk areas. This provides close corporate management control of financial risks and allows a high degree of challenge on mitigating actions, before reporting to members via the Cabinet and CRC.</li> <li>• The 2010/11 Quarter 4 Quarterly monitoring report indicated that cost pressures in Children's Services and Environment &amp; Operations had been managed so that the overall financial performance, successfully delivered the overall revenue budget which enabled the General Fund balance to remain at the planned level.</li> </ul>	

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern

## Financial Governance

Area	Summary observations	High level risk assessment
<b>Management information</b>	<ul style="list-style-type: none"> <li>The monitoring report is presented to Cabinet. This includes both information on the performance management and financial performance of the Council. Commentary is on an exception basis. The Cabinet minutes provide evidence of the scrutiny of overspends against the budget by members.</li> <li>The level of accuracy in projecting financial performance has been adequate as demonstrated by the correlation between the broad Q4 Performance report to CRC and Cabinet, and the final outturn position reflected in the audited 2010/11 accounts.</li> <li>The level of transparency in reporting financial issues is also high as evidenced by the correlation between the reports scrutinised by the Corporate Directors team and the issues highlighted to members in the quarterly reporting process.</li> <li>The Cabinet reports include information on the overall financial outturn of the Council and financial performance for each of the services. It includes information on over and under spends for each of the directorates and actions being taken to ensure the budget is brought back in line and managing cost pressures. The reports include information on the variances against the budget for the Council and is also reported at directorate level. The reports include forecast outturn for revenue and HRA. The appendix to the report includes information on the variation of each directorate against the approved budget.</li> <li>The reports include any budget virements as an appendix for Cabinet to approve (where this exceeds the delegated authority of the services or CRC). The reports also include information on treasury management and the performance against the capital programme.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern



## Section 5

### Financial Control

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

## Key indicators of Effective Financial Control

### Control over financial performance:

- Budgets are robust and prepared in a timely fashion and the council has a good track record of operating within its budget.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis.
- There is focus on monitoring income related budgets.

### Financial systems & controls:

- Key financial systems have received satisfactory reports from internal and external audit
- Financial systems are adequate for future needs, for example commitment accounting functionality is available

### Finance department resource:


- The capacity and capability of the Finance Department and Service Departments are fit for purpose.

### Audit & Assurance:

- Audit - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal audit recommendations are routinely implemented in a timely manner
- Assurance Framework - There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- Annual Governance Statement (AGS) - The AGS gives a true reflection of the organisation.

## Financial Control



## Financial Control

Area of focus	Summary observations	High level risk assessment
<b>Control over financial performance</b>	<ul style="list-style-type: none"> <li>The Council's approach to financial and performance management, has helped the Council to deliver strong financial results in recent years. Budgetary control, including over savings plans, is robust and the Council has demonstrated the appropriate deployment of internal assurance mechanisms following improvements to the audit and risk function implemented in during the year. There have also been some notable improvements in financial control , including new IT system controls over purchase order processing.</li> <li>The Council has well established budget setting processes that encourages ownership from budget holders, and finance training is provided to officers and members. The Council has a good track record in managing budgets on a service by service basis. We have see good evidence from the minutes of discussions at Audit Committee, CRC and the Budget Scrutiny Committee and other forums, of Members challenging on financial performance.</li> <li>Monitoring reports are discussed by Cabinet on a quarterly basis. This has changed from a monthly process as part of corporate services review programme, but we have been advised that monitoring will take place monthly within the services, and at the Corporate Directors meeting for high risk areas.</li> <li>The monitoring process clearly recognises the accountabilities of Directors, assistant Directors and budget holders for the financial management of their departments.</li> </ul>	 <b>Green</b>




Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern


## Financial Control

Area of focus	Summary observations	High level risk assessment
<b>Financial systems &amp; controls</b>	<ul style="list-style-type: none"> <li>The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions. The process has enabled the Council to identify and manage financial risks in a timely way.</li> <li>A recent upgrade to the SAP ledger system has improved controls over purchase orders, which addresses an identified weakness in past years (e.g. that POs were raised retrospectively on receipt of an invoice).</li> <li>The Council introduced new Housing Benefits, NNDR and Council Tax systems in year. The implementation did not go to plan resulting in delays to data processing. Our work indicated that the system should not pose a major financial risk in future years, once the initial processing backlog has been overcome.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of 'limited assurance' audit reports in the year. We acknowledge that this is at least in part, indicative of the more robust approach taken to internal audit and risk assurance in 2010/11 that reflects a key improvement in the control environment.</li> <li>Whilst key financial systems have generally been reliable in enabling the Council to manage financial risks, there has been a notable weakness identified in the year in regard to the controls over supplier contracts linked to the procurement process. This highlighted areas of non-compliance with existing controls. As already noted, the Council understands the risks associated with these issues and is progressing mitigating actions. However, these will take time to embed and cannot be said to have been adequate in 2010/11.</li> </ul>	 <b>Amber</b>
<b>Finance department resource</b>	<ul style="list-style-type: none"> <li>As at April 2011 the turnover of staff in the finance department was stable. The Finance support has been centralised for a number of years, the Accounts Receivable and Schools and Funding team were also centralised in July 2010.</li> <li>Budget holders in the services are supported by the finance team for budget planning, and the quarterly corporate reporting cycle, closing of accounts and ad hoc financial support. There is therefore an onus on budget holders in these areas, to have the relevant financial skills, particularly to support effective budget monitoring outside of the quarterly corporate reporting process (i.e. monthly).</li> </ul>	 <b>Green</b>

Key:

-  High risk area
-  Potential risks and/or weaknesses in this area
-  No causes for concern

## Financial Control

Area of focus	Summary observations	High level risk assessment
<b>Audit &amp; assurance</b>	<ul style="list-style-type: none"> <li>The Council has adequate arrangements in place. Internal audit work is shared between in-house and external provision, and is fully compliant with the CIPFA Code of Practice, Grant Thornton place full reliance on the work of internal audit.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of limited assurance audit reports in the year, which are illustrative of the more robust approach taken to internal audit and risk assurance in 2010/11.</li> <li>The year 2010/11 has seen significant strengthening of the internal audit function which addresses a significant weakness noted in previous years. The 2011/12 Audit Plan is more closely linked to the Council's Risk Management framework and is focused on checking the mitigation of key corporate risks.</li> <li>The Council has a robust process for preparing and reporting the Annual Governance Statement (AGS), to which departments contribute and that is compiled by the Director of Corporate Services, with challenge from the Assistant Director of Audit &amp; Risk Management. The AGS is signed off by the Chief Executive and Leader. The AGS is presented to the Audit Committee and deals with any questions.</li> <li>Through amendments to the quality of reporting sent to Audit Committee, members, are now more focused implementation of recommendations has been completed in accordance with agreed timescales. In 2010/11. This addresses a key weakness in past years. Responsible Directors attend committee meetings to explain variances. This has ensured that all high priority recommendations remain visible until implemented in full.</li> <li>The Council has improved operational management of risk during the year and how this is reported to the Audit Committee.</li> <li>We note the Council's new Assistant Director of Audit and Risk (Internal Audit) provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to the cumulative effect of a number of 'limited assurance' audit reports in the year. We acknowledge that this is indicative of the more robust approach taken to internal audit and risk assurance in 2010/11 that reflects a key improvement in the control environment.</li> </ul>	 <b>Green</b>

Key:

- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

**Financial Control**

Area of focus	Summary observations	High level risk assessment
<p><b>Audit &amp; assurance (Continued)</b></p>	<ul style="list-style-type: none"> <li>• Our 2009/10 Annual Audit Letter noted that the Council would need to address a number of issues. This included the need to improve the capability of the Internal Audit function and related governance arrangements and, as we note above, this has been fully addressed in 2010/11. The Council has made good progress in implementing our other recommendations and has demonstrated a willingness to address identified weaknesses at the corporate level. The Council has addressed actions raised in our reports in previous years and have made good progress in implementing recommendation in relation to the accounts findings.</li> <li>• The Council demonstrated good outcomes results from the external audit programme, including the successful production of final accounts under IFRS on an early timetable, and positive overall outcomes from the VFM assessment. This has been characteristic of the Council for a number of years.</li> </ul>	

Key: ● High risk area  
● Potential risks and/or weaknesses in this area  
● No causes for concern





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**AGENDA ITEM: 7**

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Meeting	Audit Committee
Date	8 December 2011
<b>Subject</b>	<b>Interim Report of the Corporate Anti Fraud Team 2011</b>
Report of	Acting Head of the Corporate Anti Fraud Team and Director of Corporate Governance
Summary	The Committee is asked to note the Interim Report of the Corporate Anti Fraud Team 2011

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Officer Contributors	Clair Green, Acting Head of the Corporate Anti Fraud Team Jeff Lustig, Director of Corporate Governance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix 1: Summary of the first 6 months performance in relation to CAFT Benefit Compliance Team Appendix 2: Summary of the first 6 months performance in relation to CAFT Benefit Fraud Investigations Appendix 3: Summary of the first 6 months performance in relation to the CAFT Corporate Fraud Investigations
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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Contact for further information: Clair Green 0208 359 7791

## **1. RECOMMENDATIONS**

- 1.1 That the Committee note the contents of the Corporate Anti Fraud Team's Interim Report for 2011/12.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 Delegated Powers Report (ref: BT/2004-05 -2 March 2004) - The Corporate Anti Fraud Team (CAFT) was launched on 7th May 2004
- 2.2 Audit Committee 24 March 2011 (Decision item 10) – the Audit Committee included in the work programme for 2011/12, that an Interim Report on the work of the Corporate Anti- Fraud Team be produced to this meeting.
- 2.3 Audit Committee 24 March 2011 (Decision item 9) – the Audit Committee approved the joint Internal Audit (IA), Risk Management (RM) and CAFT Annual Plan for 2011/12.

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

- 3.1 The Council's Corporate Plan 2011/13 sets out three corporate priorities; Better Services with less money, A successful London Suburb and Sharing opportunities and Sharing responsibilities.
- 3.2 The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. The work of the Corporate Anti Fraud Team supports this by continuing to provide an efficient value for money anti fraud activity, that is able to investigate all referrals that are passed to us to an appropriate outcome, whilst continuing to offer support, advice and assistance on all matters of fraud risks including prevention, fraud detection, money laundering, other criminal activity, and deterrent measures whilst delivering a cohesive approach that reflects best practice and supports all the new corporate priorities and principles

## **4. RISK MANAGEMENT ISSUES**

- 4.1 The ongoing work of the CAFT supports the Council risk management strategy and processes. Where appropriate, outcomes from our investigations are reported to both IA and RM to support their ongoing work and to assist in either confirming effective anti fraud risk management or suggested areas for improvement. This joint work with IA and RM feeds into the assurances that are given to Directors, that managers and controls are effective in managing the anti fraud risks within a service.

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

- 5.1 The Corporate Anti Fraud Team is committed to promoting equality, challenging discrimination and developing community cohesion. This will be

demonstrated through our interim and annual report as well as our service delivery.

- 5.2 CAFT assesses each individual investigation as appropriate with regard to the impact of equalities and differential aspects on different groups of individuals.
- 5.3 This report will have no adverse impact on equalities or diversity issues. CAFT continue to work with both the Benefits Service and Communications Team in ensuring that forms and leaflets have been modified and adapted so that all members of the community, especially vulnerable groups, have an understanding of the services provided and reduce the likelihood of intentional or other fraud being committed.

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

- 6.1 In April 2011, the CAFT underwent a successful process of restructuring the team, this restructure was necessary for the team to continue to meet the changing needs of the service whilst still achieving an excellent service that is robust, professional, value for money and fit for purpose. The restructure saw CAFT staff reduce from 17.69 full time equivalent staff to 15 full time equivalent staff. The introduction of lean working practices meant that the CAFT could confidently reduce administrative roles and create specialist Financial Investigation posts which were required to realign CAFT services so that the team can embrace the corporate priorities and the significant changes promoted under the Council's One Barnet programme in order to fully meet the changing needs and demands of the Council, its clients, stakeholders and partners (DWP, Barnet Homes, Police and UKBA).
- 6.2 This success of this new structure is demonstrated through the work and results the team has achieved in the first 6 months of 2011.
- 6.3 The Council receives subsidy funding from the Department of Work and Pensions (DWP) for the administration of Housing and Council Tax Benefit, a percentage of that funding has previously been received by CAFT for the prevention, detection and investigation of Housing and Council Tax Benefit Fraud and Error in the Benefit System. The subsidy is now held centrally within Barnet and so the CAFT budget was amended to reflect the previous percentage of the overall subsidy funding amount of £620,590, giving CAFT an overall budget of £732,640.
- 6.4 This new budget arrangement provides CAFT with stability around the budget, demonstrating the Council's positive commitment to the work of the team.

## **7. LEGAL ISSUES**

- 7.1 None identified outside the context of this report.

## **8. CONSTITUTIONAL POWERS**

- 8.1 The Constitution, Part 3, Paragraph 2, details the functions of the Audit Committee including, "To monitor Council policies on Raising Concerns at Work" and the anti-fraud and anti-corruption strategy.

## **9. BACKGROUND INFORMATION**

- 9.1 This report provides an overview of the performance of the Corporate Anti Fraud Team (CAFT) over the last 6 months.
- 9.2 The aim of the team has always been to assist the Council in protecting the public purse through the facilitation of sound strategies, procedures and controls in the prevention, detection, investigation and deterrence of fraud and corruption, whilst also providing a bespoke comprehensive fraud awareness training and education programme throughout the organisation.
- 9.3 Appendix 1 is a summary of the first 6 months performance in relation to the Benefit Compliance Team,
- 9.4 Appendix 2 is a summary of the first 6 months performance in relation to Benefit Fraud investigations, along with some interesting case studies.
- 9.5 Appendix 3 is a summary of the first 6 months performance in relation to the Corporate Fraud investigations, along with some interesting cases studies.
- 9.6 The CAFT co-ordinate the Audit Commissions, National Fraud Initiative (NFI) exercise. After submitting Barnet's various data sets, we have so far received back 19,789 matches. The matches relate to discrepancies in data which could be errors or indicators of fraudulent activity. We have detailed progress so far in the attached Appendix 3 and will be reporting fully on the outcomes of this exercise to the Audit Commission in January 2012 and in our Annual Report.
- 9.7 The CAFT's partnership with The United Kingdom Border Agency (UKBA) partnership continues successfully for the third year, Barnet being one of five London Boroughs with an embedded UKBA officer within it, and the only borough where the officer is fully integrated with the anti fraud service. The partnership continues to demonstrate value for money for both the Council and UKBA and some examples of successful joint working are detailed in the attached Appendix 3.
- 9.8 In 2010/11 CAFT initiated a Partnership scheme with Barnet Homes and we now have 1.5 dedicated Tenancy Fraud Officers working to combat social housing fraud in Barnet. To date the partnership has proved to be successful. In the first six months of this year we have recovered 9 properties due to the work of the Officers with many more ongoing investigations and recoveries likely by the end of year. This new partnership arrangement is funded by the Department of Communities and Local Government who distributed funding to Local Authorities to help them tackle tenancy fraud more effectively.

9.9 The scope of our work is wide and varied. The report is aimed to reinforce that not only are we reacting to the referrals made to the team but working proactively with colleagues within the Council and partner agencies to uncover areas of risk, assisting services in increasing their preventative fraud measures and achieving a successful and a value for money anti fraud service by providing an effective barrier to fraudsters in Barnet.

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

10.1 None.

Legal: PBP

Finance: MC

**Corporate Anti Fraud Team  
Performance Summary  
2011/12 Q1 & Q2**

Appendix 1

**CAFT Benefit Compliance Team** deal with identifying and correcting error in our benefits system through various methods including dealing with the Department of Work and Pensions (DWP) Housing Benefit Data Matches (HBDMS) and the benefit related National Fraud Initiative (NFI) Matches. The team conduct assessments of benefit which may result in an overpayment which is then passed to our Benefit Investigation team to further investigate and identify fraudulent claims.

	Q1 2011/2012	Q2 2011/2012	Total Q1 & Q2
Number of HBDMS matches received	1443	544	1987
Total Number of combined NFI and HMDMS Compliance Benefits assessments	285	256	541
Number of assessments which resulted in no change or increased benefit	59	33	92
<b>Fraud Overpayments identified</b>			
Number of assessments were o/p under £500	0	0	0
Number of assessments were o/p is £500 - £2000	18	6	24
Number of assessments were o/p is £2001 -£4000	10	4	14
Number of assessments were o/p is £4001 and above	15	9	24
<b>Claimant Error overpayments Identified</b>			
Number of assessments were o/p under £500	84	99	183
Number of assessments were o/p is £500 - £2000	72	67	139
Number of assessments were o/p is £2001 -£4000	21	24	45
Number of assessments were o/p is £4001 and above	6	14	20
<b>Total amount of Fraud and error overpayments identified</b>	<b>£542,800</b>	<b>£476,816</b>	<b>£1,019,616</b>
Total amount recovered by Benefits Service on previous CAFT identified overpayments from this and previous years.			
Recovery period from 1 <sup>st</sup> April 2011 – 30 <sup>th</sup> September 2011.	£141,309	£63,287.84	204,596.84

In 2010, the Council's revenue & benefit software provider changed from Pericles to Civica. The previous system Anite had not been in use since December 2010 as there was a period of time required for the benefits data to be transferred between the old and new systems. The new system was available for use from around mid March 2011. During the data transfer period, the Council was unable to run the Single Housing Benefit Extract (SHBE) which are the data returns that are sent monthly to the DWP from which HBDMS matches are derived. Therefore, no matches were received into the team during this period. As a result of this CAFT received a high volume of HBDMS in Q1: 1443 matches alone. In this first six months of the year we have resolved and closed 1238 of these matches that required no re- assessment of benefit and have conducted 541 assessments, the results of these are as detailed above and have 208 matches ongoing with the Compliance Officers as ongoing compliance investigations.

In addition to the DWP HBDMS matches, in Jan 2011 we received an additional 2926 Benefit related data matches from the NFI. An initial sift of these matches identified that 1151 were classed as high priority by the NFI. Of these high priority matches we have to date resolved 889, resulting in 24 re-assessments of benefit included in the table above; 865 were resolved and closed, but required no re-assessment. The remaining 1775 non priority matches have been passed to the Benefit Service who are dealing with them and we will be able to report back on these results in our end of year report.

Corporate Anti Fraud Team  
Performance Summary  
2011/12 Q1 & Q2

Appendix 1

The combined high volume of HBDMS and NFI matches have resulted in a high increase in the number of assessments that the team has carried out and the overall number of overpayments identified. The table identifies that there have been 24 separate assessments that have resulted in a fraudulent overpayment of benefit higher than £4001. All of these have been investigated by the Benefits Investigations team and, to date, 3 of the cases have been passed to Legal Services for prosecution; 4 passed to the DWP Legal team for joint prosecution; 8 cases have been offered an administrative penalty; there are 8 ongoing investigations and 1 case has been closed with no further prosecution action. This figure is almost as high at Q2 as the overall figure for 2009/10 (26) and will more than likely result in an overall annual higher figure than the overall figure for 2010/11 (39).

*The largest of the fraudulent overpayment figures identified above relates to a single overpayment of £41,081.38. This case has been investigated by CAFT and is now with Legal Services for prosecution and is at present progressing through the court processes. Accordingly, details of the investigation cannot be published at this stage.*

There have been a further 20 assessments which identified claimant error benefit overpayments of over £4001. Of these assessments, 9 have been referred for Investigation and 11 have been closed as claimant error and overpayment recovery only. These cases have been closed as it is not in the public interest to pursue the matter further due to a variety of mitigating circumstances, such as mental health issues and age. This figure is higher at Q2 than the overall figure for 2010/11 (17) and 2009/10 (19).



**Corporate Anti Fraud Team  
Performance Summary  
2011/12 Q1 & Q2**

Appendix 2

**CAFT Benefit Investigation Team** deal with the identification, investigation and prosecution of those persons that commit benefit fraud in Barnet in accordance with DWP guidelines and Barnet's Counter Fraud Framework.

		Q1 2010/11	Q2 2010/11	Total Q1 & Q2	Overall Total 2010/11
Housing and Council Tax Benefit Fraud Sanctions	Successful Prosecutions (Guilty Verdicts)	2	8	10	
	Administrative Penalties (Offered & Accepted)	14	9	23	
	Formal Cautions	0	6	6	
	Total Sanctions Figure	16	23	39	116

In 2010/11, Barnet was once again placed top in the London Boroughs Fraud Investigators Group (LBFIG) benchmarking exercise for achievement of number of sanctions per investigation officer, and placed within the top quartile for overall achievement of sanction numbers, which demonstrates that our working practices can be considered as efficient and providing value for money.

It should be noted that, in addition to the figures in the table above, going into Q3 we have 181 ongoing investigations and 42 of these have already been agreed for sanction action (*16 with the DWP legal team, 14 with our Legal Services and 12 cases where administrative penalties have been agreed by the claimants, but are awaiting the 28 day cooling off period*). Taking these figures into account, we are once again likely to have a high overall sanction figure as well as high number of sanctions per investigator figure. Whilst the majority of our current sanction figures have been as a result of a HBDMS referral from our Benefit Compliance Team, we have seen this year an increase in referrals from the DWP, Police and NFI progressing to sanction. This is reflective of our aim of increased successful partnership working and the effectiveness of data matching in the fight against fraud.

Over the past few years, there has been a significant increase in cases where individuals have been prosecuted for benefit fraud, which is reflective of the priorities within the new DWP fraud and error strategy. We are increasingly investigating more complex and organised frauds which are resulting in larger fraud overpayments being identified, more prosecutions and increased joint prosecutions with the DWP. CAFT are continuing successfully in their aim to prosecute even more offenders for benefit fraud than in 2010/11, reinforcing the Council's policy of zero tolerance to those that commit fraud in and against Barnet.

An example of a successful joint prosecution between CAFT and the DWP's Counter Fraud Investigation Service (CFIS) is the case of **Mrs Cardy**: *CAFT received a referral from DWP stating that Mrs Cardy had been working undeclared since April 2006 and requesting that we conduct a joint investigation with them. Mrs Cardy had been in receipt of housing and council tax benefit from the Council and Income Support from the DWP since 2004. She was interviewed under caution and admitted that she had started working for an airline in January 2006 on a three month contract and then started employment with another company in April 2006. She admitted that she was aware of the need to inform both the benefits section and the DWP of the fact she was working, but had not done so. The claim was reassessed taking into account her earnings and resulted in a housing and council tax benefit overpayment of £36,338.49. There was also a DWP overpayment of £8,864.39 in respect of her income support benefit which the DWP recover themselves.*

**Corporate Anti Fraud Team  
Performance Summary  
2011/12 Q1 & Q2**

Appendix 2

*Mrs Cardy was prosecuted and pleaded guilty to two counts of dishonestly obtaining benefit contrary to section 111(1A) of the Social Security Administration Act 1992 and was sentenced to 18 weeks imprisonment for each offence to run concurrently, which was suspended for 12 months. She also received a community punishment order of 180 hours to be completed within 12 months. To date she has repaid £4,529.34 back to the Council and has made arrangements to pay the remaining balance.*

*An example of a prosecution resulting from an NFI data match is the case of **Ms West**. CAFT received a referral from National Fraud Initiative stating that Ms West had been working for a Primary Care Trust from June 2008. Checks with the PCT gave an alternative address for her. A Land Registry check of this property showed that Ms West was a joint owner of the property since May 2003. She had been in receipt of housing and council tax benefit since June 2002.*

*Ms West was interviewed under caution and admitted to being a joint owner of the alternative property and that she had been working from June 2008. The claim was reassessed taking into account her earnings and the property she owned resulting in a housing and council tax benefit overpayment of £21,541.96. A restraint order was obtained from Wood Green Crown Court in July 2011 by CAFT Financial Investigators against the property Ms West jointly owned. She pleaded guilty to three counts of dishonestly obtaining benefit contrary to section 111(1A) of the Social Security Administration Act 1992 and was sentenced to 6 months imprisonment, suspended for 2 years. She was also given a supervision order for 100 hours unpaid work. As a result of the restraint order being sought by CAFT Financial Investigators and placed upon her by the Court, Ms West repaid the overpayment of £21,541.96 in full. .*

*An example of a prosecution resulting from joint working with the Metropolitan Police is the case of **Mr Bytiqi**. CAFT received a referral from the Metropolitan Police stating that Mr Bytiqi had £47,700 in a cash safety deposit box in Edgware that had been raided as part of the Met Police Operation Rize. Checks showed the box had been rented by Mr Bajram Bytiqi since 25 May 2006. Mr Bytiqi had been claiming housing and council tax benefit since November 2005. Mr Bytiqi was interviewed under caution and stated that some of the money belonged to his brother from the proceeds of a land sale in Kosovo and the rest belonged to another brother who lived in Germany. However, the claim was reassessed treating the money as his capital resulting in an housing and council tax benefit overpayment of £30,065.71.*

*A restraint order was obtained from Wood Green Crown Court in June 2011 by CAFT Financial Investigators against the money that was being held by the Metropolitan Police in order to repay the benefit overpayment. Mr Bytiqi pleaded guilty to two counts of dishonestly obtaining benefit contrary to section 111(1A) of the Social Security Administration Act 1992 and was sentenced to 4 months imprisonment on each count to be served concurrently, suspended for 18 months. As a result of the restraint order being granted, the Judge ordered that the Council receive the remaining balance of £27,482.84 within 28 days of the hearing.*

An update on the CAFT led partnership investigation - **Operation Avalanche**: Further to the previous update in the CAFT Annual report, the Judge delivered verdicts on the four defendants on 14 July 2011. Riccardo Guthrie was found guilty on 4 counts of conspiracy contrary to common law and was sentenced to three years imprisonment concurrent on all counts. Bianca Guthrie was found guilty on 4 counts of conspiracy contrary to common law and was sentenced to two years imprisonment. Cosima Guthrie was found guilty of 1 count of conspiracy contrary to common law and was sentenced to eighteen months imprisonment. Courtney Campbell was found guilty of one count of conspiracy contrary to common law and was sentenced to twelve months imprisonment, suspended for eighteen months. The Judge also stated that Campbell had to undertake 160 hours of unpaid work (community punishment order). In addition, under the Proceeds of Crime Act 2002, confiscation proceedings have commenced in respect of Riccardo Guthrie, Bianca Guthrie and Cosima Guthrie. These proceedings are currently ongoing.

**Corporate Anti Fraud Team  
Performance Summary  
2011/12 Q1 & Q2**

Appendix 3

**CAFT Corporate Fraud Team** deal with the investigation of all fraud matters (except benefit fraud) attempted or committed, within or against Barnet, such as internal employee frauds, frauds by service recipients and any external frauds. The team operate in accordance with Barnet's Counter Fraud Framework and relevant investigative legislation. CAFT continue to work in partnership with the UKBA, Police and Barnet Homes to ensure that the public purse is adequately protected.

Directorate	Total number of cases referred for investigation in 2010/11	Number of cases carried over from 2010/11	Number of new cases referred for investigation Q1 & Q2	Total number of cases closed in Q1 & Q2	Ongoing investigations carried over to Q3	Insufficient evidence to proceed with investigation	Passed to Police / Serious Organised Crime Agency (Money Laundering) to investigate	Closed Advice given to service area passed to other Dept	Closed No Fraud	Dismissed as a result of CAFT investigation	Closed Fraud Proven
Planning, Housing & Environment		5	9	12	4	2		7	2		1
Deputy chief exec Service		9	17	15	9	5		3	5		2
Commercial services		2	3	6		1	1	3			1
Adult Social Services			1	1		1					
Children's Services		1	4	4	1	1		2	1		
Chief Executive Services		1	4	4		2		2			
Corporate Governance		1	3	3	1	2				1	
Total	90	19	41	45	15	14	1	17	8	1	4

The table shows that 41 new referrals for investigation were made to CAFT from either internal Directorates or another source in the first 6 months of the year. This figure indicates comparable levels of referrals at this point to the overall total number of referrals received in the previous year which was 90.

There are currently 15 ongoing investigations at the beginning of Q3. Whilst we are unable to report on these investigations until such time they are released into the public domain, it can be confirmed that 3 of these investigations are financial investigations and CAFT have restraint orders in place so will be able to apply for confiscation under Proceeds of Crime Act should the criminal prosecution actions result in convictions.

A summary of the 4 cases indicated as Fraud Proven in the table;

***Operation Javelin** – relates to a CAFT Financial investigation into an 'Abuse of Position' case where a staff member, a temporary council tax collection officer falsified computer records relating to a number of Barnet residents who had accrued large arrears in their council tax contributions. The officer contacted these residents and coerced them into paying him a percentage of the outstanding balance either by a cash sum directly to him or by supplying the victims with a bank sort code and account number for amounts to be deposited, which was his own account. CAFT conducted a full investigation and the staff member's contract was ended and he was prosecuted. The defendant pleaded Guilty to all charges and was sentenced to 12 weeks imprisonment, suspended for 12 months. A work condition to complete 200 hours unpaid work was also imposed together with an order to pay £500 costs. During the investigation weaknesses were identified on both the recruitment of temporary staff and internal controls CAFT have provided recommendations on internal control to the service area in both these areas.*

**Corporate Anti Fraud Team  
Performance Summary  
2011/12 Q1 & Q2**

Appendix 3

***Operation Mirage** – relates to a CAFT investigation into a security breach of the DWP's CIS system by a member of Barnet's Benefits team. The investigation revealed that a long standing member of Barnet had accessed restricted personal data. An evidence package was passed to the service area by CAFT and the staff member was subsequently dismissed. CAFT reported the action back to the DWP who were satisfied with the action taken, and also advised the service area on more stringent internal controls which have now been implemented.*

***Operation Montana** - relates to an investigation in conjunction with the UK Border Agency, in respect of illegal workers gaining employment as cleaners via a Council cleaning contractor who service various Council buildings. A number of arrests were made and the individuals concerned were given reporting requirements by the UKBA whilst they fully investigated their status in the UK. The individuals were dismissed from the cleaning company. The UKBA then contacted the company and all remaining cleaning staff attending Council buildings were confirmed as having the right to work in the UK.*

***Operation Gremlin** – relates to a previously reported partnership project with the UKBA. This was a proactive operation relating to the verification of identity documents supplied by employees in the Street Scenes Team, Environment and Operations Directorate. This project has now been completed and all staff in that team have now either been dismissed or have had their identity confirmed as being eligible to work in the UK.*

The CAFT's partnership with UKBA partnership continues successfully for the third year, still being one of only five London Boroughs with an embedded UKBA officer within it, and the only borough where the officer is fully integrated with the anti fraud service. The partnership continues to demonstrate value for money for both the Council and UKBA and some examples of successful joint working are detailed above.

In 2010/11 CAFT initiated a Partnership scheme with Barnet Homes and we now have 1.5 dedicated Tenancy Fraud Officers working to combat social housing fraud in Barnet. To date, the partnership has proved to be successful as in the first six months of this year we have recovered 9 properties due to the work of the Officers with many more ongoing investigations and recoveries likely by the end of year. This new partnership arrangement is funded by the Department of Communities and Local Government who distributed funding to Local Authorities to help them tackle tenancy fraud more effectively.

The CAFT co-ordinate the Audit Commission's National Fraud Initiative (NFI) exercise. After submitting Barnet's various data sets, we have so far received back 19,789 matches. The matches relate to discrepancies in data which could be errors or indicators of fraudulent activity. The matches are prioritised by the NFI, based on the accuracy of the match against the various data set's. Due to the volume of matches involved we have concentrated on the high priority matches which amount to 11,436 matches, substantial amount of these matches relate to Housing Benefit Matches (3041) and Blue Badge / Concessionary Travel Matches (1,791). The CAFT circulate the matches to each individual service area for them to begin checking the data and where appropriate correct the data, they then upload the results of this part of the exercise directly to the NFI website. This is monitored by CAFT, who liaise with the service area frequently over the discrepancies to see if there is any suspected fraudulent activity which we will then fully investigate. To date, the exercise has identified over £120,000 of overpayments relating to various council payments such as housing benefit payments, pension payments and care homes payments. There is ongoing work in this area by all service areas and the CAFT, and there are currently 308 open investigations in CAFT relating to NFI matches. We will be reporting fully on the outcomes of this exercise to the Audit Commission in January 2012 and in our Annual report.

**AGENDA ITEM: 8**

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Meeting	Audit Committee
Date	8 December 2011
<b>Subject</b>	<b>Internal Audit Progress Report – 2011-12 Quarter 2</b>
Report of	Assistant Director of Finance - Audit and Risk Management
Summary	Members are asked to note the Progress Report and Appendices.

Officer Contributors	Maryellen Salter, Assistant Director of Finance - Audit and Risk Management
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A - Internal Audit Progress Report
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Maryellen Salter, Assistant Director of Finance - Audit and Risk  
Management 020 8359 3167

## **1. RECOMMENDATIONS**

- 1.1 That the Committee note the contents of the Report and the high priority recommendations for follow-up in future periods.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 At the Audit Committee meeting on 11 March 2010 Members accepted that there would be progress reports to all future meetings of the Committee and, that for all “limited” or “no assurance” audits, there should be a brief explanation of the issues identified. It was also resolved at the meeting of the 21<sup>st</sup> September 2010 that where an audit had limited assurance that greater detail be provided than previously.

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

- 3.1 All internal audit planned activity is aligned with the Council's objectives, particularly the “Better Services with Less Money” priority, 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.

## **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 and agreeing actions to address the weaknesses.
- 4.2 Internal Audit work contributes 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. Individual audits assess as appropriate the differential aspects on different groups of individuals.

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

- 6.1 As the Internal Audit plan is risk based this provides more appropriate assurance on those high priority areas within the Council. When risk, and assurances that those risks are being well managed, is analysed alongside finance and performance information it can provide management with the ability to measure value for money.

## **7. LEGAL ISSUES**

- 7.1 Section 151 Local Government Act 1972- ‘...every local authority shall make arrangements for the proper administration of their financial affairs...’

Regulation 6 of the Accounts and Audit (England) Regulations 2011 - 'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

## **8. CONSTITUTIONAL POWERS**

- 8.1 The Constitution Part 3 Responsibilities for Functions - the Audit Committee terms of reference paragraph 2 states that the Committee can consider summaries of specific audit reports as requested.

## **9 BACKGROUND INFORMATION**

- 9.1 This report provides details of the audits carried out during August to November 2011 and also gives the assurance level for each audit. Those reports that were limited or no assurance were:

- Data protection
- Council Tax
- Mathilda Marks Kennedy (school audit)

- 9.2 Of the quarter 2 audit opinions issued 83% of these have been rated as satisfactory or above, however it should be noted that only 47% of the plan (on target according to the timing indicated on the Annual Audit Plan 2011-12) has been delivered. This is consistent with quarter 1 where most of the systems reviewed gave satisfactory assurance.

- 9.3 The Committee is also asked to note additions to the plan in the quarter and the statistics on the performance of the Internal Audit Team.

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

- 10.1 None.

Legal: MAM  
Finance: JH, MGC

**Appendix A**

**London Borough of Barnet**  
**Internal Audit & Risk Management**  
**Progress Report 2011-12 – Period 2**

**Maryellen Salter, Assistant Director of Finance - Audit and Risk Management**



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### Appendices:

- A: 2010/11 Work during quarter including assurance levels
- B: Work in progress
- C: Internal Audit Effectiveness Indicators

## **1. Introduction**

The Internal Audit Plan was agreed by the Audit Committee on the 24<sup>th</sup> March 2011. This report follows the principles previously accepted by the Committee, in that all audit reports with limited or no assurance will be summarised into key messages with some detail.

## **2. Final Reports Issued**

This report covers the period from 15<sup>th</sup> August to 28<sup>th</sup> November 2011. The Internal Audit service has over this period issued 18 reports, in accordance with the 2011-12 Internal Audit Plan. The full list of completed audits during this period is included in Appendix A, of the 18 reports assurance all but 3 were rated as satisfactory or substantial assurance. Those issued with limited assurance are detailed within section 3 of this report.

Of the 2011-12 audit opinions issued 83% of these have been rated as satisfactory or above, however it should be noted that only 47% of the plan (on target according to the timing indicated on the Annual Audit Plan 2011-12) has been delivered. The Direction of Travel for 2011-12 continues to be positive where most have been rated as satisfactory assurance.

### 3. Key Findings from Internal Audit Work with Limited or No assurance

<b>Title</b>	Data Protection – Cross Cutting			
<b>Assurances</b>	<b>No</b>	<b>Limited</b>	<b>Satisfactory</b>	<b>Substantial</b>
<b>Audit Opinion &amp; Direction of Travel</b>				
Data protection Audit - No Assurance 2008-09				
<b>Date final report issued</b>	October 2011			
<b>Background</b>	<p>The Data Protection Act 1998 (DPA) provides legislation to organisations for the processing, collection, storage, management and disposal of data pertaining to living individuals which is known as personal data. Individuals are classed as data subjects and have the right under the DPA 1998 to request a copy of their personal data held by any organisation to review for accuracy and to ensure data is processed in an accurate manner.</p> <p>Organisations have a duty to collect and process personal data in accordance with the eight principles set out in the Act. Compliance with the DPA is identified and enforced by the Information Commissioner's Office (ICO). The ICO has the powers to issue information and enforcement notices, conduct audits and undertake legal proceedings against organisations that persistently fail to comply with the requirements of the Act or have been identified as not complying with the Act. Failure to comply with the DPA can lead to monetary fines being imposed, criminal and civil prosecutions, adverse local and national publicity and loss of credibility and reputation. The ICO also provides advice and guidance on compliance with the legislation.</p>			

**Summary  
Findings**

of

**Areas of Good Practice**

- There was evidence of good staff awareness of the current data protection requirements and recent non-compliance issues, supported by a willingness to act on the ICO recommendations, in order to further improve practices and support compliance with the Data Protection Act 1998. Staff interviewed had attended the Corporate DP briefing last year.
- Staff indicated a good level of awareness regarding the security and confidentiality of personal information and were aware of the importance of reporting IT security incidents, disposing personal data securely (shredding) and dealing with Subject Access Requests.
- There are Policies and Procedures in place on the Council's Corporate Governance Intranet site, which detail the requirements of the current DPA and explaining Council processes to staff.
- The Council's Information Security Policy provides guidance to staff on the security methods for data transfer.

The following issues were identified during this audit across services teams visited in Environment, Planning and Regeneration (EPR), Adults Social Care and Health (ASCH) and Children's Service. The following were high priority recommendations:

**Data Security – Personal Data held by Council's Contractors and third parties**

The Council contracts with third parties to help delivery services and shares personal data to achieve this. Council contract terms and conditions include specific clauses on compliance with the data protection legislation. However, current service contract monitoring checks do not seek confirmation of contractors' compliance with the DP contract terms and conditions.

No guidance has been issued on the DP arrangements, where personal / sensitive data is shared with independent members (non-employees of the Council) of various panels.

**Information Security Policy - Clear Desk Policy and Transfer of Data outside the EEA**

Clear desk requirements were not fully in place, in two service teams visited at Barnet House. Paper records containing personal and sensitive data and in one instance, a computer tablet had been left on desks after staff had left the office at the end of the day.

There is no guidance issued to Services of the checks to undertake when transferring data outside the European Economic Area (EEA) to ensure that the Council is compliant with Principle 8 – '*Personal data shall not be transferred to a country or territory outside the European Economic Area (EEA) unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects in relation to the processing of personal data*'.

**Closed Circuit TV (CCTV)**

A review of the CCTV arrangements at Colinhurst House and Barnet House, revealed that there is no corporate register or oversight of which services are responsible for the operations of CCTV across the Council. There is a draft Council CCTV policy awaiting sign-off. Our review of CCTV arrangements at Colinhurst House and Barnet House, found non-compliance to the ICO CCTV Code of Practice.

**Other issues identified through-out our review:****Records Retention and Disposal**

Whilst personal data collected, processed and is secured appropriately by the Council, we found that there is no consistent approach adopted by service areas to ensure that retention periods are being implemented and adhered in line with the current Records Retention and Disposal Guidelines.

**Compliance Arrangements**

There is no common process developed at a corporate level to enable services to undertake checks to confirm compliance with the requirements of the DPA and Council DP policies.

**Risk Identification**

There is no identification by services of the potential DP risks to their business. This could compromise delivery of service, create negative outcomes for the Council and impact stakeholders and lead to non-compliance with the DPA.

**Training**

There is no consistent approach to DP training across the three directorates. Children's Service deliveries DP briefing to new starters in addition to the corporate 18-week induction and individual service teams. In EPR and Adult Social Care and Health, DP requirements are covered as part of the corporate 18 week induction. As a result, the levels of awareness and knowledge base amongst staff will be varied and the assumption that employees will fully understand DP requirements without any formal training.

There is no on-line DP training module (this was in place following the last audit in 2009 – but is no longer available) to assist staff to make them aware of the DP requirements and of their responsibilities under the DPA, particularly with respect to collecting, protecting and destroying data when no longer required.

Link Officers roles and responsibilities in relation to DP have not been clearly defined and documented within their current job responsibilities.

<p><b>Priority recommendations</b> 1</p>	<p><b>Violent / Hazard Markers</b>  The ICO issued a Practice Guide on the use of Violent Warning Markers (Violent warning markers are a means of identifying and recording individuals who pose, or could possibly pose, a risk to the members of staff who come into contact with them). We confirmed through discussions that there is no formal review of these markers by services within Housing and Adult Social Care and Health.</p> <p><b>Privacy Notices</b>  Corporate guidance has not been issued to services to review service application forms to ensure that these contain the relevant Privacy Notices in accordance with the ICO Privacy Code of Practice.</p> <p><b>Duplication of Information</b>  Staff interviewed across the three directorates continue to save the same client details in their personal 'H drive' in addition to main service systems / SAFFRON / SWIFT / ICS/ WISDOM. This finding was reported by the ICO in June 2010, who recommended that the Council monitor the duplication of client records to shared drives and staff understand the consequences for non compliance with documented procedures when handling personal data.</p> <p><b>Recommendation 1:</b>  Where council services use third party “data processors” to process personal data to provide services on behalf of the council, the SIRT should request service teams to review current contractual arrangements, to ensure that these are in accordance with the following special provisions of the Act when using a “data processor”:  Contractor monitoring checks should confirm that contractors have in place appropriate technical and organisational measures to ensure the security of the personal data supplied by the Council (and to guard against unauthorised or unlawful processing of the personal data and against accidental loss or destruction of or damage to the personal data).</p> <p><b>Recommendation 2:</b>  Services should be reminded to implement and monitor an effective clear-desk policy to minimise the risks of data loss or theft. The current policy should include a protocol on the transfer of data outside the EEA.</p> <p><b>Recommendation 3:</b>  SIRT should work with relevant Directors on the draft CCTV policy and seek approval for circulation. Compliance with the ICO CCTV Code of Practice should be included within the corporate compliance framework. An inventory of CCTV in use and a corporate register should be prepared. Once in place, this should be monitored routinely.</p>
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**Management Responses and agreed action dates**

**Recommendation 1:**

CGD will work with Corporate Programmes, in Commercial Services to ensure that the Procurement Controls and Monitoring Action Plan will pick up on all aspects that are required to be monitored/checked as part of the contract monitoring process. A checklist of requirements and guidance will be produced to assist staff in undertaking the procurement process and the ongoing checking of contracts.

As an interim, guidance will be posted online in terms of specifically the requirements on DPA and Data Processor contracts. (End of November 2011)

**Recommendation 2:**

The clear desk policy will be addressed through an all staff communication (lead by TAP) and through the intranet and IGC.

The Council has a Data Transfer Policy with covers EEA transfers. This is a policy primarily owned by Information Systems and is in the process of review and therefore unpublished.

CGD will work with IS in ensuring transfers of data outside the EEA are sufficiently captured. (End of December 2011)

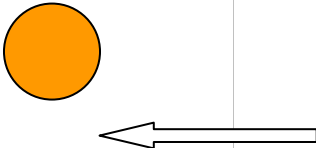
**Recommendation 3:**

Work has already begun to address these issues through the Information Management Working Group.

SIRT will work with services to ensure that they adopt appropriate procedures in line with CCTV Code of Practice and implement a process of audit.

SIRT will put together an inventory of all cameras which will identify appropriate owners.

SIRT will ensure that services adopt appropriate procedures in line with CCTV Code of Practice and implement a process of audit. (End of December 2011)

<b>Title</b>	Council Tax			
<b>Assurances</b>	<b>No</b>	<b>Limited</b>	<b>Satisfactory</b>	<b>Substantial</b>
<b>Audit Opinion &amp; Direction of Travel</b>				
Council Tax 2010-11 (satisfactory)				
<b>Date final report issued</b>	November 2011			
<b>Background</b>	<p>The Council has a statutory duty, under the Local Government Finance Act 1992 (As Amended) to levy and collect council tax and business rates, which is payable in respect of dwellings situated in its area.</p> <p>The new system for Council Tax and NNDR, OpenRevenues (replacing Pericles), went live in February 2011.</p>			



**Summary of Findings**

The following positive findings, supporting the objectives, were noted:

- Clear and allocated responsibility for key processes for Council Tax exemption/discount processing and review, Council Tax property database processing and review, Interface system reconciliation and review, refund processing and review, billing processing and review, recovery activity and review of output. Testing confirmed understanding of roles and no capability issues
- The existence of documented processes for referral for key Council Tax processes covering exemption and discount processing, property database processing, interface reconciliation, refund processing and recovery.
- Adequate and effective training and development arrangements for ensuring accurate processing of Council Tax exemptions, discounts and disregards.
- Arrangements for the independent review/check of key processing output for exemptions, discount and disregards, Valuation Office property processing, billing, interface suspense clearance and refunds.
- The annual review of Class N category for dwellings occupied by students and certain classes of 25% and 50% disregard and discount categories (e.g. student and child benefit entitlement disregards) had been completed.
- Effective processes for monitoring compliance with procedures, including reviews of Council Tax and exemptions, discount and disregard processing, through senior collection officers undertaking quality review checks on work/activity of staff in their respective teams and addressing issues where necessary (a process supporting development).
- Effective processes to ensure that Valuation Office property alteration for Council Tax were correctly recorded in OpenRevenues through the independent checking of input and the routine undertaking and independent review of reconciliations. Testing confirmed the accuracy of related input.
- Evidence of routine undertaking of reconciliations between AXIS, OpenRevenues and SAP and the clearance of related suspense items to ensure the prompt and accurate update of Council tax income data in OpenRevenues and SAP.
- Evidence of effective controls to ensure the accurate input of billing parameters for Council Tax informing related charging
- Adequate and effective arrangements for ensuring the accuracy of main and periodic bills and for ensuring that all relevant bills are posted/sent through reporting, bill inspection and reconciliation processes.
- Adequate and effective arrangements for ensuring the accuracy of reminders and summons notifications and ensuring that proof of sending reminders was available for review as part of the recovery process, where necessary through reporting, document inspection and reconciliation processes.
- Evidence of monitoring of bailiff debt recovery for pre-2011-12 billing debt.

The following issues were noted:

- The implementation issues associated with OpenRevenues have lead to backlogs and delays in the undertaking of key processes below:
  - annual reviews (to confirm ongoing validity) of Council Tax exemptions by class/category (e.g. Class V exemptions for dwellings occupied by Diplomats and empty property exemption categories and

- The implementation issues associated with OpenRevenues have led to backlogs and delays in the undertaking of key processes below:
  - annual reviews (to confirm ongoing validity) of Council Tax exemptions by class/category (e.g. Class V exemptions for dwellings occupied by Diplomats and empty property exemption categories and
  - debt recovery processes. The first reminder notices for 2011 annual billing were sent in July 2011. The first summons and court hearing for 2011 billing was undertaken in August and September respectively (normally undertaken earlier). Issues with the bailiff submission files meant that the last submission to bailiffs was undertaken in December 2010. Monitoring reports (in respect of attachment of earnings orders, deductions from income support and broken arrangements) and electronic bailiff instructions has also not been available to facilitate collection. At 31 July 2011, the collection rate was reported as lower than target. Management are aware of the issues and the debt recovery in particular is reflected as a risk in the Service risk register for ongoing monitoring (not reported as a recommendation).
- Officers had user access which they did not require in terms of their roles or where officers responsible for review/checking functions also had system user access for underlying processing, without related exception reporting. In particular, work type items checked as part of the monthly compliance quality review checks undertaken by Senior Control Officers were sourced directly from reports of staff activity from the images workflow system and not from a record of all exemptions and discounts actually processed to OpenRevenues accounts during that month.
- Instances where officers undertaking independent checks of key processing output (property database alteration, refunds and suspense clearance) did not sign-off as evidence of the check as required.
- The lack of evidence of effective review processes to ensure the validity of billing and reminder suppression
- The lack of processes for reporting suspicious money laundering activity in line with agreed thresholds
- Procedure documents had not been updated to reflect changes to discount application and to fully align with the operation of the new system, OpenRevenues. Management indicated that procedure update was planned.
- Confirmation of the need for improving the process for ensuring that all property notification information (from various sources) is recorded and addressed for notification to the Valuation Office, where applicable, through active monitoring of resolution progress.

**Priority  
recommendations**

**1 Recommendation 1**

The planned review of user access in OpenRevenues should be completed. The review should include an assessment of the risks associated with user access provision in relation related user roles/functions and the re-alignment of functions or implementation of related exception reporting and reviewing processes where necessary. In particular, monthly quality checks of staff work should include the inspection (for validity and accuracy) of Council Tax exemptions and discounts sourced from a record of all exemptions and discounts processed directly to OpenRevenues during the month.

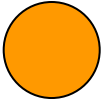
The planned process should be completed for identifying staff living in the borough or who have family members living in the borough and restricting access to the relevant Council Tax accounts

The process for identifying and disabling leaver accounts should be strengthened to ensure that they are promptly disabled.

**Management Responses and agreed action dates**

Recommendation 1:

- It is accepted that the planned review should be completed. However, we do not agree that this recommendation is Priority 1 status as management were already taking measures to address these issues. At the outset of the audit, it was flagged that, with the benefit of six months live-running of the new system, a review of systems access levels could be usefully undertaken and was planned.
- We accept the recommendation that quality checking should be sourced directly from system-produced reports of actual Open Revenues transactions and a new procedure incorporating has been implemented by the Collection, Recovery and Control Teams.
- Our risk assessment has concluded that in the main, it is not practical to remove senior officers' access to underlying processing, despite their checking/review function. It has long been accepted that there is some increase in the level of risk from not separating these duties. However, steady and significant annual increases in the number of properties continue to create additional work in a climate of reducing resources and in the interests of efficiency and business continuity, this means that senior officers also have to undertake some processing themselves. The same argument applies to Recovery Team staff having access to processing discounts and exemptions. Risks in both cases will be partly mitigated by the checking of exceptions under the new exemption and discount reporting and checking procedure. As a consequence we do not accept this part of the recommendation as the impact on performance will have far greater consequences than the risk highlighted.
- An exception to this is refund checking, where a new process is being evaluated, which if implemented, would remove access to create refunds from senior officers, who would then only be involved in the checking function of the refunds process.
- Functionality to restrict access to relevant accounts of staff and family members exists but is defective as access to some information is not in fact restricted. This issue will be raised with Civica.
- We accept that the process for identifying and disabling leaver accounts should be strengthened to ensure that they are promptly disabled and are considering the most effective way to do this.

<b>Title</b>	Mathilda Marks Kennedy			
<b>Assurances</b>	<b>No</b>	<b>Limited</b>	<b>Satisfactory</b>	<b>Substantial</b>
<b>Audit Opinion &amp; Direction of Travel</b>				
<b>Date final report issued</b>	November 2011			
<b>Background</b>	<p>Mathilda Marks Kennedy Primary School is a Voluntary Aided school with places for 218 pupils aged between 3 and 11 years of age. The School budget for 2011-12 is £1,296,888 with employee costs of £994,712 (77% of the delegated budget).</p> <p>This audit was carried out as part of the planned School audits for 2011-12 and the audit review covered the period April 2010 to March 2011. The aim of the audit is to provide assurance on key areas of financial management.</p> <p>The audit is conducted in line with the “Keeping your Balance” document developed jointly by the Office for Standards in Education (OFSTED) and the Audit Commission (AC) and to ensure compliance with Barnet’s Scheme for Financing Schools and related Financial Guide for Schools.</p> <p>The scope of the audit included assessment of the following:</p> <ul style="list-style-type: none"> <li>▪ adequacy of accounting, financial and other controls;</li> <li>▪ compliance to established plans and procedures;</li> <li>▪ the integrity and reliability of financial and other information;</li> <li>▪ assets and other interests of the Council are properly safeguarded; and that</li> <li>▪ the use of resources achieves value for money.</li> </ul>			

## Summary of Findings

- The Financial Management & Procedures Policy document did not reflect current practices in all areas of financial management;
- Expenditure is not recorded when committed e.g. when an order has been placed;
- Budget monitoring reports presented to governors do not show committed expenditure against total budget allocated and current balance;
- There was no visible evidence to confirm that checks had been carried out to ensure that goods were received correctly for 21 orders.
- From a sample of 36 purchase order forms, two order forms were found to be missing;
- Twenty-six invoices for which a purchase order was completed after the invoice was received;
- One invoice paid to an individual for speech and language therapy for which no proof of their self-employed status was held for tax and National Insurance purposes ;
- Four invoices had not been paid within specified time limits, for example within 14 or 30 day;
- Non-compliance to Contract Standing Orders for Schools: written contract documents for all contractors; proof of adequate insurance liability cover; lack of visible evidence relating to 'best value' reviews for all relevant contracts;
- A review of procedures and controls over the income system found no independent check to verify income collected and banked agreed to source documentation, for example spreadsheets/class lists;
- Transfers of money between staff are not signed for;
- No or unclear audit trails exist for income collected from educational visits/meals;
- Lettings related costs paid from the School's Budget Share account are not reimbursed from the School Private fund account;
- Arrangements for use of the School premises by hirers and independent after-school club organisers have not been formalised;
- No visible evidence that after-school clubs are adequately covered by insurance;
- The inventory records are not up-to-date;
- Entries recorded in the inventory register where not complete.

**'High' Priority recommendation**

**Recommendation**

The School should ensure that:

- a) The officer(s) responsible for checking receipt of goods, sign and date the delivery note to indicate that the delivery was received complete etc;
- b) Controls over the issuing of blank purchase order forms to staff are tightened and regular checks are made to ensure that these orders have been returned;
- c) All invoices should be signed by a member of staff approved by the governing body prior to payment of the invoice;
- d) A purchase order form is raised and approved by the relevant officer as delegated by the Governing Body, prior to the order being placed and not retrospectively upon receipt of the invoice, (with the exception of utilities, contract payments, temporary staff costs). The order should be posted onto the accounting system as committed expenditure upon the external accountants next visit;
- e) Formal documentation should be obtained from individuals requesting payment to confirm that they may be paid gross of tax and National Insurance;
- f) Expenditure relating to the School's Private funds is not processed through the budget share account;
- g) Invoices are processed promptly or at least within time limits specified by law for the payment of debts;
- h) The filing system for invoices should be reviewed and processes put in place to ensure that clear sequential audit trails exist and invoices can be easily traced.

**Recommendation**

The school should ensure that:

- a) Independent checks are carried out to confirm that amounts banked agree to control records and this is adequately evidenced;
- b) Transfers of money between staff are signed for;
- c) Source documentation (for example classlists, spreadsheets showing a clear and accurate breakdown of the amounts collected and relevant bank paying-in-slip details showing when the money was banked) is maintained in order for a clear audit trail to exist. These records should be held in accordance with LA guidelines.

<b>Management Responses and agreed action dates</b>	<p>Agreed The School will ensure that controls over the purchasing system are reviewed in order that all of the above findings are addressed.</p> <p>Agreed Controls and procedures for all income received will be reviewed to ensure that all area referred to above are addressed.</p>
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## 4. Work in progress and effectiveness review

Appendix B includes a list of all of those audits at the planning, fieldwork, or draft reporting stages.

Appendix C shows how effective Internal Audit is at delivery of the two of the three aspects of value for money – efficiency and effectiveness. Economy is reported within quarterly performance reports to Directorates and CRC and are within tolerance levels.

The exceptions that are showing within these indicators relate to the following:

**Effectiveness** – there has been a consistent positive direction of travel from the fourth quarter of 2010-11 to this quarter. Currently the percentage of recommendations has improved to 69%. However this percentage is below 90% the target that has been set. We will continue to work with Services to embed the corporate governance objective and create a culture of improvement.

There has been improvement noted in the turnaround of draft reports where the target is 10 days after end of fieldwork, the most notable reasons for this has been the turnaround of reports by the new supplier – Price Waterhouse Coopers (PwC). The service is now hitting the target of 90% of all reports being drafted within 10 working days of fieldwork.

## 5. Liaison with Officers and External Audit

The Internal Audit Service is committed to the managed audit approach. Part of this includes regular liaison with External Audit to ensure that our work can be relied upon as part of the financial accounts audit. Liaison meetings also incorporate updates from the Head of Performance on the performance of all Council Services.

## 6. Changes to our plan

Since the Internal Audit Plan was approved the following audits have been cancelled, deferred or are additional to the original audit plan agreed in March 2011.

Type	Audit Title	Reasons
Additional	Nursing and Residential Care review	Following the September Audit Committee, the Assistant Director of Audit and Risk Management commissioned a piece of work into Commissioning behaviours within Adults Social Care and Health (ASCH) and Children's Service for Nursing and Residential Care. This was in light of the numbers of non-compliant contracts with a view of establishing how compliance is assured over the medium to long term.
Additional	Procurement and Controls Monitoring Action Plan Report	The Audit Committee requested the Assistant Director of Audit and Risk Management to provide assurances over the completion of the Procurement and Controls Monitoring and Action Plan.

## 7. Risk Management

In the quarter the risk management arrangements continued to be reinforced through the Risk and Fraud Forum. Risks from each Directorate were discussed and challenged for inclusion within the quarter 2 performance report. The following improvements occurred in the quarter:

- A new report was developed with the risk management system to extract relevant information for the quarterly report;
- Further guidance was issued regarding the commentary required on the quarterly performance report to further add context and information on the risk profile; and
- An annual governance statement approach was agreed for the final accounts process.

Due to the timing of the Audit Committee the Corporate Risk Register was not agreed in time by the Corporate Directors Group and had not been presented to Cabinet Resources Committee (CRC) for inclusion within this report. The Corporate Risk Register will be available with the CRC papers when the Budget and Performance Report is tabled.

## Appendix A: 2011/12 work completed during quarter 2 including assurance levels

### Audit Opinions on Completed Audits during the period

<b>Systems Audits</b>	<b>Assurance</b>
1 Apprenticeships – Children’s Service	Satisfactory
2 Schools Placements	Satisfactory
3 Data Protection	Limited
4 NNDR	Satisfactory
5 Council Tax	Limited
6 Housing Benefits	Satisfactory
7 Accounts payable	Satisfactory
8 Income and debt management	Satisfactory
9 Cashbook	Satisfactory
10 Foster Carers	Satisfactory
Customer Services Transformation Programme – Risk Management	
11 Review	Satisfactory
12 Procurement Controls and Monitoring Action plan – follow-up	Conclusions only
13 Nursing and Residential Care contracts review	Conclusions only

<b>School Audits</b>	<b>Assurance</b>
1 Mathilda Marks Kennedy	Limited
2 Dollis Infant	Substantial
3 Martin Primary	Satisfactory
4 St Catherine’s	Satisfactory
5 Annunciation Infant	Satisfactory
6 Manorside	Satisfactory

## Appendix B: Work in progress

The following work is in progress at the time of writing this report.

### Work in progress

<b>Systems Audits</b>	<b>Status</b>
1 IT review – Liquidlogic	Scoping
2 Fairer contributions	Scoping
3 Homelessness	Scoping
4 Parking	Scoping
5 Treasury and Pensions	Scoping
6 Capital programme	Planning
7 Payroll	Fieldwork
8 Right to control	Planning
9 Contract management – Environment, Planning and Regeneration	Fieldwork
10 Data quality for HR	Fieldwork
11 One Barnet – scope and change control, governance and dependencies	Fieldwork
12 Establishment list – HR	Fieldwork
<b>School Audits</b>	<b>Status</b>
1 Sunnyfield	Fieldwork

## Appendix C: Internal Audit Effectiveness Indicators for quarter 2

Performance Indicator	Annual Target	Actual August 11	Actual Nov 11
% of recommendations accepted	98%	100%	100%
% of recommendations implemented	90%	60%	69%
External Audit evaluation of Internal Audit	Reliance On IA	Quarter 4 assessment	Quarter 4 assessment
Average client satisfaction score	90%	100%	100%
% of Plan delivered	44%**	17%***	47%
% of draft reports completed within 10 days of finishing fieldwork	90%	82%	90%
Periodic reports on progress	Each Audit Committee	Achieved	Achieved
Preparation of Annual Plan	By March	Quarter 4 assessment	Quarter 4 assessment
Preparation of Annual Report	Prior to A.G.S.	Quarter 4 assessment	Quarter 4 assessment
Staff with professional qualifications	70%	75%	75%
Staff development days	5 days	Quarter 4 assessment	Quarter 4 assessment

\* 3 surveys had been received by the service in the quarter relating to 2010-11 work

\*\* Targets are based on the spread of audits agreed within the Annual Audit Plan 2011-12 at the 95% target

\*\*\* Target for quarter 1 was 16%

**AGENDA ITEM: 9**

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Meeting	Audit Committee
Date	8 December 2011
<b>Subject</b>	<b>Exception Recommendations Report</b>
Report of	Assistant Director of Finance - Audit and Risk Management
Summary	Members are asked to note the progress against internal audit recommendations.

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Officer Contributors	Assistant Director of Finance - Audit and Risk Management
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A Internal Audit Recommendations
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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Contact for further information: Maryellen Salter, Assistant Director of Finance - Audit and Risk Management 020 8359 3167

## **1. RECOMMENDATIONS**

- 1.1 That the Committee note the contents of the Report and the actions being taken to address some cases of non implementation of recommendations.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 At the meeting of the Committee on the 17<sup>th</sup> February 2011 it was decided that a report would be prepared quarterly regarding those internal audit recommendations not implemented.
- 2.2 The Committee also requested that the table of priority 1 recommendations should in future indicate what date recommendations were made to service areas and the implementation date.

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

- 3.1 All internal audit planned activity is aligned with the Council's objectives, particularly the "Better Services with Less Money" priority, 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.

## **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 and agreeing actions to address the weaknesses.
- 4.2 Internal Audit work contributes 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. Individual audits assess, as appropriate, the differential aspects on different groups of individuals.

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

- 6.1 When risk, and assurances that those risks are being well managed, is analysed alongside finance and performance information it can provide management with the ability to measure value for money.

## **7. LEGAL ISSUES**

- 7.1 Section 151 Local Government Act 1972- ‘...every local authority shall make arrangements for the proper administration of their financial affairs...’

Regulation 6 of the Accounts and Audit (England) Regulations 2011 - 'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

## **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 effectively.

## **9 BACKGROUND INFORMATION**

- 9.1 The Appendix is broken down into those recommendations that have been carried forward from previous Committees and those that were due in quarter 2. Of those carried forward from the previous period 80% have now been implemented, with 3 recommendations partly implemented due for revised implementation date of April 2012.

- 9.2 Of those due in quarter 2 all had action taken against delivering the recommendations however 54% had been implemented in full. A number of the recommendations take a significant amount of work to take place to implement the recommendations in full, hence why a three month lead in has not always meant delivery of the action. Work continues to satisfy the Committee that the weaknesses are addressed.

- 9.3 Overall the number of recommendations implemented on time is 69%; this has improved since the last quarter which was reported as 60% and the previous quarter to that was 49%. Each Directorate has an audit lead that is a reference point to ensure that action against recommendations is monitored on a regular basis.

- 9.4 There are 15 recommendations due for implementation for period 3 reporting, which includes those rated as Amber from this review period, those that were not due in this period, and those recommendations raised as part of this period's audits.

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

- 10.1 None.

Legal: MAM  
Finance: MGC/JH



## Audits 2010-11 and 2011-12 No and Limited Assurances

### Outstanding recommendations from quarters 4 (2010-11) & 1 (2011-12)

Audit Title and Recommendation / Risk	Responsible Area	Response from Management	Audit Assessment at March 2011	Audit Assessment September 2011	Audit Assessment December 2011
<p><b>Recommendation 1: Environmental Health – compliance with the Provision of Services Regulation 2009</b></p> <p>Ensure compliance with the Provision of Services Regulation 2009 regarding facility to apply for licences electronically, using the prescribed web portal.</p>	Environment Health	The action relating to the availability of an electronic system to make and pay for licence applications through an on-line portal is still not met. There are some it dependencies to achieve this outcome.	<p><b>Not implemented in full</b></p> <p><b>Deadline: June 2011</b></p>	<p><b>September Audit Committee</b></p> <p><b>Partly Implemented</b> The payment engine has now been activated, but the web pages need to be deployed on Barnet Online to enable visitors to make an application and the relevant links made on the ELMS site. This has been escalated to the Assistant Director for IT Services.</p> <p><b>Further action:</b> Establish clear timeline for the completion of the outstanding tasks through the Web Transformation Project to ensure that the Council achieves legal compliance.</p> <p><b>Revised implementation Date:</b> November 2011.</p>	<p><b>Implemented</b></p> <p>The relevant licensing web pages and facility to apply and pay for licences are now live on the Barnet Online site. The service has appointed an Administrator to oversee the ELMS site.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
<p><b>Recommendation 2: Learning Disabilities (LD) Reviews</b>  <b>Recommendation - Timely Review of care packages</b></p> <p>Management should:                      - ensure that annual reviews are undertaken and completed in a timely manner.                      - identify and prioritise the backlog of reviews.</p> <p>Strengthen quality assurance checks for ensuring that annual reviews are undertaken - for example, management should regularly extract and review a report of the outstanding annual reviews to be undertaken.</p>	<p>Learning Disabilities Social Care (Adults Social Care and Health)</p>	<ol style="list-style-type: none"> <li>1. Requested different format for the "Review Due" information, from Information team as it was felt that the format was not user friendly and did not support the business</li> <li>2. Reviews prioritised by need regarding Safeguarding, Complaints and Duty referrals; not always by time</li> <li>3. Managers confirm performance through supervisions</li> <li>4. Objectives set for staff in Performance reviews re: Reviewing and also recording</li> </ol>	<p><b>Partially implemented</b>                      A process has recently been developed to identify and prioritise the backlog of reviews for LD Residential clients only.</p> <p><b>Further action:</b>                      Identify backlog of reviews for all LD clients and ensure that these are undertaken and completed in a timely manner.</p> <p><b>Revised implementation date:</b>                      November 2011</p>	<p><b>implemented</b>                      A review monitoring system has been established by the team, to effectively prioritise/allocate and monitor the progress of reviews. Outstanding reviews have been identified and allocated with targets for individual social workers.</p> <p>Weekly reports are received by management to monitor the status of reviews completed by social worker.</p> <p>Management action in place to ensure review target is met by the end of November.</p>
<p><b>Recommendation 3: Data Quality - Recommendation – Systems and Processes</b></p> <p>Management should ensure that all relevant information is recorded and documentation saved in key systems. This should ensure that there is a complete documentary management trail to support the personal budget / safeguarding processes and provide evidence to support the calculations and</p>	<p>Transformation and Resources (Adults Social Care and Health)</p>	<p>Since the issue of the Internal Audit Report on Data Quality, Heads of Service (CSD) have been collaborating and working closely with colleagues in CSD and other Divisions to ensure implementation of the "Management Response" i.e. a proper audit trail (for clients receiving Self Directed Support) including:</p> <ol style="list-style-type: none"> <li>1. Responsibility for ensuring correct recording of PBs is one of objectives in Team Managers'</li> </ol>	<p><b>Partially Implemented</b>                      Management have taken action to inform Managers of their responsibilities concerning data quality requirements. The Information Team is undertaking sample check of case records and following up data quality issues with</p>	<p><b>Implemented</b>                      Management have taken action on devising, implementing and embedding revised procedures across all operational teams on the <b>Care and Support Pathway</b>, which includes the recording of data in SWIFT and audit trail of working</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
checks that have been taken place to meet the requirements for both indicators.		<p>Performance Review</p> <p>2. Staff in CSD are undergoing mandatory training on use of SWIFT &amp; WISDOM to record PBs</p> <p>3. Staff in CSD are undergoing further mandatory training on personalisation process</p> <p>4. Managers in CSD are attending workshop on 29 June to agree client journey in relation to Support Planning</p> <p>5. New more user friendly support plan has been designed and launched to support service users and staff</p> <p>6. Personalisation process and practice benchmarking visits to other councils are being organised for key staff</p> <p>7. Spot checks on standard of recording are underway</p>	<p>relevant Service Teams.</p> <p>Audit sample check of ten July personal budgets cases revealed documentary management trail for <b>only half</b> of the records examined.</p> <p><b>Further Action</b> As per the recommendation, management to continue monitoring recording of information and saving documentation in key systems to ensure that there is 90% compliant at the next follow-up for the recommendation to be assessed as implemented.</p> <p><b>Revised implementation date:</b> November 2011.</p>	<p>papers in WISDOM</p> <p>Spot checks by Performance Team are carried out on a weekly basis with the results fed-back direct to the relevant Team Manager and Head of Service.</p> <p>Audit sample check of ten personal budget cases confirmed 90% compliant.</p>
<p><b>Recommendation 4: Freedom of Information – FOI Information Requests</b></p> <p>The S&amp;IR Team should take steps to remind Link Officers that they: - comply with statutory timescales under the FOI and EIRs when responding to a request;</p>	Corporate Governance	<p>FOI training was provided to Link Officers on 21 and 23 June 2011 which covered the statutory timescales.</p> <p>An email was sent on 24 June 2011 to Link Officers which covered point (iii).</p>	<p><b>Partly Implemented</b> FOI Link Officers informed of audit findings through e-mail communication and reminded to comply with statutory timescales.</p> <p>FOI response times are a Corporate Plan indicator.</p>	<p><b>Partly Implemented</b> Quarter 2 performance report highlights that FOI requests being answered within the statutory deadlines have improved by 3.7% to 76.3% despite a increase in the number of FOI from quarter 1 to</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
The procurement of a new FOI database should allow for more effective tracking and monitoring requests.		<p>Emails were sent on 7 July 2011 to Link Officers covering (i) to (iv).</p> <p>All four matters will be followed up with Link Officers at the Link Officer Forum on 23 July 2011.</p>	<p>For the last quarter, there were 52 requests responded outside the statutory timescales, resulting in 74% achieved against the indicator target of 90%. It is noted that the service has received an increase in more complex FOI requests.</p> <p><b>Further Action:</b> Continue to monitor statutory timescales and follow-up reasons for non-compliance with Link Officers, with Assistant Directors support.</p> <p><b>Revised implementation date:</b> November 2011.</p>	<p>quarter 2 of 147%. The target however is 90% of FOI requests to be answered within the statutory deadlines.</p> <p><b>Further action:</b> Continue to monitor statutory timescales and follow-up reasons for non-compliance with Link Officers, with Assistant Directors support. By quarter 3 if the direction of travel is maintained we would consider this recommendation implemented.</p> <p><b>Revised Implementation date:</b> March 2012</p>
<p><b>Recommendation 5: Business Continuity - Corporate critical activity business continuity Plan testing Recommendation</b></p> <p>The Head of Insurance should co-ordinate and undertake testing of business continuity Plans for critical activities and report testing outcomes (for lessons learned purposes) to the relevant Service business continuity Leads.</p>	Corporate Governance	<p>Meeting with Zurich Municipal 27 June 2011 to discuss external support option for corporate BC and implementing suitable risk led testing regime. ZM offered to review current arrangements and advise.</p> <p>Documents emailed to ZM 30 June 2011.</p> <p>Reference to testing made to BC leads at Risk and Fraud Forum Meeting 30 June 2011 and followed up in email to all leads 5 July 2011.</p> <p>Further support to be investigated eg neighbouring borough/peer review.</p>	<p><b>Partly implemented</b></p> <p>The Head of Insurance has started co-ordinating the testing of business continuity plans for the Council's critical activities with plans to undertake testing for Services on a phased and risk basis.</p> <p>The development of test plans and actual testing still has to start.</p> <p><b>Further action</b> Develop testing plans</p>	<p><b>Implemented</b></p> <p>The first test of critical activity Business Continuity plans has been co-ordinated and undertaken and there are plans to undertake further testing on a 6 monthly basis</p> <p>A full report of the test outcomes for submission to key stakeholders including</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
		<p>Options received and discussed with Commercial Director 18 July 2011.</p> <p>Safeguarding (Children and Adults), Accommodation, IT/Comms and some E&amp;O identified for first phase testing.</p> <p>Peer partnership identified with London Borough of Islington. Meeting held with Islington's Emergency Planning Manager and BC Manager on 18 August 2011.</p> <p>BC Manager is BS25999 accredited and has delivered tests at previous London Boroughs. Testing plan discussed, outcomes, format and venue etc.</p>	<p>and undertake testing of business continuity plans for the Council's critical activities in line with the recommendation and agreed action.</p> <p><b>Revised implementation date:</b> 31 October 2011</p>	<p>business continuity service leads is planned but is still outstanding.</p> <p>The test outcome report was shared with BC leads in November.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
<p><b>Recommendation 6: Risk Management - Risk Analysis – Risk identification (Children’s Service)</b>                      The comprehensive identification of all risks which could compromise service delivery should be undertaken as part of annual Business Planning and on an ongoing basis thereafter as appropriate. Ongoing reviews of the risk register should be undertaken to ensure the inclusion of all relevant risks.</p>	<p>Policy, Planning and Performance in Children’s Service</p>	<p>Risk management briefings took place for managers on Monday 9 May, Tuesday 10 May, Wednesday 11 May and Thursday 14 May. A total of 31 managers attended.</p> <p>All team plans are to include risks. These plans are sent to the Performance and Data Management team who review the risk registers.</p> <p>All service risks are being reviewed quarterly by SMT.</p> <p>A monthly review of the service risk register is carried out by the Performance and Data Management Team to ensure that it captures all the service risks.</p>	<p><b>Partly implemented</b></p> <p>A quality review process for monitoring the quality of risk identification in operational team plans had started but had not been completed.</p> <p>The quality review process will:</p> <ul style="list-style-type: none"> <li>- ensure that team plan risks were identified for the relevant Barnet Children and Young People’s Plan (2011 update) priorities, for inclusion in/escalation to JCAD, where appropriate.</li> <li>- identify the need for further briefing sessions, with a particular focus on instances where quality review issues around risk identification were identified and the respective manager(s) had not attended briefing sessions.</li> </ul> <p><b>Further action:</b></p> <p>Complete the quality review of team plans to assess how effectively managers identify risks and to assess (and deliver where appropriate) where</p>	<p><b>Implemented</b></p> <p>The review of all Children’s Service team plans including the component relating to risk assessment component was undertaken.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
			further risk briefing / training is necessary.  <b>Revised Implementation Date</b> Completion date: 30 September 2011	
<b>Recommendation 7: Debit / Credit Cards – Contractual Agreements</b>  Management should ensure that there are written contractual agreements which sets out terms and conditions, responsibilities of both parties, service specification etc. Contractual agreements should be readily available for review in the event of a query.	Revenue(Deputy Chief Executive)	It has not been possible to obtain contact copies as not all machines have contracts in place. Therefore a tendering exercise is in process, led by the Head of Finance, in order to standardise the contract arrangements for all machines.  A timeline for this process has been produced, with tenders received in August, an evaluation of tenders in September and the new contract expected to be in place by November.	<b>Partly Implemented</b> A tendering exercise is underway to have a written contract in place by November 2011.  <b>Further Action:</b> Complete the tendering exercise and have new contract by November 2011.  <b>Revised implementation date:</b> November 2011.	<b>Implemented</b> Contract was signed at the end of November by the Council and the new provider.
<b>Recommendation 8: Street Lighting – Performance (Customer satisfaction surveys)</b>  Part 1 - Monitoring arrangements should include ensuring that the contractor undertakes all customer satisfaction surveys and assessing the extent of relief in the light of ongoing non-performance by the contractor. Part 2 - Resident feedback should be analysed and issues addressed as necessary.	Highways - Environment Planning and Regeneration (EPR)	The Authority had already requested BLS to implement the Annual Survey for Year 5 and this was completed as planned during April 2011.  In order to avoid adjustments the Authority also requested x4 separate blocks of Annual Survey forms be distributed to provide some data for Years 1 to 4, albeit carried out in Year 5 – these have also been completed resulting in a total of 2,500 Annual Survey forms having been	<b>Partly implemented</b> There was evidence that the annual surveys required in terms of the PFI contract had been undertaken.  A process for undertaking the monthly CIP and post CIP (Annual Investment Programme) surveys was confirmed. Evidence	<b>Implemented</b>  The recommendation in relation to the contract is no longer applicable following proposal to obtain resident feedback by another method.  Owing to the poor resident survey response rate,

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
		<p>delivered since the beginning of the year.</p> <p>To date only x19 forms in total have been returned by residents, less than 1%. For Year 5 we have received just x2 forms returned, less than 0.5%.</p> <p>Returns have been logged on the attached Survey Schedule but we have not yet concluded how these will be analysed, or by whom.</p>	<p>that the process was undertaken had been requested from the PFI contractor and still had to be provided.</p> <p><b>Further Action</b></p> <ol style="list-style-type: none"> <li>1. Obtain evidence that monthly surveys for March April May 2011 (CIP) and May June 2011 (Post CIP) were delivered by contractor.</li> <li>2. Approach the relevant officer to agree a way forward for analysis of returned customer satisfaction surveys.</li> <li>3. Confirm decision, as applicable, on the future application of the contract requirement process for sending out surveys and the analysis of survey responses owing to poor resident response rate and need to focus on higher priority tasks.</li> </ol> <p><b>Revised Implementation Date</b> Completion date: 30 September 2011</p>	<p>Management has decided that this requirement will be removed from the contract requirements. An alternative method of identifying customer satisfaction will be explored and will be considered and incorporated into the Services Review of improving Customer</p>



## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
<p><b>Recommendation 9: Parking – Internal control and Risk Management</b></p> <p>To ensure risk management is embedded effectively, the service should ensure that an appropriate outcomes based plan for the mitigation of risks is identified in order to achieve financial stability and mitigate against known risks.</p>	<p>Parking - EPR</p>	<p>New risk registers have been created to feed the JCAD system and their consideration is a monthly agenda item at meetings of the management team. Training in JCAD will be provided and all managers will load directly onto it by 2011/12.</p> <p>Since the meeting on 28/01/11, the RAG rating has been completed.</p> <p>If copies of previous Internal Audit reviews are provided the manager will ensure that the recommendations contained therein are addressed.</p> <p><b>Action Agreed:</b> The risk register will be updated on the Council's JCAD system, and consideration of risks will be undertaken routinely at regular management meetings.</p>	<p><b>Partly Implemented</b> Risks around the key elements of the recovery plan have been allocated to service managers and logged on the JCAD system. These risks are reviewed in accordance with the timetable set, using the reminders within the system, and are up to date. However, risks associated with each income work stream are not recorded on the JCAD system.</p> <p><b>Further Action:</b> Ensure all potential risks associated with each income work stream have been identified and recorded on the JACD system and monitored</p> <p><b>Revised implementation date:</b> November 2011</p>	<p><b>Implemented</b> Risk associated with the income streams has been recorded at a Directorate Level on the JCAD system.</p> <p>Controls are in place to monitor each income stream activity weekly by the Assistant Director for Highways and Transport (risk owner) and at Team Level.</p>
<p><b>Recommendation 10: Sustainability – Risk Management – Recommendation</b></p> <p>Arrangements should be implemented for ensuring that identified lead officers responsible for sustainability and carbon emission reduction initiatives in respective Service areas, have identified and addressed risks (linked to activity)</p>	<p>EPR (Cross Cutting)</p>	<p>The Assistant Director - Strategic Planning and Regeneration has been allocated responsibility for coordinating the development of the strategy.</p> <p>Development has not been completed owing to:</p> <p style="padding-left: 40px;">a) uncertainty around</p>	<p><b>Partly implemented</b> Full implementation of the recommendation depends on the development of an agreed strategy/co-ordinated approach for delivery of the sustainability (carbon</p>	<p><b>Partially implemented</b></p> <p>The sustainability review by the Member Task and Finish group is in progress.</p> <p>A strategy remains outstanding pending</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
which may compromise carbon emission reduction objectives/ delivery outcomes.		<p>the management structure for the proposed combined Environment and Operations and Planning Housing and Regeneration directorates.</p> <p>b) future development depending on the outcome of the Council Leadership elections and appointment of Cabinet Members which will only be known in June 2011.</p> <p>Sustainability is being reviewed as a topic by a Member Task and Finish Group.</p>	<p>emission reduction) agenda. The strategy will focus operational delivery for the agenda and will incorporate risk management, as standard.</p> <p>Sustainability is being reviewed as a topic by a Member Task and Finish Group, with a remit for examining specific issues and making recommendations in the area, which should assist in setting the Council's way forward for Sustainability.</p> <p>The risk register referred to some identified risks relating to the sustainability agenda.</p> <p><b>Further Action</b> Completion of the strategy for operational delivery through effective risk management.</p> <p><b>Revised Implementation Date</b> Completion date: 30 November 2011</p>	<p>prioritisation of work to analyse Member Task and Finish Group review feedback.</p> <p><b>Further Action</b> Completion of the strategy for operational delivery through effective risk management.</p> <p><b>Revised Implementation Date</b> 1 April 2012</p>
<b>Recommendation 11: Waste Prevention – Waste Prevention</b>	EPR	A scope for a new waste strategy was produced in March 2011 and	<b>Partly implemented</b> The scoping for the new	<b>Partly implemented</b>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
<p><b>Strategy – Recommendation</b></p> <p>Management should put a process into place to ensure there is a periodic review of the Waste Prevention Strategy and that the Strategy is fit for purpose and remains current. The Waste Prevention Strategy should reflect the latest legislative requirements and directives/trends in population behaviour/attitude towards waste prevention.</p>		<p>has been agreed by the Assistant Director of PER.</p> <p>A first draft of the strategy is currently being developed. The draft strategy will take into account legislative requirements and trends in the population's behaviour and attitudes, which will be assessed through work to be carried out with Impower.</p>	<p>strategy has been completed. The first draft of the Strategy is being developed.</p> <p><b>Further Action</b></p> <p>Complete first draft of the strategy in line with the recommendation and agreed action.</p> <p><b>Revised Implementation Date</b></p> <p>Completion date: 30 September 2011.</p>	<p>Development of the first draft of the strategy has started but has been delayed pending feedback from the work.</p> <p>The project to improve recycling commenced on 10 October 2011 and is expected to run for 2 months.</p> <p>Outcomes of this project will inform development of the draft strategy.</p> <p><b><u>Further action</u></b></p> <p>Complete the first draft of the Waste Strategy in line with the completion of the project work.</p> <p><b><u>Revised implementation date</u></b></p> <p><b>31 March 2011</b></p>
<p><b>Recommendation 12: Waste Prevention – Governance Arrangements</b></p> <p>Terms of Reference should be developed for the Waste Project Board, to ensure that the purpose, structure and remit of the Board are clearly defined.</p> <p>Adequate governance arrangements</p>	EPR	<p>Draft Terms of Reference for the Waste Project Board were produced in March 2011. These will be considered at the next Waste Project Board meeting, with the aim of agreeing them.</p> <p>Governance arrangements for scrutinising and challenging the Waste Strategy are to be defined following the drafting of the strategy.</p>	<p><b>Partly implemented</b></p> <p>A draft terms of reference for the Waste Project Board has been developed. This needs to be formally approved. Formal governance arrangements for overseeing the Waste Prevention Strategy need</p>	<p><b>Implemented</b></p> <p>The draft terms of reference was approved 9 November 2011.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
should be put in place to scrutinise, oversee and challenge the Waste Prevention Strategy.			to be developed. <b>Further Action</b> Approve the Terms of Reference for the Waste Project Board Develop governance arrangements for overseeing the Waste Prevention Strategy. <b>Revised Implementation Date</b> Completion date: 30 September 2011	
<p><b>Recommendation 13: Equalities – Delegated Powers report Recommendation</b></p> <p>A process should be in place where the Council can demonstrate that there is challenge and scrutiny of equality and diversity statements within the DPR and committee report clearance process.</p> <p>Where there is lack of challenge/scrutiny of the equality and diversity section within a DPR or other committee report, there is an increased risk that assurances on equality issues provided by service areas may not be secure resulting in incorrect management decisions being taken.</p>	Strategy - Assistant Chief Executive	<p>A template has been prepared for report authors to complete and attach to relevant committee reports. A summary of the response will be contained in the 'Equalities and Diversity Issues' paragraph.</p> <p>As the council progresses with its transformation programme there is an increased risk of legal challenges on a number of grounds including equalities.</p> <p>To ease the transition process, the Director for Planning, Environment and Regeneration (PER) has agreed to pilot this new template. between 1 August – 1 November 2011</p> <p>Governance Service also needs to support this process by quality assuring the content of the 'Equalities and Diversity Issues' paragraph. They have already been doing this with this</p>	<p><b>Partly Implemented June Audit Committee</b></p> <p>Equalities Impact Assessments are reported within the DPRs, and a nominated officer provides Equalities clearance on the DPR.</p> <p>Further action required: Complete the action agreed by CDG in line with the duties under the Equalities Act 2010 and guidance.</p> <p><b>Revised Implementation Date: November 2011</b></p>	<p><b>Implemented</b></p> <p>Report on the EPR Equalities Impact Assessments Pilot has been prepared for December.</p> <p>Following Council's Directors Group presentation, it will be implemented across all service areas supporting staff in the completion of the 'Equalities and Diversity issues'. Change to be communicated to staff through an internal communications plan.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
		<p>reports prepared by the former Environment and Operations directorate, so this task would not be onerous.</p> <p>Outcome of the PER pilot review to be jointly presented to Council Directors' Group, the Director of PER, Corporate Governance and the Chief Executive's Service in November 2011 and proposals for implementation across the organisation.</p>		
<p><b>Recommendation 14: LG Pensions - Performance Management/Management Information Framework - Recommendation</b></p> <p>There should be a robust framework for reviewing, monitoring, and reporting of performance management implemented. Regular reports should be presented to the Pensions/ Investment Committee, so that the performance of the Council as the administering authority of the pension scheme can be assessed and remedial action taken were necessary. Agreed Action 1: The Pension Services Manager will be considering the option of implementing the Task Management function on AXIS; this will allow regular performance reports to be produced from the system. The Pension Services Manager has attended Task Management meetings,</p>	Pensions (Deputy Chief Executive)	<p>Officers have attended Heywards Axise course to learn how to build task management workflows and reporting on October 12. Hansha is visiting LB Camden on 27th May to review how they have implemented task management for pension's administration. This will support our implementation of task management within LBB. Although some preparatory work has commenced on this Management Action, we anticipate this Management Action will not be completed before September 2011.</p> <p>As part of our improvement and implementation of Performance Management, we have subscribed to CIPFA Benchmarking for Pensions Administration. We anticipate we will receive the benchmarking questionnaire on 13th May and results received back from CIPFA 2nd September.</p>	<p>Further action Required: complete the review of how another Local Authority has implemented task management for pension's administration.</p> <p><b>Implementation Dates:</b>  <b>1. June 2011-</b> review of results received from CIPFA to inform the development of a new performance framework.  <b>2. Further follow up will be undertaken in September 2011 when the action will be completed</b> as per Management Comment.</p>	<p><b>Implemented</b></p> <p>The outturn figures for the 8 CIPFA performance indicators relevant to pension administration were generated by the AXIS reporting system and reported to CIPFA as part of a benchmarking exercise. CIPFA returned the information on 5 September 2011. The feedback including the performance indicators was reported to the Head of HR Service delivery. These indicators will be reported to the Pension Fund Committee in April 2012.</p>

### Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
<p>and will be visiting another local authority to consider how the module has been implemented and can be used to report.</p> <p>Action 2: A robust performance management framework will be developed, were the Pension Services Manager will set Key Performance Indicators', based on the CIPFA benchmarking guidance. The Key Performance Indicators' will be monitored and reported regularly to the Head of HR Service Delivery, to allow timely remedial actions to be taken where poor performance is identified.</p>				

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment September 2011	Audit Assessment December 2011
<p><b>Recommendation 15: IS Strategy / Business Continuity / Disaster Recovery – IT BCP Development - Recommendation</b></p> <p>Management should ensure that the critical systems and their dependencies are formally identified, prioritised, documented and agreed in consultation with representatives from the critical business activities.</p> <p>Furthermore, management should ensure that the Recovery Time Objective (RTO) and Recovery Point Objective (RPO) are defined and agreed for each IT system.</p> <p>The prioritised list of critical services, systems and their dependencies (including their RTO and RPO) should be included in the IS level Business Continuity / Disaster Recovery Plan.</p>	<p>Information Systems (Commercial Services)</p>	<p>Interviews have been carried out with the business and compiled customer feedback on day-one-scenario recovery, and this has been fed into the IS Transformation Plan as an action to implement appropriate disaster recovery to support the council Business Continuity plan for bringing up key processes. The design of the IS disaster recovery plan is based on Recovery Time Objectives (RTO) work for critical systems.</p> <p>IS has undertaken an RTO analysis, and have produced a list of IT services requiring restoration to deliver the 51 critical business services: these are being designed into the IS disaster recovery solution. The deadline is September 2011 for delivery of the design and specification for the disaster recovery solution.</p> <p>With regards to Recovery Point Objectives (RPO), there is currently some debate within the business as to where responsibility for RPO lies. The Transformation Manager will consult with the Transformation Programme Board and the Programme Sponsor to obtain agreement on this point.</p>	<p><b>Partly Implemented</b> Critical systems and their dependencies have been formally identified, prioritised, documented and agreed in consultation with representatives from the critical business activities.</p> <p>Recovery Time Objectives have been identified.</p> <p><b>Further Action:</b> The Recovery Time Objectives will be included in the IS Disaster Recovery solution.</p> <p>The Recovery Point Objectives (RPO) issue will be raised and resolved, with a clear decision on where responsibility lies and an action plan for either commencing or handing over the work will be prepared by October 2011.</p> <p><b>Revised implementation date:</b> October 2011</p>	<p><b>Implemented</b> Recovery Time Objectives are included in the IS Disaster Recovery solution and the Recovery Point Objectives ownership issue has been resolved by IS taking this forwards as part of their business continuity work.</p> <p>The disaster recovery plan procurement and implementation processes are underway.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

### Recommendation due in Quarter 2 (2011-12):

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p><b>Recommendation 1: Strategic Procurement - Devolved Procurement Teams - Recommendation</b></p> <p>Management should clarify if/where devolved procurement is needed. Where devolved procurement teams are established, roles and responsibilities should be formally allocated and assigned, and the role of CPT clearly defined. In addition, there should be a process in place to measure, monitor and report progress of devolved teams towards meeting the Council's procurement objectives and compliance with Contract Procedure Rules.</p>	<p>Corporate Procurement Team (Commercial Services)</p>	<p>The exercise to consolidate procurement activity as part of the New Support Organisation has begun in collaboration with Human Resources, this process will take some time to complete and the original estimate of October 2011 was optimistic. This process will also change the devolved nature of procurement activity as such implementing this recommendation is not feasible, instead the consolidation of procurement staff will be what management intend to deliver.</p>	<p><b>Partially implemented:</b> The consolidation activity has begun but is in infancy stages, as such we will review when the project has completed.</p> <p><b>Implementation date: June 2012</b></p>
<p><b>Recommendation 2: Strategic Procurement - Monitoring of vendor spend – Recommendation</b></p> <p>The corporate procurement team should establish a process for identifying and monitoring expenditure by category by service across the Council to ensure that current levels do not exceed Contract Procedure Rules.</p>	<p>Corporate Procurement Team (Commercial Services)</p>	<p>Through delivery of the Procurement Controls and Monitoring Action Plan there have been improvements to the control environment. All new vendors entered onto SAP are entered with their approved limit.</p> <p>Reports are being enhanced for reporting spend by category for services to use through the Business Warehouse, this process will take some time to embed.</p>	<p><b>Partly implemented</b> The Contract Procedure Rules (CPRs) requires the Commercial Director will ensure that expenditure is monitored by category across the Council to ensure these levels are not exceeded. As the reports have not been used consistently across the Council, this recommendation is considered partly implemented until these changes are considered embedded.</p>



## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p><b>Recommendation 3: Income and Debt Management – Credit Notes and Refunds – Recommendation</b></p> <p>The Accounts Payable Manager should ensure that a complete record of authorised signatories should be maintained. In addition, the authorised signatory list should be reviewed in light of changing needs (signatories starting and leaving the Council) to help ensure that signatories and the delegated limits are in line with management requirements.</p>	Income - Finance (Deputy Chief Executives)	Full audit completed in October and satisfactory assurance obtained.	<p><b>Implemented</b></p> <p>An authorised signatory list now exists for maintenance. The area was audited in October and the income and debt management process received satisfactory assurance and all recommendations were considered implemented.</p>
<p><b>Recommendation 4: Data Security Risks and Issues</b></p> <p>It is recommended that good practice standards of IT Project Management and Programme Management should be implemented within IS. The procedures should lay out the key stages in project management. This could include, though not be limited to: Developing a project portfolio, obtaining strategic approval for projects; development and approval of a PID and Business Case; prioritisation of projects, budget and timeline monitoring and regular reporting on project status.</p> <p>The Council should also establish an IT Programme Management Office function or similar to be able to support projects. Additionally, the corporate system Hydra, should be utilised within IS to track projects and formalise capture of project decisions and risks.</p>	Information Systems (Commercial Services)	Evidence provided to validate completion of these tasks.	<p><b>Implemented</b></p> <p>Processes have been implemented and evidence was provided to ensure that good practice project management standards have been implemented for projects owned by IS or for projects in which IS are involved.</p>
<p><b>Recommendation 5: Data Security Risks and Issues</b></p> <p>A review should be carried out of the</p>	Information Systems (Commercial	Evidence provided to validate completion of these tasks.	<p><b>Implemented</b></p> <p>All IS Projects are now reported to</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p>Information Systems Service Plan for 2011-12 against the Draft Information Systems Business Plan for 2011-12 to ensure all IT initiatives and projects have been included within the Plan and are communicated to the Director of Commercial Services. The project monitoring owner should be defined.</p> <p>As part of this review, the project deadlines for the CISCO IPT infrastructure upgrade project should be reviewed for accuracy and suitability. As a matter of priority, a review should be carried out of all the actions to be taken to ensure support is available from CISCO for the IPT infrastructure in the interim between the infrastructure going End of Life in April 2011 and the upgrade project being completed by 2012. A formal confirmation should be received from CISCO for provision of this support and senior management need to be made aware of any potential costs which could be incurred if CISCO conditions are not met and support is not extended as well as the risks of running an unsupported CISCO IP Telephony platform.</p>	Services)		<p>the Director of Commercial Services on a monthly basis as part Service performance review arrangements. Projects are RAG rated to ensure appropriate focus. The CISCO upgrade Project is now managed under an effective governance structure and CISCO support has been confirmed between April 2011 and the implementation of the upgrade project.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p><b>Recommendation 6: Data Security Risks and Issues</b>                      A formal process should be implemented to review and address any issues or risks raised within the Infrastructure Supplier service reports. Responsibility to review, address and monitor progress of implementing these issues should be formally defined and allocated to a designated officer in IS. Any risks identified from the reports should be added to the IS Risk Register where appropriate. Implementation of these issues should form part of regular reporting to senior management.</p>	Information Systems (Commercial Services)	Evidence provided to validate completion of these tasks.	<p><b>Implemented</b></p> <p>Responsibility for addressing risks stemming from risks or issues raised in the Infrastructure Supplier Service Reports is clear and allocated.</p> <p>Monitoring of implementation of agreed actions is undertaken at the IS Management Team meetings.</p> <p>Risks are logged in the IS JCAD risk register and where the risk rating is sufficiently high, risks are reported to Commercial Services Management Team as part of the monthly performance review process.</p>
<p><b>Recommendation 7: Data Security Risks and Issues</b>                      It is recommended that the E-Vault back-up system upgrade requirement is reviewed as a matter of priority. The project should be appropriately scoped and the delivery timeframe should be assigned and formally communicated to senior management. As part of this upgrade, the proposed risk of not complying with LBB's data retention policy due to expired backup safe sets being deleted should be reviewed and the results should be formally communicated to senior management.</p> <p>Management should carry out a formal impact analysis with each Service to ensure that the back-up solution and</p>	Information Systems (Commercial Services)	Evidence provided to validate completion of these tasks.	<p><b>Implemented</b></p> <p>Back-up, including the E-Vault back-up system, is being addressed as part of the Disaster Recovery Project which features on the IS Project Plan and for which a business case and draft specification has been produced. The risk of non compliance with the Council's data retention policy has been assessed and will be addressed once the data retention policy has been developed and formally approved. The review with Services on back-up requirements has been done and a solution which addresses recovery point objectives has been proposed.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
back-up retention policy adequately satisfies their recovery point objectives or legislative requirements for retention of back-up data for that system and service.			
<p><b>Recommendation 8: Data Security Risks and Issues</b></p> <p>It is recommended that Network and CITRIX security patches are applied on a regular basis. A regular maintenance window should be agreed with the business and scheduled.</p> <p>Furthermore, the Change Management Policy and Procedure should be formally approved by senior management. The Senior Management Board should provide a directive to ensure that Change Approval Board meetings are held on a regular basis and attended by all. Any Requests for Change (RFC) raised should be reviewed and approved on a timely basis.</p>	Information Systems (Commercial Services)	Evidence provided, however it is felt that this task has been partly implemented due to some of the security patches being cancelled due to business needs – weekend working within Children’s and Adults and Member support.	<p><b>Partially implemented</b></p> <p>The application of security patches has not been implemented pending a Business decision around an agreed time for downtime for implementing patches.</p> <p>Processes exist to ensure the timely approval of Requests for Change. Change Approval Board meetings are held regularly and responsibility for co-ordinating meetings so that they are attended by the required officers and escalating issues, where applicable, to the Head of IS Service Delivery, is clear and allocated.</p> <p>Further Action:</p> <p>Agree a date for and undertake the implementation of patches.</p>
<p><b>Recommendation 9: Data Security Risks and Issues</b></p> <p>Management should ensure that the IS Risk Register on JCAD (Council’s risk management system) is updated with all IS risks and all IS risk registers should be</p>	Information Systems (Commercial Services)	Evidence provided to validate completion of these tasks.	<p><b>Implemented</b></p> <p>Arrangements exist for identifying and raising risks on JCAD (e.g. stemming from issues and risks identified in the Infrastructure</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p>consolidated onto a central risk register on JCAD.</p> <p>The Head of IS should ensure that the formalised risk management methodology is used to rate the risks in order to identify all the top risks within IS. These should then be reported to senior management team.</p> <p>It is further recommended that a formal procedure is implemented to ensure IS risks are reviewed by IS management on a regular basis and updated on JCAD. All risks should be given a Risk Rating, assigned ownership and have an action plan developed.</p>			<p>Supplier Service Reports) and reviewing risks at the weekly IS Management Team meetings. All risks are now raised on JCAD, the Council's official risk management system. Risks are rated in line with the Council's risk management policy and have assigned owners. Risks with a rating above 12 are reported to the Commercial Services Management Board monthly as part of the monthly Service performance review.</p>

## Audits 2010-11 and 2011-12 No and Limited Assurances

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p><b>Recommendation 10: Complaints</b> The Council should develop a customer relations strategy, which communicates objectives for providing good customer service. The strategy should communicate its objectives and attitudes towards reducing complaints, and how the Council intends to promote and seek feedback on positive working practices.</p> <p>In addition, internal procedures for managing corporate complaints should be developed, published on the Council's intranet, and subject to regular review. Management should consider including the following within the scope of the procedures:</p> <ul style="list-style-type: none"> <li>• Scope/definition of complaint;</li> <li>• Key roles and responsibilities;</li> <li>• How to manage the different types of complaints, i.e. corporate, social care, joint complaints between organisations, prolific or vexatious complainants, etc;</li> <li>• Timescales for dealing with complaints;</li> <li>• Training and information; and</li> <li>• Monitoring and reporting arrangements.</li> </ul>	Customer Services (Chief Executives Services)	<p>Actions were delayed by a change directed by Julie Taylor. Complaints report presented to Directors individually and to Assistant Directors Group. Policy has been devised and has been presented to Directors. It is going to be presented to the Assistant Directors Group in November for discussion and agreement. New policy will be implemented following agreement. Revised timeframe for policy implementation estimated at end of December 2011.</p> <p>Training needs analysis will be conducted after the policy has been implemented.</p>	<p><b>Partly Implemented</b> Management have taken action to inform Directors of the new Complaints Policy. However, the policy still needs to be presented and approved by the Assistant Directors Group (ADG). A meeting will be arranged with the ADG to action this.</p> <p><b>Further Action Ensure that:</b></p> <ul style="list-style-type: none"> <li>- The policy is implemented following formal approval.</li> <li>- Monitoring and reporting arrangements are in place.</li> <li>- A training needs analysis is undertaken after implementation of the policy.</li> </ul> <p><b>Revised implementation date:</b> January 2012.</p>
<p><b>Recommendation 11: Member Allowances</b> Management should review current reconciliation arrangements and agree on the frequency and method of checking members allowances to</p> <ul style="list-style-type: none"> <li>- confirm that members are receiving their correct allowances as agreed.</li> </ul>	Corporate Governance	Management began a reconciliation process with Corporate Governance. There were some errors however within the data. Support has been provided by Finance to rectify some of the reconciliation errors. Due to the delay allowances have not been confirmed and details of these allowances have not been published for 2010-11.	<p><b>Partly Implemented</b></p> <p>The reconciliation process needs to be completed and confirmation of allowances for 2010-11 agreed. The process for carrying out the checks will then need to be documented and carried out every</p>

**Audits 2010-11 and 2011-12 No and Limited Assurances**

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment December 2011
<p>- identify and rectify any anomalies, to limit any year end issues with regards to Members' allowances.</p> <p>In addition, documentary evidence of the checks carried out should be retained to indicate who preformed the checks and when.</p>			<p>six months.</p>

**AGENDA ITEM:**

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Meeting	Audit Committee
Date	8 <sup>th</sup> December 2011
<b>Subject</b>	<b>Procurement Controls and Monitoring Plan Progress Report – November 2011</b>
Report of	Assistant Director of Finance, Audit and Risk Management
Summary	Members are asked to note the Progress Report and Appendices.

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Officer Contributors	Maryellen Salter, Assistant Director of Finance – Audit and Risk Management
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A Review of the Procurement Controls and Monitoring Action Plan Appendix B Procurement Controls and Monitoring Plan RAG status Appendix C Residential and Nursing Care Review
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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Contact for further information: Maryellen Salter, Assistant Director of Finance – Audit and Risk Management - 020 8359 3167



## **1. RECOMMENDATIONS**

- 1.1 That the Committee note the progress that management has made in implementing the agreed actions against the Procurement Controls and Monitoring Action Plan.**
- 1.2 That the Assistant Director of Finance – Audit and Risk Management continue to report to the Audit Committee on the further implementation and embedding of these controls.**

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 At the Audit Committee meeting on 16<sup>th</sup> June 2011 Members agreed that the Deputy Chief Executive and Chief Finance Officer report to the Committee how these deficiencies are being addressed and the actions being taken regarding audit arrangements with suppliers.
- 2.2 At the Audit Committee meeting on the 6<sup>th</sup> September 2011 agreed that the Assistant Director of Finance – Audit and Risk Management would report to the December Audit Committee providing assurance that the Procurement Controls and Monitoring Plan has been actioned according to plan.

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

- 3.1 Having an adequate Procurement Function supports the council's priorities in the 2011/13 Corporate Plan of delivering 'better services with less money' and a 'successful London suburb'.

## **4. RISK MANAGEMENT ISSUES**

- 4.1 Without an effective procurement and contract management function there is the risk to the Council of failure to deliver value for money and having uncommercial contracts with suppliers. There are also potential safeguarding risks if adequate procurement due diligence has not been followed. The Procurement Controls and Monitoring Plan was devised to respond to identified risks.
- 4.2 Implementing recommendations is fundamental to an improved internal control environment, where risks can be managed more effectively.

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

- 5.1 5.1 The Equalities Act 2010 states that:

*Public sector organisations will be judged on outcomes and therefore have a responsibility to consider equality as part of every procurement.*

(Equality Act 2010, Part II Advancement of Equality Chapter 1 Public Sector Equality Duty Clause 149 (2)).

The duty applies to a person, who is not a public authority but who exercises public functions and therefore must, in the exercise of those functions, have due regard to the general equality duty. This includes any organisation contracted by a local authority to provide services on its behalf.

- 5.2 Pursuant to the Equalities Act 2010, the council is under an obligation to have due regard to eliminating unlawful discrimination, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation.
- 5.3 Implementation of the Procurement Controls and Monitoring Plan will ensure that the Council addresses any non-compliant contracts, taking action to ensure that all contractors comply with the general equality duty set out above.
- 5.3 The Council's Equalities policy will also form part of the formal evaluation of all future providers' proposals. Any contracts will include explicit requirements fully covering the Council's duties under equalities legislation.

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

- 6.1 The Procurement Controls and Monitoring Plan supports the delivery of value for money from procurement activity. This report notes the progress of the controls designed to improve the control environment relating to Council procurement activity.

## **7. LEGAL ISSUES**

- 7.1 Section 3(1) of the Local Government Act 1999 imposes a duty on Local Authorities to 'make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.' The Procurement Controls and Monitoring Plan would, amongst other things, assist the Council in performing the above duty as well as meeting its general fiduciary duty to the tax payer, to ensure effective utilisation and monitoring of its use of resources.

## **8. CONSTITUTIONAL POWERS**

- 8.1 The Constitution Part 3 Responsibility for Functions section 2 allows the Audit Committee the ability to monitor the effective operation of risk management and corporate governance in the Council.

## **9 BACKGROUND INFORMATION**

- 9.1 Previously the Audit Committee were given assurance by the Council's external auditors that the control weaknesses in contract management, whilst significant, are not so fundamental to result in a qualified value for money opinion (Source: ISA260 report, September Audit Committee). In addition, for the high risk areas of Adults and Children's non-compliance they found that the Council's annual inspection process for both venue and resident was in operation and provided a control over safety, quality and fraud.
- 9.2 With this in mind, work has progressed across the Council in ensuring compliance with Contract Procedure Rules (CPRs) retrospectively, and designing a control framework to enable management and Corporate Procurement Team (CPT) to effectively monitor compliance going forward. This has involved collaboration between all services. Internal Audit sought to review these pieces of work and assess adequacy of design of the controls. Testing of the effectiveness of the controls designed by Corporate Procurement Team (CPT) was not possible in some cases as there was not sufficient time for these controls to be embedded across the Council before the conclusion of this review. Therefore we could not test how well services are performing in understanding the new control framework. As a result Internal Audit will report back in April after testing the system in full.
- 9.3 There are three elements to this report:
- 1) the task that the Committee requested – the action plan and the assurances for each task (Appendix B);
  - 2) A report on other aspects of reviewing the contracts register for completeness, accuracy and validity, and from discussions with Service Leads across the Council (Appendix A); and
  - 3) A report commissioned by the Assistant Director of Finance – Audit and Risk Management following the report by management to the Audit Committee in September to review Residential and Nursing Care within Adults Social Care and Health and Children's Service.
- 9.4 Drawing upon all of these reports it is clear that there has often been a disconnect between commissioners, procurement colleagues and legal advisers in ensuring compliance with Contract Procedure Rules in the past. There is a need to continue in working together to consolidate understanding and achieve clarity of requirement. Completion of the Action Plan will only partly achieve this; a commitment to working jointly across the Council will be on-going. In addition, a major piece of work has started to centralise the procurement function across the Council and as a result of this the control environment will need to be re-evaluated once functions have been centralised.
- 9.5 Key points to note are:
- Some of the tasks within the Procurement Monitoring and Controls Action Plan were in the design phase and had not had sufficient time to embed, as such assurances will continue to be forthcoming to the Audit Committee until such

time we are satisfied that the controls are operating effectively.

- The Annual Review of Contract Procedure Rules (CPRs) will need to take into consideration the findings from our review into Residential and Nursing Care and advice from the steering group;
- Further work is required to ensure the Contracts Register is complete and accurate, with relevant information included. This piece of work will be on-going with delivery of individual Directorate Action Plans; and
- Whilst Services are working to make contracts compliant it should be structured in a way that value for money is considered equally to be achieved through this process.

9.6 Internal Audit has also included within its annual audit plan a review of contract monitoring and management with Environment, Planning and Regeneration (EPR), this will be reported to the Committee in April 2012.

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

10.1 None.

Legal: JEL

Finance: MC/JH

**London Borough of Barnet**

**Review of the Procurement Controls  
Monitoring Action Plan**

**Maryellen Salter, Assistant Director of Finance – Audit and Risk Management**

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B: Residential and Nursing Care Review

## 1. Executive Summary

<p><b>Introduction</b></p>	<p>The Audit Committee received the Annual Internal Audit Report in June 2011 where contract management was mentioned as a key theme to rectify in 2011/12. An action plan was developed by the Commercial Directorate titled ‘Procurement Controls and Monitoring Action Plan’.</p> <p>To take forward a number of these issues a working group was formed, having representatives from all directorates, to provide solutions to the recommendations.</p> <p>A Member task and finish group also continued to meet over the course of the year to discuss progress against strategic procurement.</p>
<p><b>Background</b></p>	<p>The Audit Committee received an update from officers in September discussing progress against the plan. The Committee decided that the Assistant Director of Finance – Audit and Risk Management would report back to the Committee on assurances for delivery of the actions.</p> <p>In addition, the Assistant Director of Finance – Audit and Risk Management commissioned a review of Residential and Nursing Care for commissioning services within Adults Social Care and Health and Children’s Services. This piece of work was to address the disjoint between the current contract procedure rules (CPRs) and social care purchasing.</p> <p>External audit reviewed work completed by the Council in consideration of their value for money opinion for control weaknesses in contract management. The Council received an unqualified value for money opinion in September, noting progress in implementing actions to strengthen controls in contract management. However external audit made reference to the fact the Council should carefully manage the completion of a number of current actions to improve contract management.</p>
<p><b>Corporate objectives and risks</b></p>	<p>This work supports the corporate priorities of Better Services, Less Money and Sharing Opportunities and Responsibilities.</p> <p>There is a risk that having a fragmented approach to procurement could result in a non achievement of value for money, and that appropriate safeguards are not in place for the delivery of quality in care and services/works.</p>

## Key Findings

Over the course of a six month period there has been progress made in improving controls in relation to procurement. Some of the achievements to date include:

- All over-arching actions have been in place, acting as a Statutory Oversight of the procurement controls;
- A resource plan was established for making contracts compliant in the short-term;
- A central contracts register is in place, which all services have contributed to;
- Service/Directorate action plans with trajectory of compliance has been prepared and is being monitored;
- The analysis of contracts has produced a forward plan on procurement activity;
- Weaknesses noted within Vendor Master Data controls had been rectified;
- HMRC confirmed the VAT position after review of all Metpro invoices in favour of the Council;

In addition, a Member Task and Finish group has been meeting and discussing improvements to be made in developing a strategic approach to procurement.

### **Progress:**

There has not been enough time to fully embed the monitoring role for the Corporate Procurement Team (CPT) to ensure spend is reviewed for the various thresholds within the Contract Procedure Rules (CPR), and against category of spend. Whilst the devolved model is in place the defined monitoring role at the hub is crucial in creating oversight and ensuring compliance with contract procedure rules as they now stand. It is clear some Services have been monitoring spend on an ad-hoc basis however without the clarity of purpose this will have limited effectiveness.

The detailed review of the contracts register by officers and internal audit has resulted in a better understanding of the reasons for non-compliance and hence a targeted training programme for all staff can be enhanced. At this stage the training requires further roll-out to ensure responsibility and accountability is better understood and compliance with the CPRs going forward can be achieved.

An action plan is a useful tool to remain focus for the working group, however it is important that the working group reviews the outcomes of pieces of work and redefines tasks from the feedback received. From the piece of work undertaken by management to prepare central contracts register it was clear that the current contract procedure rules were not felt to be fit for purpose in relation to social care purchasing. Contract procedure rules need to be revised to ensure flexibility and choice rather than restricting social care purchasing. As a result of this finding, Internal Audit conducted another review of commissioning behaviours to assist in developing a more appropriate framework, Appendix C highlights a number of recommendations management should consider.

Part of the quality assurance process of the contracts register was to obtain quality assurance statements from each directorate that they have an appropriate audit trail to support their contract register. We undertook to review 20% of each directorates compliant contract register



at of end of September with a view of gaining assurance on audit assertions of validity, accuracy, and completeness. Two directorates did not have an audit trail in a common location, as such we are not confident that they had carried out sufficient checks in order to sign off their quality assurance statement. As a result those two areas were requested to review their audit trails in detail and reconfirm the quality of that data. This process resulted in some contracts originally considered as compliant being re-rated as non-compliant.

In terms of having valid contracts in place Corporate Procurement Team (CPT) issued guidance that a compliant contract is one that is signed by both parties, for the purposes of collating the contracts register. Implied within that definition was that officers, by signing a contract on behalf of the Council, had followed Contract Procedure Rules. There were a number of points to address from our review of the contracts register that have been fed back to the Services to action:

- The contract register required a link to the relevant Delegated Powers Report (DPR) or Committee report seeking authorisation and acceptance in accordance with the Contract Procedure Rules, this most commonly was not recorded in the contracts register, within our sample a number of authorisations could not be located. The risk is that without this key information documented we are not able to understand whether appropriate authorisation and acceptance took place with those listed as compliant contracts. As a result of this management have taken, or are planning to take, to Cabinet Resources Committee (CRC) waivers to contract procedure rules;
- Some contracts listed as compliant were signed, however in some cases not by officers with authority to sign. This Service has now got in place an approved Scheme of Delegation to mitigate this risk;
- At the time of our review, some contracts were called-off from a framework contract however the original authority to use the framework could not be located on the Committee papers system. CPT now has a list of frameworks that they are able to call off;
- Where authorisation could be found through Delegated Powers Reports (DPRs) and Committee Reports the actual spend sometimes exceeded the contract value that was accepted and approved. In these cases either another authority should have been sought or the contract should have been re-tendered to ensure compliance with EU regulations. Action plans are in place with individual Directorates to mitigate these risks, in addition the control framework has been strengthened by placement of order limits via SAP. Any variation of these limits required approval by CPT;
- In some cases there was evidence that a tender process had been carried out and contracts had been drafted however the final document had not been kept by the Service as they said they had been forwarded to the Legal Service. In these instances, the Legal Service could not locate the signed version of the contract. Guidance has been issued on a electronic repository system and Legal Services have a case management system to mitigate instances of this occurring in the future;
- There was confusion in some Directorates on the use of purchase orders and whether they constituted a contract for spend under £25k, and whether these could be recorded as separate contracts on the contract register for public works. Within the Public Contracts Regulations 2006/9 there are quite complex procedures for calculating the

value of a contract and requirements for ensuring that contracts are not purposely split or sub-divided with the intention of trying to keep below thresholds and therefore not follow prescribed requirements in respect of the regulations. It is recommended that any future training is tailored to this area and guidance be issued in the interim;

- A number of fields within the contracts register had not been completed by Services, and some of the minimum requirements of the Code of Recommended Practice for Transparency in Local Government had not been requested from Services. For example, the Code requires publication of contract numbers, however there was not a uniformed approach to issuing a contract numbers to each new contract by CPT and Legal Services. A system will be in place to issue contract numbers for the purposes of publishing the contracts register;
- From a review of those compliant contracts, some of the Council's major contracts are owned at a manager level. Going forward there should be consideration for recording in the contracts register the operational owner of the contract and the strategic owner who has responsibility for managing the relationship and renegotiating rates.

A number of these issues noted above are historical and indicative of a control framework that did not have sufficient oversight of devolved operations. Having a fit for purpose contracts register and an effective monitoring system established within Directorates and at the corporate centre will provide an effective mechanism for achieving compliance. Protocols have been put in place by CPT to ensure that the central contracts register remains up-to-date and accurate.

### **Change in procedures**

From attendance at the Procurement Control and Monitoring Steering Group meetings in November it is clear that Directorates want a control environment that can assist them in identifying non-compliance with CPR's. Resources had been deployed by CPT to review how compliance could be best achieved under the devolved model until centralisation has occurred. The Procure to Pay (P2P) process has now been documented and designed with a view of minimising risk of non compliant and aggregated spend. This however needs to be rolled out to managers and considered in the overall training programme to ensure there is clarity on expectations. On that basis we could not carry out an effectiveness review at this stage as the system improvement had not been in place for a sufficient period of time, these elements of the Procurement Controls and Monitoring Action Plan are therefore rated as Amber. We could however test the payments cycle of the P2P process and were able to give satisfactory assurance on the operation of these controls.

In August procedures changed in relation to ordering and invoicing, the Accounts Payable team would no longer process and pay invoices for goods/services that did not contain an official SAP purchase order number. Since April 2011 there has been a 34% decrease in the level of retrospective ordering across the Council. All Directorates have received reports pertaining to their area to investigate reasons for retrospective ordering. Managers will continue to report to their Senior Management Teams on retrospective orders and the reasons for these, this will be monitored by Statutory Officers.

We carried out completeness checking for 10 vendors per Directorate for spend over £25k to check whether these were recorded on the contracts register. This type of checking is what is envisaged the monitoring role will carry out in future months. Through this process we

identified a few instances whereby the contract had not been recorded in the central contracts register either as compliant or non compliant. This evidences that procedures still need embedding for the contracts register to be considered a complete listing of all contractual relationships. Centralisation of procurement functions have begun in order to shape the future provision of procurement advice and guidance. Monitoring by category will also enable the service to best understand what that future model should look like in order to provide better value for money and extract further savings and efficiencies. The centralisation process is still in its infancy stages and is expected to materialise by June next year. The Action Plan that was agreed by the Audit Committee will need to evolve as further information is gathered through this centralisation process as controls in place now may not be appropriate under a centralised model.

**Conclusions**

Work has progressed with the action plan, and it is clear that all Directorates have contributed to the effort, however there needs further roll-out and embedding of the control environment in particular for the monitoring arrangements.

In addition, there is a clear need to redefine social care purchasing and work with those areas to reach a model that ensures flexibility in choice for service users and doesn't become over-restricted. Our recommendations included within Appendix C have been provided to management to consider when reviewing the Contract Procedure Rules.

Overall, the Council needs to consolidate all of its work so far and continue to collaborate across Directorates to achieve the necessary control framework that is well understood and engrained within the culture of the organisation.

<p><b>Management Comments</b></p>	<p>Management have agreed a Contract monitoring framework, which is available on the Intranet. This framework illustrates to the Council the monitoring roles, processes and timelines for monitoring all contracts that have a minimum value of £25k. As this framework has just been agreed there has not been enough time to fully embed a transparent monitoring role for the Corporate Procurement Team (CPT) to ensure spend is reviewed for the various thresholds within the Contract Procedure Rules (CPR), and against category of spend. Though it's important to stress that prior to the framework being agreed, CPT have demonstrated their monitoring role at a corporate level as being crucial in creating oversight and ensuring compliance with contract procedure rules as they now stand.</p> <p>The detailed review of the contracts register and collaboration working between CPT, Service Areas and Legal Services has resulted in a better understanding of the reasons for non-compliance within a devolved procurement environment. To support procurement in accordance with Contract Procedure Rules a procurement training programme for all staff was rolled out in September/October. Going forward, training is being arranged for those that were unable to attend previously and an in-house training portal will support varying levels of procurement training exercises from new starters to advanced users</p> <p>Whereas six months ago there was no Corporate Contracts Register, CPT are now able to report on the number of Contracts (£25k and above) that are held by the Council, the value of contracts and a forward plan of procurement activity. In addition, procedures are in place so that compliant and non compliant contracts are reported on a weekly basis. Via forensically reviewing each non compliant contract CPT have also devised a trajectory of non compliance so the Council can estimate when zero non compliance will be reported</p> <p>CPT has worked in partnership with Legal Services and Service Areas to identify the levels and area of resource required to support compliance work. Via this partnership work CPT have been able to identify, appoint and allocate dedicated resource to enable Service Areas with the technical expertise required to support compliant work. By extracting this information CPT are able to support Service Areas in taking a strategic view of their approach towards managing existing contracts and procuring future contracts.</p>
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## **2. Statement of Responsibility**

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

	Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
Over-arching theme	Establish compliance with corporate systems as key measure of senior officer performance.	<ul style="list-style-type: none"> <li>Include a 2011/12 personal objective of compliance with all corporate governance systems and procedures for Directors, Assistant Directors and Heads of Service.</li> </ul>	JMcG	Internal Audit testing confirmed Corporate Management Group (CMG) included an objective for corporate governance, for those who had an appraisal completed.	Green	
Over-arching theme	Introduce Directorate Annual Governance Statement	<ul style="list-style-type: none"> <li>Directors to sign Annual Governance Statement for each Directorate to support corporate Annual Governance Statement.</li> </ul>	MO	All internal control areas and AGS issues will be included in Directorate risk registers, in addition key lead officers will be providing assurance half yearly to statutory officers on key control areas. Process was approved by Statutory Officer's in September and has been in operation since October.	Green	
Over-arching theme	Governance monitoring at Statutory Officers Group	<ul style="list-style-type: none"> <li>Monitoring of governance framework at Statutory Officers Group, including monitoring of the implementation of internal audit report recommendations.</li> </ul>	CE	Procurement Controls Action Plan standing item on Statutory Officer Group Agenda. Audit Recommendations are also reviewed on a quarterly basis.	Green	
	1 Contract Procedure rules should be followed by all services to procure works, supplies and services.	<ul style="list-style-type: none"> <li>Write to all Directors, ADs, and Heads of Service reiterating requirement for compliance with Contract Procedure Rules, enclosing this action plan.</li> </ul>	DCE	Communication sent	Green	

	Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
		<ul style="list-style-type: none"> <li>· Arrange training programme with mandatory attendance for all relevant officers.</li> </ul>	MiS/CC	Training has been arranged however low attendance noted and a number of sessions were cancelled due to sickness absence. Mop up sessions have been arranged by CPT covering those staff not previously trained, non attendance to result in functionality in SAP being switched off.	Green	
	A SAP solution should be explored by Corporate Procurement team to enter vendor limits in accordance with the contract procedure rules thresholds.	<ul style="list-style-type: none"> <li>· Amend SAP and associated system to control and monitor spend in line with CPRs .</li> </ul>	AG	System improvements not requiring re-programming identified. Logica proposal received for Business Warehouse reporting enhancements. Solution will not be received for another 12 weeks, therefore interim solution needs to be determined. IS has developed reports for use in Services - 1) purchase order report, 2) Block vendor set-up and 3) aggregated spend, these can all be used by services now. How-to guides and training needs to be developed around these reports.	Amber	Implemented for new vendors. Solution created in-house. Solution is permanent and means Logica package is not needed, resulting in savings of up to £54,660. Guidance is being prepared and reports are being finalised Should be in place by date of Audit committee.
			MiS	Resources plan was approved by the end of August, this will need to however take account of additional training requirements recognised by the Services.	Green	
2	Formal written contracts should be established for all services commissioned by the Council as required by the Contract Procedure Rules.	<ul style="list-style-type: none"> <li>· Put in place contracts for all current spend for all vendors where spend exceeds £25k and no contract currently in place.</li> </ul>	Ds/ADs	All Directorates established local contracts registers for all compliant and non compliant contracts.	Green	
			MIS/HJK	A forward plan has been drafted with the following: <ul style="list-style-type: none"> <li>· a pipeline of procurement activity for the remainder of this FY</li> <li>· Pipeline of activity for FY12/13</li> <li>· Number of OJEU Procurement Projects</li> <li>· Number of Non OJEU Projects</li> <li>· Risk assessments and RAG statuses on both to prioritise projects</li> </ul>	Green	

	Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
				<ul style="list-style-type: none"> <li>Possible frameworks available to limit/reduce procurement activity and speed up project delivery</li> </ul> Exit strategies to be reviewed with each Service Area as part of Action/Forward Plan	Green	
		<ul style="list-style-type: none"> <li>Institute key control whereby new vendor records cannot be set up without confirmation of CPR compliance .</li> </ul>	MiS	Procurement now authorise and set up all new vendor requests	Green	
3	All directors should maintain a complete register of contracts as required by the current Contract Procedure Rules (CPR). This should assist with the completion of a Corporate contract register, which should be placed on the Council's internet to meet the transparency agenda.	<ul style="list-style-type: none"> <li>Directors/ADs to submit service scheme of delegation and contracts register to AD Commercial Assurance .</li> </ul>	Ds/ADs	All schemes of delegation received from all directorates. As per the financial regulations each Corporate Director is required to maintain a scheme of financial delegation in accordance with the minimum standards as determined by the Chief Finance Officer as Section 151 Officer or Nominated Deputy, and which accords to the financial limits included within the overall scheme of delegation and contract rules. Schemes of delegations were formally approved.	Green	
		<ul style="list-style-type: none"> <li>Directors/ADs to compile and hold audit trail for all entries on contract register .</li> </ul>		Internal audit reviewed 20% of each Directorate's contract register and agreed to a valid contract and that there was an audit trail, i.e. for each contract the contract was either obtained in a central location either in hard copy or soft copy. This would have been collated as part of the quality assurance procedures of each Directorate. All Directorates who were found not to have an audit trail were requested to re-submit quality assurance statements.	Green	



Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
Corporate Procurement should undertake an oversight function to ensure that contracts are in place where expenditure in Services exceeds the stipulated CPR thresholds. Complete and accurate Directorate contract registers should enable this monitoring to take place.	<ul style="list-style-type: none"> <li>Validate completeness of contract registers by cross-checking 2010/11 and 2011/12 to other data sources .</li> </ul>	Ds/ADs	Completeness checking is still on-going by Corporate Procurement Team. A monitoring role has been established by Corporate Procurement that has been process mapped this is to be rolled out to services so that expectations are clear.	Amber	The Contracts register is a live document therefore completeness checking will ongoing. Services will report contract activity on a monthly basis and this will be cross checked and validated by procurement. The monitoring role has been defined within Contracts Register Protocols and a process map to support has been developed.
	<ul style="list-style-type: none"> <li>Compile corporate contract register from service contract registers as amended.</li> </ul>		First corporate contracts register is now in place.	Green	
	<ul style="list-style-type: none"> <li>Notify all vendors £25k plus with no contract that service will be market-tested in accordance with CPRs.</li> </ul>	MIS	There has been agreement that vendors are to be treated on a case by case basis. Formal agreement sent to Steering group as confirmation. Letter has been drafted and sent to Services for them to send out to those suppliers being market tested.	Green	
	<ul style="list-style-type: none"> <li>Forward all contract documents to Head of Legal to be held in corporate repository.</li> </ul>	Legal	Protocol for the repository has been determined and sent to Services as agreed process, some contracts have been sent for inclusion on repository however not entirely complete.	Amber	Protocols for uploading contract documentation has been issued to all Services. IS will provide access to the repository when requested to by services. Services are in the process of scanning and uploading contracts into the repository. This will be an ongoing process and more contract are re-tendered and this will be monitored by CPT on a monthly basis
	<ul style="list-style-type: none"> <li>Publish corporate contracts register.</li> </ul>	CPT	A list of all compliant contracts issued since January 2011 has been collated from the Central Contracts Register and has agreed to be published.	Green	
	<ul style="list-style-type: none"> <li>Establish, document and monitor updating arrangements.</li> </ul>	Legal	Final guidance has been issued by Legal and Procurement on requirements for updating repository. Limited information has been included on the repository to date.	Green	
4 A fit for purpose contract service specification should be developed for tender evaluation purposes and monitoring service delivery.	<ul style="list-style-type: none"> <li>Complete tendering of corporate security contract in line with CPRs.</li> </ul>	CC	Tender exercise for Security Services underway and progressing. Tenders received and are been evaluated.	Green	

	Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
5	The Corporate Procurement Team should establish a process for identifying and monitoring expenditure by category by service across the Council to ensure that current levels do not exceed Contract Procedure Rule limits.	<ul style="list-style-type: none"> <li>Establish monitoring of corporate vendor limits in SAP.</li> </ul>	MIS	There has been guidance issued on how the Director of Commercial Services will carry out monitoring expenditure by category in the interim whilst reporting enhancements are pending. However these arrangements are not considered embedded.	Amber	Report to monitor spend by category have been produced and CPT will be actively monitor spend on category and with supplier. Limit orders are now in place on SAP and have been tested in a live environment to demonstrate that spend beyond set limit will not be available. CPT will need to authorise all such requirements to spend beyond initial contract limits set.
6	<p>Independent checks of amendments to key Vendor Master Data records, such as bank data, should be undertaken routinely for an appropriate number of records.</p> <p>Checks should ensure that appropriate checks are made to confirm details and validity of the requested changes from related parties.</p> <p>Management should retain all supporting data for vendor set-up and amendment checks. In particular, necessary records to confirm the checks undertaken for amendments for key data fields, such as Bank details, should be retained.</p>	<ul style="list-style-type: none"> <li>Review, amend as necessary, and monitor procedures for amending vendor master data</li> </ul>	MIS	Master file vendor approval form updated to include additional checks. VAT and company details checked for all new vendor requests prior to approval and set up. The Accounts Payable audit included within the scope to review all of these areas to give assurance that this control was implemented, PwC reviewed these processes and confirmed as implemented.	Green	
7	There should be review carried out to calculate the exact figure the Council has overpaid VAT on this vendor, and immediately contact HMRC.	<ul style="list-style-type: none"> <li>Resolve Metpro VAT issue in conjunction with HMRC.</li> </ul>	MC	HMRC were sent all invoices pertaining to the Metpro companies for them to independently review VAT compliance. They confirmed that these were complaint for VAT purposes.	Green	
	Officers should, as standard, refer all name changes on supplier's invoices to the Central Procurement Team who should obtain the advice of the VAT officer for confirming compliance with the VAT regulations before a change can be processed	<ul style="list-style-type: none"> <li>Procedures for establishing and amending vendor master data to cover VAT status.</li> </ul>	MIS	Reviewed as part of accounts payable audit and achieved satisfactory assurance.	Green	

	Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
	Training provided to officers should focus on the implications of name changes on supplier's invoices and how those should be addressed for the purpose of compliance with the HMRC's VAT requirements.	<ul style="list-style-type: none"> <li>Include VAT issues in mandatory training .</li> </ul>	MiS	Training was given to Finance staff specifically by the VAT officer. VAT was included within training however as mentioned above overall training needs completion by those in scope.	Green	
8	Contract extensions should be undertaken in line with CPR requirements.	<ul style="list-style-type: none"> <li>Directors/ADs to amend contract registers in respect of all extensions and variations, forwarding amended contract documents to Head of Legal and Head of Procurement .</li> </ul>	Ds/ADs	All service now have a contracts register, with quality assurance on-going and actions plans now in place. All action plans have varying degrees of delivery for compliance, this is subject to weekly reporting.	Green	
	Changes to conditions of service should be formally documented for referral by all parties who may be required to certify delivery and payment.	<ul style="list-style-type: none"> <li>Directors/ADs to hold audit trail for all extensions and variations .</li> </ul>	Ds/ADs	All services have confirmed quality assurance has taken place on their contract registers and an audit trail is in existence.	Green	
9	Standard practice should be re-enforced through-out the Council, specifically:					
	<ul style="list-style-type: none"> <li>Changes to contract terms should be formally approved and documented for referral by those involved in certifying delivery per invoice.</li> </ul>	<ul style="list-style-type: none"> <li>Purchase orders to be raised against all formal contracts</li> </ul>	Ds/ADs	All services were advised of changes in processes for having approval of invoices, requiring a purchase order. We reviewed arrangements prior to, and after, August when the changes took place. Within the Internal Audit sample there was a 33% improvement in retrospective orders from pre to post August. Whilst this Direction of Travel is positive there will need to be focus by Services to reach the desired compliance with Financial Regulations. Reports are prepared for management to investigate non compliant with financial regulations. We will continue reporting back to the Audit Committee on this aspect.	Amber	This process in place and is being monitored monthly and now be reported to the Statutory Officers Group monthly.
	<ul style="list-style-type: none"> <li>Invoices should be initialled as evidence of confirmation of service delivery in line with current terms and calculation check</li> </ul>	<ul style="list-style-type: none"> <li>Directors/ADs to hold evidence of service delivery and record on SAP against purchase order .</li> </ul>	Ds/ADs	The goods receipt system is a three way match between order, invoice and goods receipt note. This process negates a need to physically note on invoices service delivery.	Green	

	Actions	Tasks	Lead Officer	Internal Audit Assessment	RAG	Management Comments
	<ul style="list-style-type: none"> <li>Supporting documentation should be provided to evidence service delivery.</li> <li>Delivery should be confirmed with officers who are able to comment on delivery as part of their respective role.</li> <li>Purchase orders should be approved and before delivery of the service to ensure that expenditure is valid and in line with agreed terms.</li> </ul>	<ul style="list-style-type: none"> <li>Invoices to be paid against goods-receipted purchase orders only .</li> </ul>	MC	Invoices cannot be paid on SAP unless there is a three way match between invoice, order and goods receipt note. This was tested satisfactorily in recent review of accounts payable.	Green	
10	<ul style="list-style-type: none"> <li>Directors/Heads of Service must ensure that systems are in place to manage and monitor contracts</li> </ul>	<ul style="list-style-type: none"> <li>All contracts to be monitored, with arrangements documented in service schemes of delegation</li> <li>Directors to report compliance with scheme of delegation through monthly performance monitoring process</li> <li>Performance monitoring - Format and to whom this should be reported to be determined</li> <li>Contract monitoring - Guidance and training required for contract monitoring to be put in place</li> </ul>	<ul style="list-style-type: none"> <li>Ds/Ads</li> <li>Ds/ADs</li> <li>MiS/CA</li> <li>MiS</li> </ul>	<p>All Services have a Scheme of Delegation in place, however they have only recently received guidance on expectations on contract management and monitoring. Training discussion is taking place on what is expected of Directors and Assistant Directors.</p> <p>Directors and Assistant Directors, since July, are monitoring contracts through their monthly monitor. Reports on spend is currently being undertaken on a ad hoc basis, guidance has established what is the best practice will be going forward but this has not been in place for enough time for us to sufficiently assure ourselves it is embedded.</p>	Amber	Procedures have now been developed and are being rolled out with a training programme to build up expertise across all services.
<p>Initials: JMcG – Jacquie McGeachie, MO: Monitoring officer, CE: Chief Executive, DCE: Deputy Chief Executive, MiS – Mick Stokes, CC – Craig Cooper, AG – Andrew Gee, HJK – Haroon J Khan, MM – Margaret Martinus, MC – Maria Christofi, SS – Sheila Saunders; CA – Colin Atree; Ds/ADs – Directors and Assistant Directors</p>						

# *Nursing and residential care review*

## London Borough of Barnet

Review of purchasing arrangements for nursing and residential care

15 November 2011

DRAFT



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## Introduction

The Annual Internal Audit Report of June 2011 identified contract management as a key theme for the Authority to address in 2011/12. An action plan was developed by the Commercial Directorate entitled “Procurement Controls and Monitoring Action Plan”.

PwC was commissioned to undertake a review of social care purchasing to examine the reasons why there is a disconnect between social care purchasing and compliance with the Authority’s Contract Procedure Rules (CPR), and to make recommendations for improvement. The CPR are attached to this report as an Appendix.

The review focussed on placement based contracting in the context of special educational needs (SEN); residential care for children; and residential/nursing care for adults. The Terms of Reference outlines the details of our scope and is set out in the Appendix to this report. PwC would like to thank all those who contributed to this review (listed in the Appendix to this report) for their support, which contributed to our understanding and the outcomes of this review.

## Executive Summary

We considered the following main supplier contracts for residential and nursing care in children and adults social care:

<b>Adults</b>	BUPA Care Homes Ltd
	Caretech Community Services
	Dimensions Ltd
	Jewish Care
<b>Children</b>	Cornerstone Care Homes Ltd
	Ethelbert Specialist Homes
	Integrated Services Programme

We facilitated a focus group/workshop to help us to understand:

- a. How the Authority interacts with its customer (and how this drives commissioning behaviours);
- b. How the Authority interacts with its suppliers (and how this drives contract and supplier relationship management); and
- c. How the Authority manages both interfaces (the ability to reconcile the differences between (a) and (b) above in terms of corporate compliance and commercial logic).

From this, we sought to identify recommendations that might be made in order that commissioners might be compliant with the Authority’s procurement rules and yet still have the flexibility they need. Our findings and recommendations are set out in the table below.

The most significant point that came out of this review is that the bulk of social care provisioning (and all of the contracts considered as part of this review) is delivered through the placement of Individual Placement Agreements (IPAs) from framework



agreements. The practitioners that were part of the focus group were unsure what their obligations were under the CPR in respect of these IPAs. Consequently, the majority of our recommendations relate to improving clarity in this area. That clarity can be achieved primarily through skills development and communication together with some re-writing of the CPR. This will necessitate commissioners, procurement colleagues and legal advisers working together to consolidate understanding and achieve clarity of requirement.

## *Findings*

### *How the Authority interacts with its customer (and how this drives commissioning behaviours)*

In both children and adults services, once eligibility criteria are satisfied, service user choice is a high priority. This is especially true of SEN where parents are legally entitled to specify their preferences for placements and for adults where the plurality of the market - 220 block beds plus 350 other placements – means that user choice is considerable.

Choice is not unfettered, however. Each service balances user choice against available resources and in the context of their professional opinion of what is best for the service user, taking into account all the appropriate regulatory and statutory obligations which their respective services demand. Sometimes placements are court ordered e.g. SEN and children and so the decision is taken away from them.

It was clear that the commissioners have to navigate a complex legal and regulatory environment when making placements. Special meetings are convened to discuss user needs and placement options. Minutes are taken and an audit trail is preserved.

### *How the Authority interacts with its suppliers (and how this drives contract and supplier relationship management)*

The social care provisioning considered as part of this review, and indeed in the majority of instances, is delivered through the placement of IPAs from framework agreements. A framework agreement is an agreement with providers which sets out the terms and condition under which contracts (“call off contracts”) will be awarded throughout the term of the agreement. An IPA is a call off contract. A framework agreement can be with a single supplier or with multiple providers but the protocol for placing IPAs is the same. The framework agreement provides the mechanism for separate IPAs to be made in respect of named individual service users. Each IPA is based on the terms and conditions of the framework agreement but contains specific requirements tailored to the needs of the service user. Each IPA is terminable in its own right without terminating the framework contract or any other IPA placed.

The adult residential/nursing care market has grown organically over the years, but now the Authority is beginning to use the weight of its purchasing power to influence the market and, in particular, to negotiate rates. An old block contract dating back to 1996 and the issues raised by the Pembrokeshire<sup>1</sup> judgment have been challenges but the service is working with an external organisation to analyse the unit costs, markets and demand with a view to creating a new framework agreement and purchasing strategy for adult residential and nursing care.

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<sup>1</sup> R (on the application of Forest Care Homes Ltd and others) v Pembrokeshire County Council. A successful application for judicial review in respect of a local authority residential care home, with the Administrative Court finding that the defendant local social services authority had erred in law in a number of respects in how it had set the fee rate that it paid to independent residential care homes in respect of residents which it had placed there.

Conversely, the children's service places relatively few numbers in externally provided residential care (just 21 children). As a consequence the service negotiates every single placement individually and never just accept the rates set out in the framework agreement. The same applied for SEN where the individuality of children's needs facilitates bespoke negotiation.

Contracts in all instances are reviewed annually. Care plans are obviously reviewed much more frequently and to the extent that they reveal any issues with the provider, then the Authority will inspect or undertake further monitoring.

*How the Authority manages both interfaces (the ability to reconcile the differences in terms of corporate compliance and commercial logic)*

There is no doubt that the professional judgement of care practitioners is very important. Placement teams keep a handle on budgets and social workers keep an eye on users' care plans. The two teams work together to ensure that changes made operationally are reflected contractually and vice versa; and that invoices raised are validated accordingly. There is recognition that performance management of contractors' performance outside of care plan provisioning, for example, in relation to achievement of KPIs is an area for development going forward, especially in relation to residential/nursing care for adults.

The focus group identified some issues with the CPR:

- What authorisation is required for "business as usual" placement work? What does paragraph 7 of the CPR mean in this context?
- How do practitioners determine contract value for IPAs?
- Contracts over £156,422 must be sealed – does this mean IPAs?
- SEN is not specifically mentioned, although "social care and temporary housing" is.
- As social care procurement is "Part B" purchasing the CPR is not clear about what should happen.
- The Authority requires a performance bond which is not always appropriate.
- Practitioners are working at arm's length from legal services and corporate procurement colleagues, when sometimes their input and support are required.

The aim of the CPR is expressed as being threefold:

- *"To ensure value for money and propriety in the spending of public money;*
- *To enable services to be delivered effectively and efficiently without compromising the Council's ability to influence strategic decisions;*
- *To ensure that the Council is not exposed to necessary risk and likelihood of challenge arising from non compliant tendering activity."*<sup>22</sup>

So it is clear that financial prudence and operational effectiveness are as important as compliance with procurement law. What is not clear, however, is how those drivers translate into the social care commissioning context.

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<sup>22</sup> Contract Procedure Rules May 2011, paragraph 1.3

## Recommendations

### Commentary

### Recommendations

**Finding:** *There is a lack of clarity amongst practitioners on how to apply paragraph 7 of the CPR to placement contracts.*

Social care provisioning is delivered through the placement of Individual Placement Agreements (IPAs) from an overarching agreement with a particular provider of residential/ nursing care. This overarching agreement is a form of framework agreement. A framework agreement is an agreement with one or more providers which sets out the terms and condition under which contracts (“call off contracts”) will be awarded throughout the term of the agreement. So long as the framework agreement has been appropriately procured in compliance with procurement law, the call off contracts (IPAs) do not need to be separately procured. They do, however, need to comply with the rules on frameworks (regulation 19 of the Public Contracts Regulations 2006).

The Authority should consider amending the CPR to cross refer paragraph 7 to paragraph 6.9 Framework Agreements and provide clarity regarding call off contracts in social care. CPR does not apply to IPAs in the context of procurement law. However, to the extent that authorisation is required to ensure financial probity, the CPR should make clear what practitioners are obliged to do (if anything) in respect of IPAs.

Staff using IPAs should be trained so that they understand what contracts need to be procured and how to use framework contracts, particularly if they are established by organisations other than the Authority.

Social care professionals, legal and procurement colleagues should work more closely together to understand the strategic importance of framework agreements and update/clarify the CPR to reflect expected practice.

**Finding:** *There is also a lack of clarity about the required procedure for “Part B” contracts generally*

“Part B” services within the definition of the law are not subject to the full rigour of procurement law, although some parts will still be relevant. In particular, a sufficient degree of advertising and due process to satisfy EU principles of transparency, non-discrimination and equal treatment, mutual recognition and proportionality may still be required. As a broad rule of thumb, the higher the value of the contract, the more attractive it is likely to be to the market and so it is more likely that the procurement for such contracts will be challenged and found to be wanting if those principles have not been complied with. Paragraph 7 of the CPR attempts to do this by only requiring formal tendering for contracts over £500,000 as it is a matter for each authority to set its own procedures for Part B services.

The Authority should consider amending the CPR rules to make it clear that the Part B procurement rules will apply to one off contracts over the £500,000 limits, not IPAs.

Framework agreements for Part B services must also follow regulation 19 of the Public Contracts Regulations 2006.

Are there many contracts of this magnitude in the social care context which are not framework agreements?

Communication and training plus support from legal and procurement colleagues will improve understanding.

**Commentary****Recommendations**

**Finding:** Paragraph 7 of the CPR makes special provision in relation to social care and temporary housing contracts but not SEN

SEN contracts exhibit similar hallmarks to social care placement contracts, insofar as they are predominantly based on a central framework of provider(s) where the needs of an individual service user are dealt with in an IPA.

The provisions of paragraph 7 of the CPR (once amended) should be extended to cover SEN contracts also.

**Finding:** Contracts with a value exceeding £156,422 must be made under seal unless the Assistant Director – Legal specifies otherwise. There is a lack of clarity amongst practitioners as to when/whether it is necessary to have contracts sealed; and when contracts are sealed, the process causes complication/delay.

Subject to any legal advice to the contrary, framework agreements should usually be sealed.

At the time an IPA is placed, the annual value of the contract may be less than the threshold, in which case it does not need to be sealed. However, over the course of the placement, the total paid to the contractor could very easily exceed the threshold. Is it expected that once an individual IPA starts to exceed £156,442 that it should be sealed? The CPR is not clear what the obligation is.

The sealing of documents has legal significance and must be affixed to those documents which in the opinion of the Authority's legal advisers (in accordance with standing orders) should be sealed. However, other authorities have applied significantly higher thresholds, where sealing is mandatory – e.g. Essex County Council (£1m); LB Brent (£500k) and the Authority may wish to consider a higher threshold.

Advice should be sought from the Assistant Director – Legal as to the position regarding IPAs that exceed the threshold over their lifetime.

**Finding:** The standard terms of contracting require the provision of a performance bond by the contractor

A performance bond ensures payment of a sum of money in the event that the contractor fails in the full performance of the contract e.g. through insolvency. The monies are used by the client to complete the contract e.g. in works/construction contracts so that the client is not out of pocket. In social care purchasing, failure of the contractor usually means that the service user is moved to another facility and carries minimal financial exposure. Consequently, a performance bond may not always be required. Additionally, because a performance bond is underwritten by an independent bank or insurer, it represents an additional overhead of the contractor, the cost of which is simply passed back to the Authority as part of the fees.

The Authority should consider reviewing the blanket application of a requirement for performance bonds as they are unlikely to be appropriate in every case and in a social care context may not be relevant at all.

Some indication from the focus group was that waivers were capable of being granted and had been so granted in previous instances. Clarity of the position would be beneficial. For example, LB Brent requires a performance bond only for contracts over £500,000 unless the Director of Finance agrees otherwise.

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# *Appendices*

- Terms of Reference for this engagement
- Contract Procedure Rules
- Attendees at the workshop were:
  - Maryellen Salter
  - Karina Umeh
  - Eryl Davies
  - Jo Pymont
  - Claire Sloan
  - Ashley John
  - Val White





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