

The London Borough of Barnet

Annual Internal Audit Opinion

2017/2018

July 2018

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Introduction

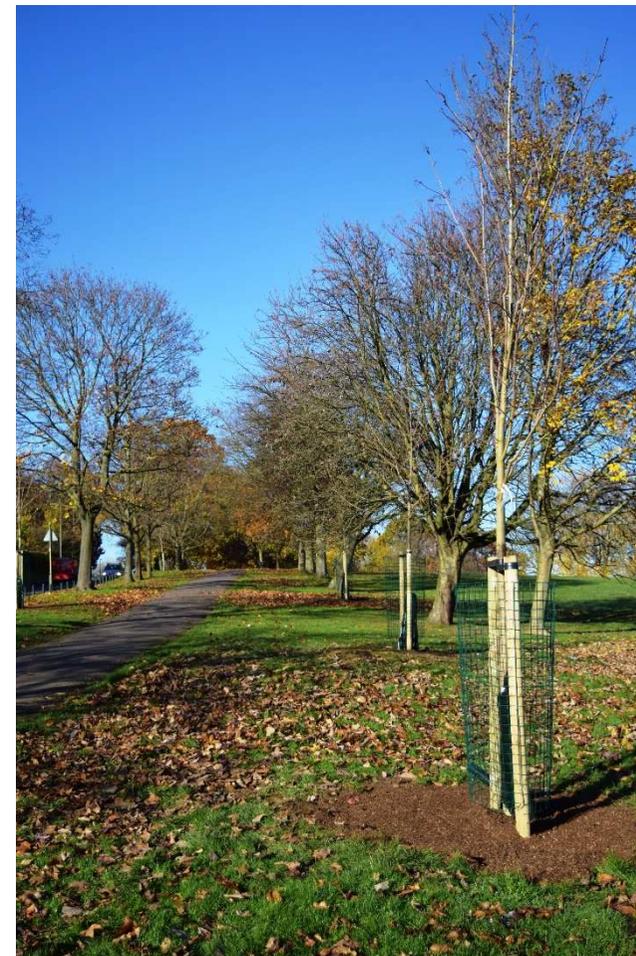
This report outlines the internal audit work carried out for the year ended 31 March 2018.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

Internal audit work was performed in accordance with the Public Sector Internal Audit Standards.

Head of Internal Audit opinion

I am satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute.



Executive summary (2 of 4)

Opinion

Our opinion is as follows:

Limited Assurance

There are significant weaknesses and non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk.

Major improvements are required to improve the adequacy and effectiveness of governance and control compliance. Please see our Summary of Findings in Section 2.

Direction of travel

2016/17 annual opinion:

Reasonable Assurance



An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Where applicable, any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the organisation's audit needs have been covered to date.
- Consideration of third party assurances.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

We completed 49 internal audit reviews and 24 schools audits during 2017/18. This resulted in the identification of 0 critical, 27 high, 143 medium and 88 low risk findings to improve weaknesses in the design of controls and/or their operating effectiveness. Although examples of good practice were identified through audit work performed this year, in comparison with 2016/17 there are an increasing number of areas of weakness and non-compliance in the framework of governance, risk management and control which potentially put the achievement of objectives at risk. We also noted a decrease in the extent to which staff were willing to engage with audit requests and provide deliverables in a timely manner. This led to prolonged periods of engagement in the case of some audits and an increase in audit delivery costs.

The key factors that contributed to our opinion are summarised as follows:

- An increasing number of high risk and medium risk findings relate to the financial management practices in place at the Council, specifically those around income and expenditure monitoring. A failure of the control environment around financial management could significantly exacerbate the already extensive financial pressures on the Council and increases the risk of fraud. A significant internal fraud issue was identified at the Council during 2017/18; a criminal investigation is ongoing in relation to this matter but it highlights the risks that can crystallise if the lines of defence are not appropriately designed or operating as intended.

Executive summary (3 of 4)

Commentary (continued)

- Governance issues were noted across a number of audits: roles, responsibilities and reporting lines were not consistently defined or understood, leading to gaps in delivery and oversight. A particular focus for the coming year will be on improving financial governance including financial delegations and controls.
- There has been a significant increase in the percentage of audit reports receiving an overall rating of “limited” (from 11% in 16/17 to 25% in 17/18), and a corresponding decrease in the percentage of audit reports receiving a “reasonable rating” (from 78% in 16/17 to 61% in 17/18). This represents a clear weakening of the control environment at the Council.
- Data quality and integrity issues were found in a number of areas, relating to performance and staff data (as opposed to resident data). With the introduction of the General Data Protection Regulation (GDPR), there will be an increasing level of public scrutiny of data processing and protection, and the potential legal and reputational repercussions of control failures in this area are significant.

Additional considerations which impacted upon the 2017/18 internal audit planned programme of work and therefore the annual opinion were:

- Ofsted undertook an inspection of services for children in need of help and protection, children looked after and care leavers, and review of the effectiveness of the Local Safeguarding Children Board from 24 April 2017 to 18 May 2017. Ofsted judged these services to be ‘inadequate’ and made 19 recommendations for improvement. As a result of this, planned 2017/18 internal audits in Family Services were put on hold and instead, an embedded assurance approach was adopted to provide assurance over the implementation of improvement activities.
- A number of planned key financial systems audits were removed from the audit plan to avoid confusion or duplication with the review of controls separately commissioned by the Chief Finance Officer in response to the significant fraud issue identified during the year.
- As reported to the Policy and Resources Committee in June, the Council’s revenue outturn position for 2017/18 was £13.5m overspent. At quarter 3, the forecast position had been £6.6m overspent. The increase in overspend by quarter 4 was analysed in the Financial Monitoring Report outturn to Financial Performance and Contracts Committee in July.

Executive summary (4 of 4)

Commentary (continued)

This year the Council has had to manage continued financial pressures, which will continue in the medium term. A variety of external issues have added to the pressures on the Council. Recent concerns around the financial sustainability of major external service providers and aspects of their performance mean that there is an increased risk of significant service failure and a need for the Council to be able to react quickly and flexibly to changes in its operating environment.

In this challenging environment the outcomes of internal audits show that there has been a weakening of the organisation's control framework, with an increasing number of findings which demonstrate weaknesses and non-compliance in the framework of governance, risk management and control.

The Council needs to identify and achieve further significant savings over the coming year and to fundamentally change its financial management culture to support that process. This will lead to further pressure on resources and unless the gaps identified in the control environment during 2017/18 are addressed, there is a risk that the Council's ability to manage risks in the short and medium term will further reduce, putting the achievement of the Council's corporate objectives at risk.

Internal Audit Quality Assurance and Improvement Programme

The Council's internal audit function has continued to develop in 2017/18: a summary of performance and a self-assessment against the Public Sector Internal Audit Standards can be found at Appendix 4. Risk ratings for schools audits have now been aligned with the revised scoring framework for all other internal audit activity, ensuring consistency of approach and interpretation across the internal audit plan. Continued collaboration with the Corporate Anti-Fraud Team (CAFT) has informed the audit approach and increased the focus on high fraud risk areas for the Council through a number of joint reviews. Progress has also been made against recommendations from the Internal Audit Peer review exercise undertaken in 2015/16 and this is set out in Appendix 6.

Implications for next year's plan

The 2018/19 internal audit plan is a live document, which is being reviewed in line with the emerging findings of the fraud investigation and key financial systems reviews carried out by the Chief Financial Officer to ensure that the areas of highest risk to the Council are at the forefront of the plan.

Acknowledgement

We would like to take this opportunity to thank the Council and its partners, in particular Customer Support Group (CSG) and Re staff, for their co-operation and assistance provided during the year.

Summary of findings (1 of 9)

A summary of key findings from our programme of internal audit work for the year is recorded in the table below:

1) Financial control and fraud risk

Internal audits undertaken during the period, including audits of key financial systems, demonstrated a weakening of the financial control environment. This included a number of areas where evidence could not be provided to confirm that basic fraud prevention controls were operating including segregation of duties for transaction approvals and reconciliations, proactive review of areas with a high fraud risk due to value or known issues, and user access to the key financial system of Payroll.

During 2017/18 the Council has been dealing with a significant financial fraud issue. This matter came to light late in December 2017 and the Council responded immediately with the following actions: a criminal investigation commenced immediately by the Corporate Anti-Fraud Team (with relevant support where required from the Police); the suspect was suspended from work immediately and shortly after dismissed; and stringent additional emergency financial controls were immediately put in place to safeguard the council's finances until a full review could be undertaken. An independent review of financial control and financial forensic analysis was commissioned and Grant Thornton were appointed to undertake this review.

Examples noted in the course of our testing

Accounts Payable - Automated controls within the finance system Integra to prevent duplication of invoice details have not historically been very successful and were not sufficiently robust. Detective activity to identify duplicate payments using the National Fraud Initiative (NFI) data matching exercise and within the Accounts Payable team did not operate in 2017/18. Management were also not able to evidence segregation of duties in the preparation of Accounts Payable BACS reconciliations.

Accounts Receivable - Management were not able to evidence segregation of duties for a small number of write-offs within our testing sample. We also found that the majority of unallocated receipts held within a suspense account within our testing sample had not been investigated, and that where receipts had been investigated, information found was not followed up or resolved. We found that aged debt was not consistently chased in accordance with the agreed process.

S106 / CILs expenditure - We found that there was a lack of clarity around expenditure information in the S106 monitoring schedule and it was not clear whether funds had been spent within required time periods, leading to a risk that they could be reclaimed. There was no clear audit trail to confirm that administrative CIL expenditure had been in line with the legislative requirements, or that expenditure which was designated as administrative specifically related to CIL administration. We also found that funding relating to CIL administration expenditure had been carried forward from 2016/17: this was not compliant with the relevant legislation.

S106 / CILs income - We found no evidence of formal proactive management review or oversight to confirm the accuracy of CIL calculations and no proactive review or approval of the application of discounts and reliefs to confirm that these have been applied appropriately and in line with the scheme or relevant legislation. The manual nature of certain calculations and the value of transactions make this an area where a lack of segregation of duties in the calculation process could incentivise fraud or lead to significant errors. We also noted that the identification of planning applications as "CIL liable" was not formally mapped into planning team procedures, and we found instances where Planning Officers had not marked eligible applications as 'CIL liable' in the Uniform system and therefore a CIL charge was not created. There were no mitigating detective controls in place to identify such errors.

Summary of findings (2 of 9)

Examples noted in the course of our testing (continued)

Nursery Places - Free Early Education Funding - Early Years Team Audits on Private, Voluntary and Independent (PVI) providers are in place as a detective control to identify fraud against the Council. We found that these audits were not conducted with the required frequency, and that where issues had been identified, they were not consistently referred to CAFT or the Finance team to resolve. Actions from the audits which had been carried out were not consistently taken forward. We also found that for the Spring term of 2017 there was an overpayment to providers as a result of the interim payment being higher than the actual amount due. This was because Barnet Council was using 80% of projected funding as the basis for its calculations, where other Councils use a lower interim estimate percentage. The issue was exacerbated by reliance on providers to proactively inform the Council of changes in headcount.

Fixed Asset Register - Fraud awareness training had not been undertaken by all officers involved in property asset management.

Transformation - The Way We Work - In the most recent highlight report reviewed by Internal Audit, the budget section did not provide any assessment of budget versus actual costs for project streams other than the Colindale build, and it was not clear within the text which costs were budgeted and which were actual.

CSG Estates - Rent Reviews - There were no independent checks of invoice calculations. We noted cases where the revised rent review figure had not been updated in Integra for invoicing purposes (we did not consider the errors significant in total value).

Cambridge Education governance including contract management - Cambridge Education (CE) is contractually required to provide a quarterly statement confirming compliance with Clause 38 relating to the prevention of fraud and bribery or reporting instances of related non-compliance. The required statements had not been submitted and the Council had not made any requests to see appropriate records of CE's compliance with this requirement.

Deputyship - money management - The Customer Financial Affairs Team guidance regarding appointees and deputyship states that all case files will periodically be subject to review by a nominated officer from Corporate Finance to ensure that reconciliations are up to date, returns are made in a timely manner and that income and expenditure plans have been completed. Management confirmed these checks no longer happen. The guidance also states that an independent review of 10% of cases should occur every quarter and that this is a performance indicator for the Team. Management confirmed that these reviews had been discontinued due to resource implications.

Commercial Waste - achieving income target - There was no evidence of a periodic reconciliation of expected balances of commercial waste bags (purchases less deliveries) to actual stock on hand (confirmed by count), a control generally required in stock systems.

Non-schools payroll - The payroll system access report was not regularly reviewed to ensure that access has only been granted to appropriate members of staff. Additionally, the overtime payments process was manual and as a result, payroll staff were not able to access details of the manager who approved an individual's overtime payment, increasing the risk of payroll processing invalid or fraudulent payments.

Pensions Administration (Key Financial Systems review) - Overpayments were noted to deceased retirees which were not subsequently followed up with an overpayment letter and an invoice.

Council Tax - Management were not able to evidence segregation of duties for council tax reconciliations carried out. The two-step authorisation process could not be evidenced for some Council Tax write-offs tested.

NNDR - Management were not able to evidence segregation of duties for NNDR reconciliations carried out.

Summary of findings (3 of 9)

2) Oversight, accountabilities and roles and responsibilities

A key recurring theme across audits conducted was that roles, responsibilities and reporting lines were not consistently defined or understood and that training for staff was not consistently provided, leading to gaps in delivery or governance oversight.

This area was identified in the 2016/17 annual audit opinion, and there has been significant work undertaken by the Council during 2017/18, including carrying out a Performance Governance Review focused on commissioning, finance and contract management which was designed to:

- Improve the clarity of roles and responsibilities in respect of the management of key strategic contracts;
- Ensure that internal governance arrangements support the delivery of the Council's desired outcomes;
- Further develop the performance reporting and monitoring framework to ensure that it drives improvement; and
- Update contract management arrangements.

Since the review a refreshed contract management framework and governance structure for strategic contracts has been implemented in collaboration with partners, especially CSG and Re. Improvements made include standardised monthly meetings across each service area within the strategic contracts, comprehensive performance information dashboards bringing together indicators, risk, audit recommendations, and more clearly defined escalation processes. It has been apparent that contractual levers are being used where performance is not at the required standard. In terms of performance management across the Council, a streamlined performance framework has been put in place across all Council areas.

During 2018/19 there will be a continued focus on embedding, reviewing and strengthening the arrangements set out in the Performance Governance Review and in ensuring the Council has adequate capacity to deal with contractual performance issues as they arise. In addition, and following the recent work of Grant Thornton on the financial control environment, there will be a particular focus on improving financial governance including financial delegations and controls in the coming year.

Examples noted in the course of our testing

Prevent - The Barnet Prevent Forward Strategy did not clearly describe the responsibilities for its implementation. Job descriptions were found for key roles, however these roles were found to be vacant. Although a training approach was set out within the Prevent Forward Strategy, this was not found to be operating effectively. The content of the Counter-Terrorism Local Profile (CTLP) had not been appropriately shared with Council Prevent stakeholders and as a result individuals with responsibilities for managing Prevent activities at a department level or within partner agencies were not directly informed of the current risks in the borough. Reporting was not found to be occurring in line with the required frequency, with some reports being in excess of twelve months overdue. A Prevent Working Group had been established, however this was suspended in December 2015 and there was no subsequent evidence of effective stakeholder engagement and consultation about the Prevent Policy, Strategy and Action Plan.

S106 / CILs expenditure and S106 / CILs income - There were a number of different teams involved in the administration of Community Infrastructure Levy (CIL) and S106 expenditure. Processes involve several departments within the Council, Re, CSG Finance and HB Public Law. We found a lack of clarity and awareness around respective responsibilities in the administration, allocation and draw down of CIL and S106 expenditure, exacerbated by team vacancies and staff turnover. Governance arrangements around non-financial development obligations were not clear: agreements had been made with developers but these were not clearly documented and had not been reported to Committee. There was no documentation in place to clearly define roles and responsibilities.

Summary of findings (4 of 9)

Examples noted in the course of our testing (continued)

Pensions Administration - Contract monitoring meetings held to monitor the pension administration section of the CSG contract were not formally recorded by the Council and employer targets for the scheme administration strategy are not monitored. There was no scheme communication strategy or agreed fund administration strategy in place during the period under review.

Nursery Places - Free Early Education Funding - We found instances where tasks were not occurring in line with expectations as a result of a single officer not being available and no cover arrangements being in place.

Staff Performance Reviews - There is no super-user access to the Core HR system or central ability within HR to go into staff records to look at the quality and content of appraisal documentation. This may mean that there was not sufficiently detailed central oversight to be able to ensure that the performance review process was fairly applied across all service areas and staff groups. There was no secondary review process to challenge any missing or insufficient information within moderation panel forms, so the process relied on the HR business partner to assure the completeness and quality of these forms. Based on the audit work carried out, this was not happening consistently.

Contract Register Maintenance - There was no operational guidance in place that sets out the roles and responsibilities of stakeholders (such as Legal, contract managers) in maintaining the contract register. There were no formal mechanisms in place for delivery units or contract managers to communicate changes to contracts to the Procurement team to ensure the contract register was up to date. The majority of live contracts in the contract register did not have a current member of staff listed as the contract manager. Although some of the Council's contracts are managed by staff within external delivery units, this does not fully explain this discrepancy. It should be noted that at the time of the audit the Procurement Board was in the process of revising its Terms of Reference which will address some of the issues identified.

CSG Estates - Rent Reviews - While CSG Management indicated that CSG employees were required to declare conflicts of interest in terms of their employment contract, Valuers were not required to specifically confirm and record the absence of a conflict of interest for each rent review valuation undertaken by them. Additionally, strategic reporting on rent reviews to Council committees did not provide sufficient detail to allow full oversight of the area.

Cambridge Education governance including contract management - The Catering Partnership Board (CPB) did not meet regularly during the first 18 months of the contract. The Catering Contract Monitoring Board (CCMB) did meet regularly and exercised its contract monitoring functions appropriately, however it did not provide the CPB with regular progress updates as required within its Terms of Reference. A clear approach to conflicts of interest was not in place for this contract.

Special Project Initiation Requests (SPIRS) - The CSG contract requires that the Service Provider submit proposals for Special Projects which allows the Council to make a decision to agree or reject the bid. The contract also stipulates the information that should be included as part of the Service Provider's proposal. We found that complete proposals had not consistently been submitted before initiation of Special Projects, proposals did not consistently consider dependencies, risks and assumptions as required, and in one case a project payment had been made before a project was formally initiated. Budget holder approval of project initiation was not consistently demonstrated. One Special Project was initiated before approval by the Council's Programmes Team.

Water Safety - A lack of formal training for premises coordinators around legionella testing was noted.

Summary of findings (5 of 9)

Examples noted in the course of our testing (continued)

Transformation - Benefits Realisation and Regeneration - Benefits Realisation - We found that the benefits management tools within the Project Management Toolkit were not consistently or effectively used. Planned benefits for the projects reviewed were not fully defined and it was not clear how the Council would be able to fully articulate the planned benefits of projects and fully justify its investment decisions. Controls were not consistently used to effectively measure and monitor whether projects were on track to deliver the intended benefits and therefore whether the projects remained viable. Planned benefits were not consistently handed over to service areas in a structured way which would allow ongoing monitoring of benefits once projects were absorbed into Business As Usual.

Transformation - The Way We Work - While a benefits tracker is in place which clearly outlines the key benefits of the programme, there was not yet a breakdown of key milestones for each benefit, benefits monitoring was not yet taking place at a project level, and not all benefits had clear links between benefit description, baseline, measurement method and target. The review date within the assumptions log had not been filled in for the Office 365 project, and as such there was no evidence that these assumptions had been reviewed since they were first identified. Only five changes were recorded in the change log for the programme. Given the complexity and size of TW3 and the many known changes since the programme's inception, this indicated that the change log is not being consistently used to record changes to the programme scope and budget and the agreement of these changes.

Summary of findings (6 of 9)

3) Data quality and integrity

We undertook a 'GDPR Readiness Review' in September 2017 which found that when benchmarked against other organisations the Council was tracking at similar or slightly higher levels of maturity overall. Barnet tracked well against other councils in relation to vision and strategy and transfers but was tracking at a lower level in relation to education, awareness and accuracy.

Data quality and integrity issues were noted across some areas at the Council, particularly regarding Pensions, HR, Section 106 and CILs. In the absence of strong data management and analysis, governance is weakened because the ability of senior staff and Members to scrutinise performance is reduced. There are instances where data quality and processing issues may lead to legal and reputational repercussions (e.g. in the area of pensions, where specific risks have been identified and recorded by the regulator in relation to data quality and data on breaches of law). In a number of areas, there was no evidence that data cleansing is carried out to ensure the ongoing quality of data held in key financial systems. With the introduction of the General Data Protection Regulation (GDPR), there will be an increasing level of public scrutiny of data processing and protection, and the potential repercussions of control failures in this area are significant.

Examples noted in the course of our testing

Pensions Administration - A data quality review undertaken by CSG in October 2017 identified that the quality of data held to identify team members was below the standards expected by The Pensions Regulator (TPR). We also identified that a data quality review of the data used to calculate benefits and value the fund had not been undertaken. There were issues in the data provided to CSG by employers for 60% of the employers reviewed and there was no reporting on the nature and extent of data quality issues noted. The scheme did not follow up on new joiners identified outside of the usual notification process and there were duplicate records.

S106 / CILs income - CIL and S106 schedules were maintained within Excel spreadsheets to assist in the management of charges and agreements. Data integrity issues were identified where there appeared to be a duplicate trigger point status, legacy schemes which had not been deleted, and duplicate schemes where planning applications had been superseded.

Staff Performance Reviews - An equalities analysis of performance rating distributions across different monitored protected characteristics was reported to the Strategic Commissioning Board (SCB) on 4 July 2017. However, this report did not effectively convey rating curves or allow the identification of variances between areas due to issues with chart layout and the quality of analysis. As a result, clear variances between service areas and variances around gender, religion and disability were not identified, investigated or reported on. This analysis also took place after the end of the moderation process, meaning that any variances could only be investigated retrospectively.

Contract Register Maintenance - Contract register data and expenditure data from the Integra system is reconciled quarterly to identify inappropriate non-contractual expenditure and procurement compliance issues. We found that exceptions from the quarterly compliance testing were not being followed up systematically and the outcome of enquiries with management and required actions are not recorded. Analysis of this information, including detail regarding exceptions and observations, is not reported to senior management and issues identified are currently escalated on an ad hoc basis. The Council had not been involved in providing direction to the CSG Procurement team on what data should be captured for contracts in the central register and has not assessed whether this is in line with business need. The extent of information captured regarding contracts on the system was not aligned to the risk/significance/value of the contract in place. Key fields in the contract register, including contract manager, end date and start date had not been consistently recorded.

Summary of findings (7 of 9)

Examples noted in the course of our testing (continued)

Fixed Asset Register - There was no evidence of a routine process for cleansing property data in Atrium to ensure the ongoing accuracy and completeness of the property data to support property management delivery. The CSG Estates risk register did not include specific risks and controls relating to data maintenance and data accuracy/completeness to ensure visibility of the area in risk management and to embed continual management oversight of the data quality.

CSG Estates - Rent Review - There was no evidence of a routine rent review data cleansing process since the implementation of Atrium. During fieldwork, we noted anomalies/errors in the rent review data and we identified rent review cases which had been omitted from CSG schedules for monitoring purposes. The omissions stemmed from the next rent review date not being input to Atrium. Additionally, for monthly operational performance reporting we noted that the Contract KPI “the percentage of rent reviews completed within 3 months of the rent review date against the total number of rent reviews due” had been incorrectly reported as above target when it was below target. While this did not impact overall delivery for the year, KPI outturn in monitoring reports should be accurate.

Deputyship - money management - Not all managers with access to the Deputyship shared drive (which contains personal data relating to the Council’s deputyship clients and details of the Deputyship bank account) required this access to carry out their work. Changes to standing data within Mosaic were supported by an audit trail to confirm the time and the name of the officer that processed the change. However, there was still a risk that unauthorised changes to client standing data could be made which would not be proactively identified by the Customer Financial Affairs Team.

Commercial Waste - achieving income target - The customer access database was not consistently updated with the details of excess waste noted on the crew sheets that were completed by collection crews during their rounds.

Troubled Families - Payment by Results - December 2017 submission - Significant data quality issues were noted during the course of testing which meant that the claim could not be verified by Internal Audit and was not submitted.

Cambridge Education governance including contract management - Data quality issues noted during an earlier audit had not been fully resolved, and as a result KPI performance reporting could not be fully assured.

Summary of findings (8 of 9)

4) Compliance / Policies and Procedures

Issues were noted by internal audit with the extent to which statutory and internal deadlines for activity were met, increasing the Council's potential liability for additional fees and charges, and legal sanctions and reducing the extent to which its own enforcement activity can be carried out. We noted issues with the performance of key employment checks including DBS and right to work checks, which could lead to fines, legal action and reputational damage. Key health and safety checks relating to water safety were not carried out in line with required statutory timescales.

In a number of areas including some key financial systems, we noted that policies and procedures were not consistently in place or regularly updated. Policies and procedures are a basic pillar of a functioning control framework. Where they are missing or out of date, this indicates that the control environment has not been regularly reviewed and updated to mirror changes in local or statutory approaches to service delivery.

Examples noted in the course of our testing

Pensions Administration - The results of data quality checks for a number of employers, from whom data was received in May 2017, were not communicated until mid-July 2017 reducing the period available to resolve any issues from three months to one month. We also found that there were a number of active member records for which no benefit statement was prepared due to a lack of data. This led to some members receiving annual benefit statements after the statutory deadline of 31 August 2017, or not at all. There were delays in the payment of transfers out of the fund and issuing letters to scheme members once the transfer took place. This could lead to breaches of legal requirements in relation to transfers out. The Council did not have a breaches of law policy in place until late October 2017 and does not receive reporting on possible breaches of law. CSG did not report a breach of law when 2016 annual benefit statements were issued late. The Council may not report matters required to The Pensions Regulator leading to them being exposed to fines or other civil action. Transfers into and transfers out from the pension scheme were not processed in a timely manner.

S106 / CILs income - We found that payments made to TfL regarding Mayoral CIL had not been made on-time, potentially leading to the Council being liable to a 5% charge on the Mayoral CIL amount due.

Eligibility to Work - Pre-Employment Checks (Non-Schools) - We noted several anomalies in the DBS data provided to us for review. In some cases HR were unclear as to whether the post required or did not require a DBS check or of the DBS level required. In other cases, no DBS certificate reference was held. As a result, it was not clear whether all staff have the required DBS clearance. CSG Management also confirmed that there were no central, consistent arrangements for logging or following up Home Office right to work (RTW) approvals approaching expiry because RTW data is not held on the Core HR system to support the necessary reporting. The Council can be fined £20,000 by the Home Office per illegal worker. Pre-employment checks, covering identity checks (proof of address), DBS checks, National Insurance checks, reference checks and qualification checks (generally the responsibility of the relevant Council manager) were not undertaken consistently.

Commercial Waste - achieving income target - Formal notices had not been provided to companies requiring them to use commercial waste sacks, meaning that it is difficult to undertake enforcement activity relating to non-compliance. We noted enforcement processes involving the issuing of fixed penalty notices (FPNs) where businesses were unable to provide their commercial trade waste agreement. However, intended enhancements to the enforcement process, involving the review and decision making of customer cases following the FPN enforcement process had not yet been fully introduced. Vehicle tracker monitoring and vehicle inspections were not carried out in accordance with the frequency laid out in procedure documents. Performance monitoring had not identified this issue.

Summary of findings (9 of 9)

Examples noted in the course of our testing (continued)

Water Safety - Performance of water safety testing did not consistently happen in line with required timescales. In one instance annual water sampling testing was over five months overdue at the date of testing. Documentation was not consistently uploaded to Info Exchange to demonstrate that testing or remedial action had taken place.

Accounts Payable - All policies and procedures were held only in hard copy at the Council and were not immediately accessible to remote members of the team.

Nursery Places - Free Early Education Funding - We found that the 'Barnet Handbook for Free Early Education and Childcare for two, three and four years olds' required updating to show current contacts at the Council and to include revised processes.

Deputyship - money management - We reviewed the guidance document issued by the Customer Financial Affairs Team to support visits to clients' property. We noted that the document could be improved to clearly document expectations around all property visits, especially regarding the need for two officers to be in attendance at the property and the need to countersign key logs and property search inventory forms.

Non-schools Payroll - Policies and procedures do not cover the overtime payments or processes and controls in place to manage system access.

Elections follow-up - Staff have access to guidance documents from the Electoral Commission, which clearly identify the key processes within the electoral registration cycle and the responsibilities of Electoral Registration Officers. However, there are no Barnet-specific documents describing how to carry out local tasks and processes.

Deputyship - money management - We noted that improvements could be made to the control environment to ensure that management evidence that they have oversight of the visits log and ensure that visits are occurring in-line with expectations.

Internal audit work conducted (1 of 5)

Introduction

We completed 49 non-schools audits and advisory reviews in the year ending 31 March 2018. The table below sets out the results of our internal audit work and implications for next year's plan. This is followed by a summary of the direction of travel shown.

Results of individual assignments - Limited Assurance

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
Community Infrastructure Levy (CIL) and Section 106 (S106) – Phase 2, Expenditure	Limited	-	3	1	2	1
Transformation - Benefits Realisation	Limited	-	3	-	-	-
Pensions Administration (full risk-based review)	Limited	-	2	6	1	-
Accounts Payable	Limited	-	2	1	-	-
Regeneration - Benefits Realisation	Limited	-	2	-	-	-
Community Infrastructure Levy (CIL) and Section 106 (S106) - Phase 1, Income	Limited	-	1	4	1	1
Nursery Places - Free Early Education Funding	Limited	-	1	4	1	1
Total	7	-	14	16	5	3

Internal audit work conducted (2 of 5)

Results of individual assignments - Reasonable Assurance

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
Staff Performance Reviews	Reasonable	-	1	2	1	1
Contract Register Maintenance	Reasonable	-	1	2	1	1
Accounts Receivable	Reasonable	-	1	2	-	-
Fixed Asset Register	Reasonable	-	1	2	-	-
Eligibility to Work - Pre-Employment Checks (Non-Schools) (Joint with CAFT)	Reasonable	-	1	2	-	-
Transformation - The Way We Work (Benefits Management, Stakeholder Engagement and Planning & Delivery)	Reasonable	-	-	5	2	-
Planning Applications and Enforcement (Joint with CAFT)	Reasonable	-	-	5	1	2
CSG Estates - Rent Reviews	Reasonable	-	-	5	1	-
Cambridge Education governance including contract management	Reasonable	-	-	4	1	-
Deputyship - money management	Reasonable	-	-	3	2	-
Commercial Waste - achieving income target (Joint with CAFT)	Reasonable	-	-	5	-	-
Non- Schools Payroll	Reasonable	-	-	5	-	-
Pensions Administration (Key Financial Systems)	Reasonable	-	-	3	1	-
Special Project Initiation Requests (SPIRS)	Reasonable	-	-	2	1	1
Water Safety	Reasonable	-	-	3	-	-
Council Tax	Reasonable	-	-	2	-	-
NNDR	Reasonable	-	-	1	-	-
Total	17	-	5	53	11	5

Internal audit work conducted (3 of 5)

Results of individual assignments – Substantial Assurance

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
Core HR Upgrade	Substantial	-	-	1	2	-
Education, Health & Care Plans	Substantial	-	-	1	1	2
Safeguarding - Family Services and Education & Skills (Roles & Responsibilities and Enquiries & Safeguarding Reviews)	Substantial	-	-	1	-	-
Capital Development Pipeline - Stag House	Substantial	-	-	-	3	1
Total	4	-	-	3	6	3

Results of individual assignments – claim and grant verification

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
Troubled Families - Payment by Results – June 2017 submission	Claim verified	Compliance audit – ratings not assigned				
Troubled Families - Payment By Results – August 2017 submission	Claim verified	Compliance audit – ratings not assigned				
Troubled Families - Payment by Results - October 2017 submission	Claim verified	Compliance audit – ratings not assigned				
Troubled Families - Payment by Results - December 2017 submission: data integrity issues meant that this claim could not be verified and was not submitted.	Claim not verified	-	1	-	-	-
Troubled Families - Payment by Results - January submission	Claim verified	Compliance audit – ratings not assigned				
Troubled Families - Payment by Results - March submission 1	Claim verified	Compliance audit – ratings not assigned				
Troubled Families - Payment by Results - March submission 2	Claim verified	Compliance audit – ratings not assigned				
Disabled Facilities Grant (DFG) 2016/17	Claim verified	Compliance audit – ratings not assigned				
Disabled Facilities Grant (DFG) 2017/18	Claim verified	Compliance audit – ratings not assigned				
Bus Subsidy Grant	Claim verified	Compliance audit – ratings not assigned				
Total	10	-	1	-	-	-

Internal audit work conducted (4 of 5)

Results of individual assignments – management letters

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
Prevent (Part of the Contest Framework)	Management letter issued	-	4	1	1	-
Elections Management – Annual Canvass	Management letter issued	-	3	2	-	-
Income Generation (Advisory)	Management letter issued	No significant issues noted				
Delayed Transfers of Care (Advisory)	Management letter issued	No significant issues noted				
Commercial - Contract Management Toolkit (Advisory)	Management letter issued	No significant issues noted				
Risk Management Framework	Management letter issued	No significant issues noted				
Barnet Group Assurance Mapping	Management letter issued	No significant issues noted				
Performance Management Framework (Advisory)	Management letter issued	No significant issues noted				
IT Risk Diagnostic	Management letter issued	No significant issues noted				
GDPR Readiness Review	Management letter issued	No significant issues noted				
Eligibility to Work – Pre-Employment Checks (Schools) (Joint with CAFT)	Management letter issued to schools	No significant issues noted				
Total	11	-	7	3	1	-

Internal audit work conducted (5 of 5)

Direction of travel

Report rating	Trend between current and prior year	Number of reports		
		2017/18	2016/17	2015/16
Substantial		4 (14%)	4 (11%)	2 (5%)
Reasonable		17 (61%)	29 (78%)	27 (68%)
Limited		7 (25%)	4 (11%)	9 (22%)
No assurance		0 (0%)	0 (0%)	2 (5%)
Advisory / compliance	N/A	21 (N/A – not rated)	13 (N/A – not rated)	17 (N/A – not rated)
Total		49	50	57

There has been an increase in the number of advisory reviews carried out in 2017/18 in comparison with previous years, in part due to the removal of Family Services and key financial systems audits from the audit plan, as described in the Executive Summary. This change from prior years would distort the trend analysis around report rating percentages if we followed the approach used in the 2016/17 annual opinion, which included advisory and compliance reviews in the breakdown by percentage of report ratings. To avoid this, advisory pieces reported on through management letters and compliance audits have been excluded from the analysis above for the purposes of calculating the percentage of audits with a given rating. The prior year percentages have been recalculated on the same basis to ensure comparability.

In 2015/16, any audit with a single high rated finding would have received an overall rating of “limited” by default. Since 2016/17, such reports can be rated “reasonable” (see the scoring matrix at Appendix 3). While it looks like the 2017/18 outcomes are similar to 2015/16’s, if ratings were assigned on the 2015/16 basis, the number of “limited” reports in 2017/18 would increase to 12 (43% of rated reports), which represents a significant deterioration from 2015/16 in real terms.

2017/18 audits completed in Q1 of 2018/19

Audit unit	Report classification	Critical	High	Medium	Low	Advisory
Facilities Management	Limited	0	2	2	2	0
Onboarding	Limited	0	1	3	0	1
Non-schools Payroll	Limited	0	1	9	2	0
Housing Benefit	Reasonable	0	1	1	4	0
Review of new Depot Arrangements	Reasonable	0	1	1	3	0
Emergency planning	Reasonable	0	0	5	1	0
Total		0	6	22	12	1

Delays to the delivery of planned audits were primarily due to lack of engagement from auditees, staff sickness and the need to move/flex audits to fit around year end processes in some service areas. These findings will be included in the 2018/19 opinion and have not been included in the analysis of internal audit work conducted in 2017/18.

Summary of schools audits (1 of 3)

Results of individual audits

In line with the Scheme of Financing Schools, the Chief Finance Officer is required to deploy internal audit to examine the control frameworks operating within schools under the control of the Local Education Authority (“LEA”). In 2017/18, Internal Audit performed 24 school visits and undertook 4 follow-up reviews. The results of the work are reported in the table below and in the section of this report entitled **Follow-up work conducted**.

Review	School type	Report classification	Number of findings				
			Critical	High	Medium	Low	Advisory
Menorah High School for Girls	Secondary	Limited	-	1	8	1	-
St. Pauls CE Primary School, N11	Primary	Limited	-	1	5	2	-
Friern Barnet School	Secondary	Reasonable	-	1	2	3	-
Woodcroft School	Primary	Reasonable	-	1	1	3	-
St. James Catholic High School	Secondary	Reasonable	-	-	4	4	-
Bell Lane School	Primary	Reasonable	-	-	3	5	-
St. John's N11 School	Primary	Reasonable	-	-	2	5	-
Brunswick Park School	Primary	Reasonable	-	-	2	5	-
St. Marys and St John's CE School	All through	Reasonable	-	-	3	3	-
Queenswell Junior School	Primary	Reasonable	-	-	4	2	-
Childs Hill School	Primary	Reasonable	-	-	1	5	-
Cromer Road School	Primary	Reasonable	-	-	2	4	-
Goldbeaters School	Primary	Reasonable	-	-	2	3	-
Holy Trinity CE School	Primary	Reasonable	-	-	2	3	-
Hollickwood	Primary	Reasonable	-	-	3	2	-

Summary of schools audits (2 of 3)

Results of individual audits

Review	School type	Report classification	Number of findings				
			Critical	High	Medium	Low	Advisory
Livingstone School	Primary	Reasonable	-	-	2	3	-
Northway	Primary Special	Reasonable	-	-	3	1	-
Wessex Gardens School	Primary	Reasonable	-	-	2	1	-
Jewish Community Secondary School	Secondary	Reasonable	-	-	2	1	-
Oakleigh School	Primary Special	Reasonable	-	-	2	1	-
Sacred Heart School	Primary	Substantial	-	-	1	3	-
Coppetts Wood School	Primary	Substantial	-	-	1	3	-
Beis Yaakov School	Primary	Substantial	-	-	1	2	-
Mapledown School	Secondary Special	Substantial	-	-	1	2	-
	Total	24	-	4	59	67	-

Summary of schools audits (3 of 3)

Direction of travel

Report rating	Trend between current and prior year	Number of reports		
		2017/18	2016/17	2015/16
Substantial		4 (17%)	2 (9%)	2 (8%)
Reasonable		18 (75%)	19 (82%)	21 (81%)
Limited		2 (8%)	2 (9%)	3 (11%)
No assurance		0 (0%)	0 (0%)	0 (0%)
Total		24	23	26

It should be noted that schools are audited on a cyclical basis and the prior period figures relate to different schools.

Each school will be audited on a three to five year cycle, depending on a risk assessment of that school, unless the circumstances of a school require an audit on a more frequent basis.

High priority recommendations made in limited or no assurance audit reports are followed up to ensure that they have been implemented within agreed timeframes.

Overall, the increase in the proportion of schools receiving a substantial rating indicates that the control environment in this area is improving.

Commentary

The results of schools audits highlighted generally sound financial management practices with few significant issues identified around financial controls and budget monitoring.

The largest number of issues were identified in the areas of Asset Management, Governance and Purchasing.

Asset Management: no inappropriate use of assets was noted in the year, however asset registers were often not up to date.

Governance: the Governing Body has responsibility for overall financial management of the school and must ensure the requirements of the scheme for financing schools and associated guidance from the Chief Finance Officer are met. In order to meet these requirements the school must prepare its own Financial Management Policy and Procedures document for internal use to be approved by the Governing Body. The Governing Body must ensure that Policy and Procedures are implemented. We frequently find during audit visits that this document is not up to date.

Purchasing: most recommendations related to use of school debit or credit cards. Evidence of prior independent authorisation of debit/credit card purchases and related audit trails to allow a credit/debit card purchase to be traced from ordering through to payment were not retained consistently by schools for our review.

High Priority recommendations related to Purchasing, Payroll and Voluntary funds:

- The Financial Guide for schools requires that committed expenses are recorded at the point of ordering to ensure accurate budget monitoring.
- Segregation of duties should be clear between payroll review and authorisation and pay changes/update in the system.
- Voluntary funds should be maintained to the same standard to which the official accounts are maintained.

Follow up work conducted (1 of 4)

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit charter, we followed up all high priority recommendations made in prior years that remained outstanding and those raised in the current year to ascertain whether appropriate action had been taken. At the request of the Audit Committee, we also followed up the medium priority actions for three reviews: CILs and Section 106 Phase 1 – Income, Nursery Places and Contract Register Maintenance. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Number of agreed actions	Status of agreed actions			
		Implemented	Ongoing	Outstanding	Not yet due
Re Operational Review	1	1			
Statutory Complaints – Adults and Communities	1	1			
IT Change Management	10	10			
Highways Programme	4	1	3		
CILs and Section 106 – Phase 1, Income	2 high	2			
	5 medium	5			
CILs and Section 106 - Phase 2, Expenditure	15	4			11
Estates Health and Safety Compliance	2	2			
Re Operational Review (Planning)	3	3			
Regeneration Benefits Realisation	7	2	5		
Nursery Places	5 high	5			
	15 medium	15			

Follow up work conducted (2 of 4)

Audit unit	Number of agreed actions	Status of agreed actions			
		Implemented	Ongoing	Outstanding	Not yet due
Contract Register Maintenance	3 high	3			
	7 medium	7			
Purchase Cards	1	1			
HR Eligibility to Work	3	3			
Pensions Administration	10	4			6
Transformation Benefits Realisation	7	3		2	2
Elections	4	3	1		
Prevent	14	14			
Troubled Families	5	5			
Dollis Junior School	1	1			
Woodcroft School	1	1			
Friern Barnet School	1	1			
Menorah High School	1	1			
Total	128	98 (90%)	9 (8%)	2 (2%)	19 (N/A)

Summary

We followed up 109 recommendations that had been raised and were due to have been implemented by the end of 2017/18. Of those, we found that 98 had been fully implemented by the year end, 9 were ongoing and 2 were outstanding. The direction of travel for implementing audit recommendations on a timely basis is therefore positive in 2017/18 with 90% of recommendations confirmed as having been implemented within agreed timescales (88% in 2016-17).

We recommend that further work is conducted to ensure **all** previously agreed recommendations are implemented at the earliest opportunity.

Appendices

Appendix 1: Limitations and responsibilities

Appendix 2: Opinion types

Appendix 3: Basis of our classifications

Appendix 4: Performance of Internal Audit

Appendix 5: Changes to the 2017/18 published plan

Appendix 6: Update against Internal Audit Peer Review action plan

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to Barnet Council is for the period 1 April 2017 to 31 March 2018. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given.

Type of opinion	Indication of when this type of opinion may be given
Substantial assurance	<ul style="list-style-type: none"> A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and None of the individual assignment reports have an overall report classification of either high or critical risk.
Reasonable assurance	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and None of the individual assignment reports have an overall classification of critical risk.
Limited assurance	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and A minority of the individual assignment reports may have an overall report classification of either high or critical risk.
No assurance	<ul style="list-style-type: none"> High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications (1 of 3)

Overall report classification

The report classification is determined by allocating points to each of the findings included in the report and adding them together (see next slide for details of how points are allocated to individual findings).

Finding rating	Points	Assessment rationale
 No assurance	40 points or more	<ul style="list-style-type: none"> There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
 Limited assurance	18-39 points (non-schools) 20-39 (schools)	<ul style="list-style-type: none"> There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
 Reasonable assurance	7-17 points 7-19* (schools)	<ul style="list-style-type: none"> An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere. <p>* For schools audits the threshold for moving into Limited Assurance is higher (19 points as opposed to 17 points). This is because there are 17 different audit scope areas in a schools audit making it possible to accumulate a high number of points through Low priority findings. Our analysis of past reports has shown that this would lead to a disproportionate increase in the number of schools receiving a Limited Assurance rating under the points based system.</p>
 Substantial assurance	6 points or less	<ul style="list-style-type: none"> There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.

Appendix 3: Basis of our classifications (2 of 3)

Individual finding ratings

The report classification is determined by allocating points to each of the findings included in the report according to the scoring matrix below.

Finding rating	Points	Assessment rationale
 Critical	40 points per finding	<ul style="list-style-type: none"> Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences.
 High	10 points per finding	<ul style="list-style-type: none"> Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff. Significant impact on the reputation or brand of the organisation; Scrutiny required by external agencies, Audit Commission etc. Unfavourable external media coverage. Noticeable impact on public opinion Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties. High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
 Medium	3 points per finding	<ul style="list-style-type: none"> Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff. Moderate impact on the reputation or brand of the organisation; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage. Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required. Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences
 Low	1 point per finding	<ul style="list-style-type: none"> Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences
 Advisory	0 points per finding	<ul style="list-style-type: none"> An observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere. Does not require a formal management response.

Appendix 3: Basis of our classifications (3 of 3)

Individual finding ratings – schools audits

Simplified descriptions are used within Schools audit reports as the issues that are typically raised in school audit reports do not correspond with the descriptions used for non-schools audits.

Finding rating	Points	Assessment rationale
 Critical	40 points per finding	• Critical issue where action is considered imperative. Action to be effected immediately.
 High	10 points per finding	• Fundamental issue where action is considered imperative to ensure that the School is not exposed to high risks, also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
 Medium	3 points per finding	• Significant issue where action is considered necessary to avoid exposure to risk. Action to be effected within 3 to 6 months.
 Low	1 point per finding	• Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 to 12 months.
 Advisory	0 points per finding	• An observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere. Does not require a formal management response.

Appendix 4: Performance of internal audit

Key performance indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

KPI	Target	Performance	Comments
Effectiveness			
• % of recommendations accepted	98%	100%	Target met
• % of critical and high risk recommendations implemented	90%	90%	Target met
Efficiency			
• % of plan delivered	95%	95%	Target met Note: in Q2 we proposed a change to how performance against this target is measured, in that now work in progress is incorporated as follows: Not Started = 0%; Planning = 20%; Fieldwork = 50%; Draft Report = 90%; Complete =100% Applying these %s to work in progress shows that we have delivered 95% of our plan. For comparison, under the previous method of measurement (completed reports / total planned audits) performance would have been stated as being at 80% against the 95% target.
Quality of Service			
• Average auditee satisfaction score	85%	100%	Target met

Quality assurance and improvement programme

In line with the Public Sector Internal Audit Standards, we undertook a self-assessment of compliance with the Standards during the year.

No significant compliance issues were noted for reporting to the Audit Committee.

We have confirmed completion of the outstanding actions from the Peer Review of Internal Audit from 2016, see Appendix 6.

Appendix 5: Changes to the 2017/18 published plan (1 of 2)

The 2017/18 Internal Audit plan was approved by the Audit Committee in April 2017. There have been a number of changes to the plan since the date of approval. These have been reported to the Audit Committee within the quarterly progress reports but a summary of all changes made throughout the year is included in the table below.

Review	Change	Reason
General Ledger	Deferred to 2018/19	Due to Chief Financial Officer (CFO) review of internal controls
Budget Monitoring	Deferred to 2018/19	Due to CFO review of internal controls
Treasury Management	Deferred to 2018/19	Due to CFO review of internal controls
Cash Management	Deferred to 2018/19	Due to CFO review of internal controls
Integra Issue Management	Deferred to 2018/19	Due to CFO review of internal controls
Schools Payroll	Deferred to 2018/19	Due to the introduction of a new payroll system for schools we have deferred this review
Health & Safety - Project Management	Deferred to 2018/19	Due to the resource needed for the implementation of actions from the Transformation Benefits Realisation audit we agreed to defer this review
Business Continuity	Deferred to 2018/19	Due to the resource required for supporting the Emergency Planning audit we agreed to defer this review as it involved the same officers
Elections follow-up Advisory	Deferred to 2018/19	We have deferred this review until after the May 2018 elections
Pardes House School	Deferred to 2018/19	Had been scheduled for March 2018, deferred to April 2018 at the request of the school so that they could focus on financial year end
Investing in IT – Lessons Learnt (Advisory)	Deferred to 2018/19	Due to further delays with the full delivery of this project we have deferred this review
Highways DLO	Deferred to 2018/19	This has been deferred to 2018/19 to enable allocation of more audit days to the Highways Programme review and to enable winter gritting to have been completed
CSG 3 Year review – KPI baselines	Deferred to 2018/19	This has been deferred to 2018/19 to enable review of two quarters of data after new KPIs agreed

Appendix 5: Changes to the 2017/18 published plan (2 of 2)

Review	Change	Reason
Customer Transformation Programme	Deferred to 2018/19	This has been deferred due to delays with the launch of the new version of the MyAccount system.
Project & Programme Management toolkits	Deferred to 2018/19	We have agreed to defer this to 2018/19 whilst the Council develops a toolkit for Agile project management.
Domestic Violence	Deferred to 2018/19	Deferred to 2018/19 as involves Family Services and agreed Embedded Assurance approach post-Ofsted
SWIFT to Mosaic Data Migration	Cancelled	We commenced a management review of the SWIFT to Mosaic data migration in Adults & Communities. Due to delays with the Mosaic implementation, we were unable to complete the review as planned. Our initial findings at the point of cancellation were shared with the service to consider in accordance with their ongoing risk management over the Mosaic implementation
Public Health Delivery Model 2018 Onwards	Cancelled	Due to the service coming fully in-house
Street Scene Capacity & Capability (Advisory)	Cancelled	As agreed with the Strategic Director for Environment, no longer required
Strength Based Practice (SBP)	Cancelled	This was cancelled due to duplication with the Transformation Benefits Realisation audit which included the SBP project within its scope.
Contract Management – The Fremantle Trust	Cancelled	This review has been cancelled as during the Provider Failure audit in 2016/17 we gained assurance over the Meadowside which represents 40% of the expenditure with Fremantle Trust.
Council Support for Children’s Safeguarding	Replaced	Replaced with Embedded Assurance approach after the service received Inadequate rating from Ofsted
Safeguarding – Health Visitors and School Nurses	Replaced	Replaced with Embedded Assurance approach after the service received Inadequate rating from Ofsted

Appendix 6: Update against Internal Audit Peer Review action plan (1 of 1)

A peer review of the Council’s Internal Audit service against the Public Sector Internal Audit Standards (“PSIAS”) was conducted in January 2016 by the Royal Borough of Kensington and Chelsea. The review found that Internal Audit ‘fully conforms’ to the PSIAS in 12 of the 17 areas assessed, with minor improvements being suggested in the remaining five areas which were assessed as ‘generally conforms’. The peer reviewer noted that ‘Overall I think that you are very close to being fully compliant with the requirements of the PSIAS with most improvements being of an advisory nature’.

In summary, all of the three agreed actions which were reported as partially implemented at the end of 2016/17 have now been implemented.

Improvement area	Action taken	Status
Internal Audit files have not all been archived in line with Council policy	The Information Management Team has recently launched a new archiving process; a member of the Internal Audit team has been confirmed as the nominated Records Co-ordinator for Internal Audit	Implemented All audit files are held electronically. At year end 31/3/2018, agreement had been reached with the Information Management team around the deletion and retention of Internal Audit files and this had been actioned.
There is evidence of good liaison with other assurance providers but the HIA has identified a need to progress further liaison with the internal auditors for the CCG to identify the scope for shared or joint reviews.	The recent audit of the Better Care Fund and S75 agreements was shared with the HIA at the CCG. Liaison will continue during 2016/17	Implemented A protocol document has been agreed with the CCG covering a joint approach to internal audit and anti-fraud work.
Based on interviews with key stakeholders, the Chief Executive, the S151 Officer and the Chair of the Audit Committee it was identified that the service is well respected, capable of taking on challenging audits and has a positive impact on the governance, risk and control within the Council. A review of the customer surveys indicated that the majority of the responses were positive and it is concluded that generally: <ul style="list-style-type: none"> The service is well regarded; Audit staff are considered professional; Recommendations are regarded as pragmatic and generally useful. A small number of responses indicated that there was some negative opinion towards the external contractor’s approach to audits with comments such as “demanding”, “tight deadlines” and “intrusive”.	Audits should follow the same process no matter which team conduct the audit. Since the peer review customer survey was circulated, we have updated the information on the Council’s intranet regarding the Internal Audit service making the expected audit timeline clearer for auditees. One of the objectives of the Cross Council Assurance Service (made up of six London boroughs including Barnet and our strategic partner, PwC) is to harmonise our audit approach. Ultimately we do not want auditees to distinguish between whether their auditor is from their host borough, PwC or from another borough. We will continue to work towards this aim during 2016/17.	Implemented During 2016/17 we introduced a CCAS report template and points based scoring system for non-schools audits. In 2017/18 this was rolled out to include schools audits.