

MEETING

AUDIT COMMITTEE

DATE AND TIME

THURSDAY 21 JUNE 2012

AT 7.00 PM

VENUE

HENDON TOWN HALL, THE BURROUGHS, NW4 4BG

TO: MEMBERS OF AUDIT COMMITTEE (Quorum 3)

Chairman: Councillor Lord Palmer (Chairman)
Vice Chairman: Councillor Mark Shooter (Vice-Chairman)

Councillors

Alex Brodkin	Sury Khatri	Hugh Rayner
Geof Cooke	Graham Old	

Substitutes for Councillor Members

Jack Cohen	Susette Palmer	Stephen Sowerby
Arjun Mittra	Alan Schneiderman	Andreas Tambourides

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

Governance Services contact: Chidi Agada 020 8359 2037 chidilim.agada@barnet.gov.uk

Media Relations contact: Sue Cocker 020 8359 7039

CORPORATE GOVERNANCE DIRECTORATE

ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	
2.	Absence of Members	
3.	Declaration of Members' Personal and Prejudicial Interests	
4.	Public Question Time (If any)	
5.	Members' Item - Annual Report of the Audit Committee 2011/2012	1 - 14
6.	Progress Report of Procurement Controls and Monitoring Action Plan	15 - 26
7.	Corporate Anti Fraud Team Annual Report 2011-12	27 - 46
8.	Exception Recommendations Report and Progress Report up to 6th June 2012	47 - 70
9.	Internal Audit Annual Opinion	71 - 108
10.	Accounts Audit Approach Memorandum	109 - 126
11.	Quarterly Progress Reports - External Audit The External Auditors, Grant Thornton LLP, is going to give a verbal update at the meeting.	Verbal Report
12.	Draft Annual Governance Statement 2011/2012	127 - 154
13.	Un-Audited Statement of Accounts 2011/12	155 - 192

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AGENDA ITEM 5

Meeting	Audit Committee
Date	21 June 2012
Subject	Members' Item – Annual Report of the Audit Committee 2011/2012
Report of	Chairman of Audit Committee – Councillor Lord Palmer
Summary	This report informs the Committee of a Member's Item from the Chairman of the Committee, Councillor Lord Palmer, and requests that the Committee notes the report.

Officer Contributors	Maryellen Salter - Assistant Director - Audit and Risk Management Chidilim Agada – Business Governance Officer
Status (public or exempt)	Public
Wards Affected	Not applicable
Key Decision	No
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Annual Report of the Audit Committee 2011/2012
Contact for Further Information:	Chidilim Agada – Business Governance Service 020 8359 2037; chidilim.agada@barnet.gov.uk

1. RECOMMENDATIONS

- 1.1 That the Committee notes and agrees the substance of the proposed Annual Report of the Audit Committee 2011/2012.**
- 1.2 That the Annual Report of the Audit Committee 2011/2012 be reported to Council.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.**

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Audit Committee provides the Council with independent assurance and effective challenge and, therefore, the Committee is central to the provision of effective governance.**

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 (Relevant section from the Constitution, Key/Non-Key Decision)

- 8.1 The Audit Committee's terms of reference are noted in Part 3, Section 4 of the Council's Constitution.**
- 8.2 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 Lord Palmer has requested that a Member's Item on the Annual Report of the Audit Committee be considered at this meeting.
- 9.2 The Annual Report describes the work of the Committee to date and the outcomes it has achieved for 2011-12. It also sets the tone for the current municipal year.
- 9.3 The Committee is asked whether they wish to make any amendments and note that the report will be presented to full Council in due course.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

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Cleared by Legal (Officer's initials)	TE

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Enclosure

Barnet Council

**Audit Committee
Annual Report**

2011/12

Context

Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Good practice from the wider public sector indicates that these functions are best delivered by an independent audit committee. In this context, "independence" means that an audit committee should be independent from any other executive function.

It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance. Specifically:

- **independent assurance** of the adequacy of the control environment within the authority;
- **independent review** of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and
- **assurance** that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with and that appropriate accounting policies have been applied.

Effective audit committees can bring many benefits to local authorities and these benefits are described in CIPFA's *Audit Committees - Practical Guidance for Local Authorities* as:

- raising greater awareness of the need for internal control and the implementation of audit recommendations
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement); and
- providing additional assurance through a process of independent and objective review.
- Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an audit committee:
 - can give additional assurance through a process of independent and objective review
 - can raise awareness of the need for sound control and the implementation of recommendations by internal and external audit

Audit Committee at Barnet

The Constitution includes the terms of reference for the Audit Committee, defining its core functions. The terms of reference describes the purpose of the Audit Committee as being:

“to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.”

To remain independent from the Executive the Audit Committee is chaired by a member of an opposition party. In order to bring additional expertise from the sector and financial capability the Audit Committee also has two independent members.

The Audit Committee has a work programme that has been drawn up to effectively discharge its responsibilities as defined by the terms of reference. The Committee relies upon independent, qualified professionals to provide assurance. Directors and Assistant Directors have been requested by the Audit Committee to support the process and to aid in the Committees effectiveness/understanding.

The Committee undertakes all of its meetings in the public domain, during the year there have been no instances whereby items have been considered exempt.

Audit Committee Outcomes during 2011-12

During the financial year (April 2011 – March 2012) the Audit Committee has demonstrated a number of outcomes with a focus on delivering improvement to the organisation. The way in which these were implemented were as follows.

- Key controls and assurance mechanisms – The Committee relies upon information presented from qualified, independent and objective officers and external assurance providers. The key controls and assurance mechanisms are as described within the Annual Governance Statements. The Audit Committee is not a working group, it does not carry out the work itself, but relies on the assurance framework to bring significant issues to the Committee for discussion and make recommendations for the Executive and officers to take forward. The Committee recognises that management, and the executive, are responsible for a sound control environment¹.
- Improvement agenda – the Audit Committee is committed to improving shortfalls in the control environment, rather than apportioning blame. The Committee has been provided with assurances on high priority recommendations and the progress against these quarter by quarter. The Committee and its Chairman has asked that leading officers (Directors or Assistant Directors) come to the Audit Committee to explain any deficiencies and how they intent to correct them. The important aspect that the Committee has been assessing each quarter is whether the direction of travel from one quarter to the next has been positive.
- Concerns from external and internal assurances – during the year the Committee has been presented with various reports regarding some serious control weaknesses. Of those weaknesses identified the Committee has asked in particular to follow up on recommendations regarding Procurement control deficiencies and have scheduled in regular updates from officers, internal and external audit. Although the progress quarter on quarter has been demonstrated we are still concerned that the control framework still results in non-compliance and see that adequate training is necessary to rectify these problems.
- Planned and unplanned work – The Committee has completed its workplan in accordance with its planned level of activity. In accordance with the terms of reference for the Committee, the Chief Internal Auditor has reviewed our effectiveness as a Committee and given us some feedback on ways in which we can improve, namely the following:
 - Producing a formal Annual Report describing the work of the Audit Committee and the outcomes it has achieved; and

¹ The control environment comprises the systems of governance, risk management and internal control

- When necessary, determining an induction process for new members.

There were a number of improvements that were made to the Committee's effectiveness in year:

- The annual workplan has been redesigned to demonstrate how the Audit Committee is discharging its responsibilities;
- Member briefings occurred in the municipal year in relation to fraud and corruption for all members. E-learning is available to members which incorporates the Counter Fraud framework.
- Assurances were provided to the Audit Committee upon presentation of the accounts regarding estimates and judgments used in the Statement of Accounts.
- The Audit Committee now receives quarterly reports on recommendations not implemented for priority one recommendations (high risk)
- The Audit Committee also receives quarterly information on risk management
- The Audit Committee receives the Annual Audit Plan which discusses the risks to the Council
- The Committee provided their training needs where appropriate and this was fed into the Member Training programme led by Corporate Governance.

The Committee supports fully the Fraud team in taking vigorous action to counter and expose fraud. We have also worked with our external auditors proactively to review processes within the council and gain assurances through their regular reporting.

In year, the internal audit function restructured and gained another provider to support the in-house team, this in turn has improved the level of reporting to the Committee and the level of specialist support for the council to add value.

- Conclusions

The Committee feels that it has demonstrated that it has added value to the council's overall governance framework. During 2012-13 it will continue to request officers to attend Committee meetings to aid in its understanding of the services, but mostly to ensure that internal and external recommendations are implemented on a timely basis.

We request that Procurement remains a focus for the Executive and senior officers and the Committee will take an active role in ensuring progress is made, monitoring progress through officers and internal and external assurances.

Appendix 1 – Planned and Unplanned work

Detail Reports considered:

Date	Reports
June 2011	Metpro reporting into contracting with the Council*
	Internal Audit Opinion 2010-11
	Internal Audit Progress Report quarter 4
	Use of Resources*
	External Audit Annual Audit Approach Memorandum (AAAM)
	Statement of Accounts (draft)
	External Audit Fees
	Code of Corporate Governance
	Draft Annual Governance Statement
	Annual Report CAFT 2010-11
	External Auditors Report
	Procurement Controls and Monitoring Action Plan*

* Unplanned work

Date	Reports
September 2011	Annual Service Plan – CAFT 2011-12
	ISA 260 report from External Audit
	Procurement Controls and Monitoring Action Plan*
	Internal Audit Progress Report Quarter 1
	Exception Recommendations Report
	Annual Governance Statement – Final
	Statement of Accounts (final)
December 2011	Members item*
	Annual Audit Letter 2010-11
	Interim Report – CAFT
	Internal Audit Progress Report – quarter 2
	Exception Recommendations Report
	Procurement Controls and Monitoring Action Plan*

* Unplanned work

Date	Reports
April 2012	Bribery Policy
	CAFT Strategy 2012-13
	Internal Audit, Risk Management and CAFT Annual Plan 2012-13 including Internal Audit Strategy 2012-13
	Internal Audit Progress Report – Quarter 3 & 4
	Exception Recommendations Report
	Grants Report – external audit
	External Audit Annual Plan 2011-12
	Financial Regulations
	Risk Management Strategy and Policy Statement
	Review of Audit Committee effectiveness
	Work programme for Audit Committee 2012-13
	Procurement Controls and Monitoring Action Plan*

* Unplanned work

Appendix 2 **Audit Committee Recommendations**

Internal Audit High Priority Recommendations

Quarter 1	Quarter 2	Quarter 3	Quarter 4
49%	60%	69%	75%

Target for implementation is 90% each quarter, whilst this has not been achieved the Committee recognise the direction of travel.

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Meeting	Audit Committee
Date	21 June 2012
Subject	Progress Report of Procurement Controls and Monitoring Action Plan
Report of	Commercial Director
Summary	Members are asked to note the progress against the Procurement Controls and Monitoring Action Plan

Officer Contributors	Craig Cooper, Commercial Director Lesley Meeks, Assistant Director of Commercial Assurance
Status (public or exempt)	Public
Wards Affected	None
Key Decision	No
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Appendix A - Action Plan from Internal Audit Report Contract Procedure Rules – April 2012 plus Progress Comments
Contact for Further Information:	Lesley Meeks, Assistant Director of Commercial Assurance 020 8359 7535

1. RECOMMENDATIONS

- 1.1 That the Committee note the contents of the Action Plan and the progress to date.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee 8 December 2011 - recommended 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.
- 2.2 Audit Committee 26 April 2012 - recommended that the Assistant Director of Commercial Assurance report to the June Audit Committee providing assurance that the actions have been implemented in line with the recommendations.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Having an appropriate Procurement Function supports the council's priorities in the 2011/14 Corporate Plan of delivering 'better services with less money' and a 'successful London suburb'.

4. RISK MANAGEMENT ISSUES

- 4.1 The Action Plan set out identified risk(s) in relation to the key findings of the audit as reported in April 2012.
- 4.2 Without an effective procurement and contract management function there is the risk to the Council of failure to deliver value for money and having non-commercial contracts with suppliers. The Procurement Controls and Monitoring Plan has been devised to respond to identified risks.
- 4.3 There are also potential safeguarding risks if adequate procurement due diligence has not been followed. It is therefore important that the Contract Procedure Rules are embedded not only within the Corporate Procurement Team but throughout the council. The formation of a working group including representatives from all directorates has been set up and has met weekly to consider practical solutions.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 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
- 5.2 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.

5.3 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)).

- 5.4 Implementation of the actions coming from the key findings from the Control and Monitoring Action 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.

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

- 6.1 As set out at paragraph 7.1 below, 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 implementation of actions associated with the audit findings and 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
- 6.2 The improvements noted in procurement controls supports the delivery of value for money, although it is noted that value for money is an holistic judgement on the Council's arrangements for economy, efficiency and effectiveness. This report notes the progress of the controls designed to improve the control environment relating to Council procurement activity.
- 6.3 The working group, which includes representatives from all directorates, will continue to meet to drive forward the: implementation of actions from the previous audit in April; continuation of working together to implement actions within the Procurement Controls and Monitoring Action Plan and 'centralisation' of procurement function.

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.

- 7.2 The public procurement regulations apply whenever a contracting authority whether by itself, or through a third party, seeks offers in relation to a proposed public ‘works’ ‘supply’ or ‘service’ contract, the value of which exceeds certain financial thresholds. The public procurement regulations make a distinction between two categories of services. Schedule 3 to the Public Contract Regulations 2006 contains two lists of categories of services. The first list, which appears in Part A, contains description of services which are subject to the full application of the rules under the public procurement regulations. If a service in Part A exceeds the relevant threshold, it is subject to the full public procurement regulations, such as the obligation to subject the service to advertisement before an award of contract.

Only limited parts of the Regulations apply in the case of Part B services contracts and do not apply to service concessions or contracts that are below the relevant thresholds. Such contracts are nonetheless caught by general Treaty principles of equal treatment, non-discrimination and transparency.

With respect to contract award, the award decision must comply with procedural rules laid down at the outset and which comply with the general principles of non-discrimination and equal treatment.

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 The procurement Control and Monitoring action plan initially produced in response to the Internal Audit of CPT in June 2011 has been used as the basis for continuous improvement to procurement processes.
- 9.2 The plan demonstrates the key activities and continual improvements which have been made such as:
- a) Central Contract repository that hold details of contracts and reconciles with forward procurement plan
 - b) Use of procurement systems and tools to drive contract compliances and good procurement practices
 - c) Contract Management training for all staff who manage contracts within the Council
- 9.3 The Control and Monitoring action plan and Contract Procurement Rules were used as the basis for the Internal Audit in April 2012. A copy of recommendations and actions plan which formed appendix D of the April 2012 Internal Audit Report Contract Procurement Rules can be found attached (Appendix A). It set out the key findings, the corresponding actions and managers’ responses. The attached

(Appendix A) also notes progress to date.

10. LIST OF BACKGROUND PAPERS

10.1 None.

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Appendix A

Action Plan (Appendix D of the Internal Audit Report – Contract Procurement Rules April 2012) plus Progress Report

New Contracts – Compliance with CPRs	Recommendation 2.1	Management Response	Responsible Officer	Deadline	Rag Status	Action Since April 2012
No. 1 20% of new contracts tested could not be verified as being in line with the CPRs.	The CPRs should be reiterated to all procurement staff to ensure new contracts are appropriately drafted and signed.	Agreed. This will form part of the e-training programme.	Assistant Director – Commercial Assurance	Jul-12	Green	Contract Procedure Rules (CPRs) have been updated, reviewed and published. They are now undergoing further review as part of continuous improvement programme and will be reviewed by Special Constitution Committee in June 2012. To ensure that the CPRs are embedded in the organisation all Council staff, who manage contracts are undergoing Contract Management training which went live in May 2012 via e-learning tool. Some contract managers have already completed the training. The aim is for all Contract Managers to be trained by end June.
No 1.1	Contracts should be appropriately stored on the central repository where possible, or as a hard copy in each Directorate.	Agreed. This will continue to be monitored during the weekly working group meeting where all directorates are represented.	Working Group	Jun-12	Green	Contracts Repository is being used to store contracts. Action is monitored at the Working Group meetings where each directorate reports on progress. Action on track to be completed by end of June.

New Contracts – Compliance with CPRs	Recommendation 2.1	Management Response	Responsible Officer		Deadline	Rag Status	Action Since April 2012
			Working Group	Jul-12			
No. 2 10% of contracts tested were recorded as compliant but were still non-compliant.	The Council should reiterate the requirements for compliance, and the need to meet these requirements before a contract is recorded as compliant.	Agreed. This will be reiterated at the working group plus form part of the e-training.	Working Group	Jul-12	Green	CPR's were reviewed in March and have been published. As part of the continuous improvement programme a further review and reiteration has taken place and this will be presented to the Special Constitution committee in June. The Contract Management e-Training went live in May 2012 and this tool is being used to ensure that all contract managers are aware of requirements for compliance.	
No. 3 80% of contracts tested were waived in order to achieve compliance. This suggests the CPRs are not appropriately designed.	The Council should review the CPRs and consider if they are too rigid for achieving their objective of ensuring contracts are procured appropriately.	The CPRs are being reviewed as part of an on-going action and revised documents will be reviewed by the Special Constitution Committee in June 2012.	Assistant Director – Commercial Assurance	Jun-12	Green	There was a consultation process across all the directorates prior to finalising and updating CPR's. Finalised CPR reviewed by Special Constitution Committee in June 2012.	
No. 4 There are no vendor thresholds in place on SAP for existing vendors.	The Council should continue to investigate implementing vendor thresholds on SAP for old and new vendors, and ensure in the interim mitigating controls are in place to prevent overspend.	This action is underway. The Vendor threshold limits will be the first phase of the action. Full implementation will require training for Operational Purchasers and a review of ways of working	Assistant Director – Commercial Assurance and Working Group	Interim controls May 2012	Green	Phase 1 is now complete as all Contract limits for SAP vendors have now been entered on to SAP. Phase 2; Training programme agreed for SAP procurement users. Close down of Vendor access on a directorate by directorate basis is underway. Absolute close down will be in place by 21.06.12.	

New Vendors - Authorisations	Recommendation 2.3	Management Response	Action Since April 2012		
			Responsible Officer	Deadline	Rag Status
No. 5 80% of new vendor forms tested were not appropriately authorised. 63% of these had no evidence of any authorisation.	All new vendor forms should be appropriately authorised prior to their addition to SAP.	Agreed	Working Group	May-12	Green
No 5.1	New vendor forms should be centrally stored to ensure ease of review.	Agreed. This is now the case for new vendors that have final sign off in CPT. A copy is taken and saved on the shared drive.	Assistant Director – Commercial Assurance	Complete	Green

Corporate Oversight – Vendor Spend and Corporate Repository	Recommendation 2.3	Management Response		Responsible Officer	Deadline	Rag Status	Action Since April 2012
		Response	Details				
No. 6 20% of contracts tested which were on the contract register but not on the corporate repository did not have acceptable reasons why they were excluded	Management should reiterate to all Directorates the requirement to add all contracts to the central repository, excluding those which contain sensitive data.	Agreed. This will be monitored by the Working Group. A way of securing sensitive information will be investigated and if possible implemented.	Assistant Director – Commercial Assurance	May-12	Green	Ambler	Actions 1.1 and 6 have the same recommendation and corresponding action. The deadline is the same and should be June 2012.
No.7 The Vendor Spend Analysis report does not have the functionality to report current year spend above £25k which is not included in the contract register	Management should review the information included in the Vendor Spend Analysis report and amend to include spend in current financial year.	Current financial year is available within the report but we will amend the report so management information is easily obtained.	Working Group	Jun-12	Green		Spend Analysis now provides dates and breakdown of spend usage for all SAP vendors. Action is complete

Corporate Oversight – Vendor Spend and Corporate Repository	Recommendation 2.3	Management Response		Responsible Officer	Deadline	Rag Status	Action Since April 2012
		Response	Owner				
No. 8 We analysed the level of retrospective purchase orders raised across directorates over the year, and compared to the level of retrospective purchase orders raised in February 2012. All except one directorate showed a negative trend.	The Council should reiterate to management the requirement to raise and order a purchase order before a purchase is made in order to effectively manage expenditure.	Agreed. There are some cases when retrospective PO is needed. This should be an exception and the working group will action this recommendation	Working Group	Jul-12	Green	Each Directorate is reviewing the use of retrospective purchase orders in their area and reporting back to the Working Group. Presently we are identifying exception where it may be necessary to raise a retrospective order. We will then report and monitor by purchase type and ensure that orders are placed with corresponding purchase orders. Action on track for July deadline.	
No.9 We assessed the training PowerPoint designed, and noted there was some variation between the training and the CPRs.	The Council should review the training package against the CPRs to ensure its content is appropriate. The package should be delivered to relevant staff members as soon as possible.	Agreed. Agreed. The IT solution is being built and training will commence as soon as this is available.	Assistant Director – Commercial Assurance Head of IS Service Delivery and Assistant Director – Commercial Assurance	April 2012 May 2012	Green	Training material was reviewed against CPRs and updated and cleared by the members of the Working Group. Contract Management training went live in May 2012 via e-learning tool. Completed	

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Meeting	Audit Committee
Date	21 June 2012
Subject	Annual Report of the Corporate Anti Fraud Team 2011-12.
Report of	Head of Corporate Anti Fraud Team (CAFT) Director of Corporate Governance
Summary	The Committee is asked to consider and comment on the CAFT Annual Report 2011-12.
Officer Contributors	Clair Green –Head of CAFT Jeff Lustig – Director of Corporate Governance.
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A: CAFT Annual Report
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not Applicable

Contact for further information: Clair Green 020 8359 7791

1. RECOMMENDATIONS

- 1.1 That the Audit Committee consider and comment on the CAFT Annual Report 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 26/4/12 (Decision item 15) – the Audit Committee included in the work programme for 2012/13, that an Annual Report on the work of the Corporate Anti- Fraud Team be produced to this meeting.
- 2.3 Audit Committee 26th April 2012 (Decision item 7) – the Audit Committee approved the CAFT Strategy and Joint CAFT, Internal Audit and Risk Management plan for 2012/13.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Council's Corporate Plan 2012-13 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, polices and procedures, 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 Internal Audit and Risk Management to support their ongoing work and to assist in either confirming effective anti fraud controls and or suggested areas for improvement.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 CAFT have always strived to ensure that it has takes due regard due regard of its public sector equality duty as set out in the Equality Act 2010. The council has developed a series of corporate equality questions which have been set out in the Corporate Plan to better understand the impact of processes on Barnet's protected communities. Equalities issues are

considered on every CAFT investigation. Moving into 2012-13 we have now began to produce a portfolio of documents to enable us to evidence this.

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.
- 6.2 The structure and budget that CAFT now operate within has proven successful and provides sufficient resource and commitment that is required to carry out an effective anti fraud service and deliver the key objectives as set out within the strategy.

7. LEGAL ISSUES

- 7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

- 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 Attached to this report at Appendix A is the CAFT Annual Report 2011-12.
- 9.2 The purpose of this annual report is to the committee a summary on the outcome of preventative, proactive and reactive work undertaken during 2011/12. It further details the outcomes of the CAFT partnership work, with Department of Work and Pension, UK Border Agency and Barnet Homes.
- 9.3 In addition to the CAFT annual report, we also produce an interim report to the Audit Committee, and quarterly Assurance Reports to the Councils Senior Management, April 2012/13 saw CAFT produced an anti fraud strategy which details the Councils overall approach and response to fraud risk.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

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Cleared by Legal (Officer's initials)	JL / SS

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Corporate Anti Fraud Team (CAFT)

Annual Report 2011-12

Introduction

The Corporate Anti Fraud Team (CAFT) has been established within Barnet for 7 years. During that time we have embedded and promoted a strong anti fraud culture across the council, its staff, partners and residents. The CAFT supports the council in its statutory obligation under section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.

Like any organisation of significant size and complexity, Barnet Council is inherently vulnerable to risks of fraud and corruption. Published fraud risks and good practice for local government are detailed within the publications CIPFA's 'Managing the Risk of Fraud', the Audit Commission's 'Protecting the Public Purse', the Department for Communities and Local Government 'ten point plan for tackling fraud in the local authorities' and the National Fraud Authority 'Fighting Fraud Locally' document. In response to these risks, CAFT have strived to ensure that the Council has a range of mitigating controls in place and over the last year have worked closely with services, especially the Governance, Internal Audit and Risk Management Functions.

With reducing government funding and the current economic downturn it is vital that we continue to maintain strong defences against fraud and make best use of our information and intelligence in order to ensure we have effective fraud barriers in place and make best use of our anti fraud service. The purpose of this annual report is to provide a summary on the outcome of preventative, proactive and reactive work undertaken during 2011/12. It further summarises the outcomes of the CAFT partnership work.

The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More arm's length delivery of services by third parties in the voluntary and not-for-profit sector and personal control of social care budgets, for example, will mean that more public money is entrusted to more sectors, whilst the controls the local authority previously exercised are removed or reduced. Without new safeguards, preventing, detecting and investigating fraud will become more difficult.

The National annual fraud Indicator shows that there is £2.2 billion estimated fraud in public sector. This includes £900 million in housing tenancy fraud, £890 million in procurement fraud, over £153 million in payroll fraud, £131 million in council tax discounts and exemptions fraud, £46 million in 'blue badge' fraud, £41 million in grant

fraud and £5.9 million in pension fraud. This is money that can be better used to support the delivery of front line services. Local government is under pressure to make savings and tackling fraud can contribute to that agenda.

We are confident that we continue to provide an efficient value for money counter fraud service and that is able to investigate all referrals that are passed to us to an appropriate outcome. We continue to offer support, advice and assistance on all matters of fraud risk, including prevention, fraud detection, money laundering and criminal activity and deterrent measures whilst delivering a cohesive approach to reflect best practice which also supports the corporate priorities and principles.

In addition to the CAFT annual report, we also produce an interim report to the Audit Committee, and quarterly Assurance Reports to the Council's Senior Management, 2012/13 saw CAFT produced an anti fraud strategy which details the Council's overall approach and response to fraud risk.

Benefit Compliance Team identify 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 Audit Commissions (AC) National Fraud Initiative (NFI) Benefit 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.

Performance Table	Q1 2011/12	Q2 2011/12	Q3 2011/12	Q4 2011/12	2011/12 Total	Total 2010/11
Number of HBDMS matches received	1443	544	729	886	3602	1745
Total Number of Compliance benefits assessments	287	254	172	149	862	865
Number of assessments which resulted in no change or increased benefit	69	49	11	22	151	241
Total Amount of Fraud overpayments identified	£348,990	£239,043	£130,676	£288,131	£1,006,840	£449,938
Number of assessments were o/p under £500	1	0	3	2	6	2
Number of assessments were o/p is £500 - £2000	16	16	11	8	51	30
Number of assessments were o/p is £2001 - £4000	7	8	7	6	28	41
Number of assessments were o/p is £4001 and above	16	13	13	10	52	39
Total amount of Error overpayments identified	£202,675	£222,815	£128,295	£158,456	£712,241	£616,973
Number of assessments were o/p under £500	85	90	69	29	273	271
Number of assessments were o/p is £500 - £2000	79	55	40	30	204	170
Number of assessments were o/p is £2001 - £4000	20	16	11	19	66	54
Number of assessments were o/p is £4001 and above	6	11	7	11	35	17
Total amount of Fraud and error overpayments identified by CAFT	£563,540	£463,510	£270,875	£446,586	£1,744,511	£1,066,911
Total Amount of recovered benefit overpayment by Benefit Service					£5,252,871.00	
Amount recovered by Benefits Service, from CAFT identified fraud / error overpayments.	£369,990	£28,967	£82,850	£16,704	£498,511	£172,773

The performance table identifies that there have been 52 separate assessments that have resulted in a fraudulent overpayments higher than £4001; All of these overpayments have been investigated by Benefits Investigations team and to date 2 of these have resulted in prosecutions with guilty verdicts, 16 administrative penalties issued and 5 formal cautions issued. A further 10 cases have been passed to our legal team for prosecution and 12 are with the DWP legal team. 3 cases were closed as "fraud proven", 2 of whom we are unable to trace at this time. There are also 4 cases that are ongoing investigations. The largest of the fraudulent overpayment figures identified above relates to a single overpayment of £56,405.31. This case has been investigated by CAFT and is now with the DWP prosecution department awaiting a court date. In addition to the housing and council tax benefit overpayment, DWP have an overpayment in the region of £36,000. Further details of the investigation cannot be published at this stage as the case is still ongoing.

There have been a further 35 assessments which identified claimant error benefit overpayments of over £4001 of which 25 were referred for Investigation. An administrative penalty has now been offered on one of these cases, 9 are still ongoing, and 15 have subsequently been closed as involving no fraud/claimant error. There were 10 cases that, due to the circumstances of the overpayment, were not referred for investigation as they were closed as claimant error with overpayment recovery.

Whilst we still continue to run the Single Housing Benefit Extract (SHBE) on a monthly basis, submitting it to the Department of Work and Pensions (DWP) to extract our matches, December 2011 has seen a change to the SHBE matches received back. The DWP, on receipt of our SHBE extract now passes the information to Experian who in turn match the extract against their database to be risk assessed. The high risk cases are then converted by the DWP into the Housing Benefit Data Match Services (HBDDMS) format and sent back to the Local Authority (LA) on a quarterly basis. In 2011/12 the new HBDDMS Experian matches went fully operational and we have received a high volume of matches - 3,602 as against 1,745 the previous year. However, of these, 886 were received late in Q4 (28th March 2012). Therefore these matches plus 10 from Q3, have been carried forward to 2012/13. Over half have now been resolved with no change to benefit. Therefore, the number of assessments and overpayments is based upon an overall total of 2,706 matches.

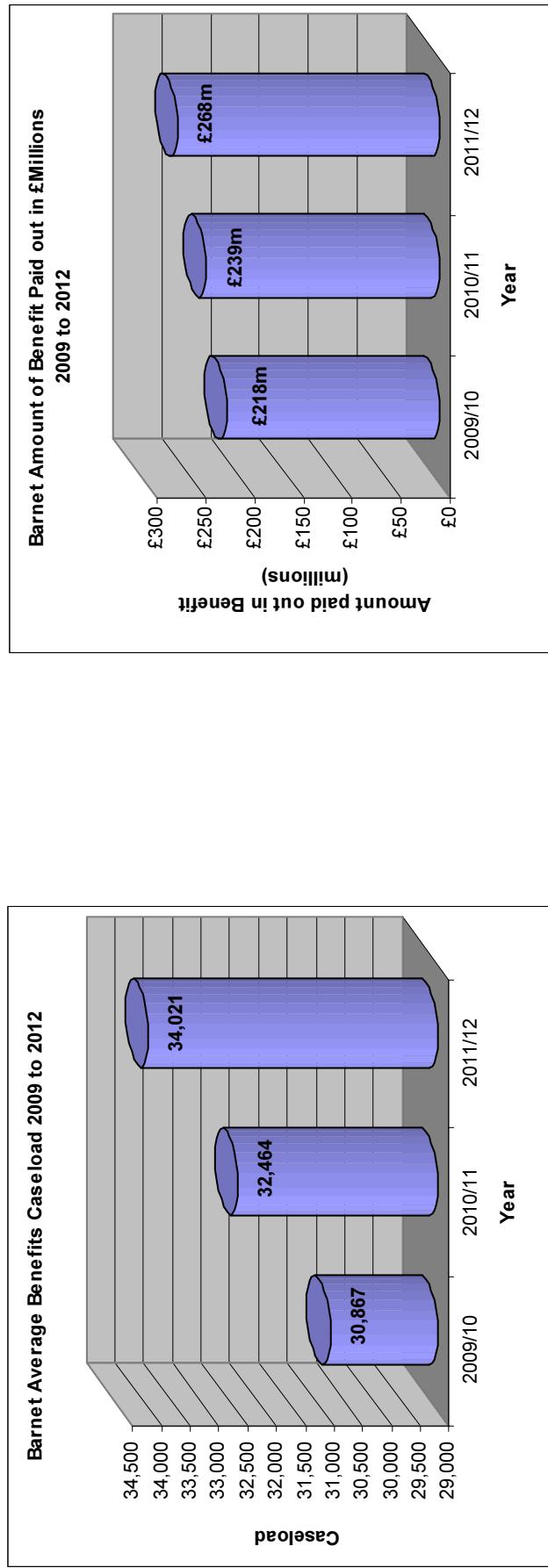
Benefit overpayment recovery is the responsibility of the Benefits Service. The role of CAFT is to identify, prevent and stop fraud and error in the benefits system. Where appropriate, we investigate and apply a sanction to the claimant. Our work ultimately means that that we have prevented a claim that should not be in payment from continuing thereby protecting and preventing further loss to the public purse. In cases where CAFT have not been able to identify assets or instigate a Financial Investigation the decision on the rate and method that an overpayment shall be repaid to the council is either at the discretion of a magistrate or responsible officer within the Benefits Service. The decision is usually dependent on the claimant's current circumstances at the time, and could be recovered from an "attachment to earnings", from ongoing benefits or repaid at an agreed amount dependent on the claimant's current circumstances. In recent years, CAFT have become more involved in overpayment recovery process. If we have identified that a claimant has realisable assets, we have been able to instigate a financial investigation, allowing CAFT Officers to use their accredited powers under the Proceeds of Crime Act 2002 to obtain restraint orders. Two examples of CAFT action in relation to this are;

Example A: Mr Bytqi had £47,700 in a safety deposit box that he had not declared when claiming housing and council tax benefit. The claim was reassessed taking this information into account and resulted in a housing and council tax benefit overpayment of £30,065.71. A restraint order was obtained at Wood Green Crown Court in June 2011 by CAFT Financial Investigators to ensure that the overpayment was paid off in full.

Example B: Ms West had failed to declare that she had been in employment since June 2008 and also that she had been a joint owner of a property since May 2003. This resulted 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 Miss West jointly owned. As a result of the restraint order, Ms West repaid the overpayment in full.



Benefit Investigation Team prevent, identify, investigate, deter and sanction or prosecute persons that commit benefit fraud in Barnet. They are fully qualified professional investigation officers who operate in accordance with both the DWP's Fraud and Error Strategy and the Council's Counter Fraud Framework as well as relevant legislation.



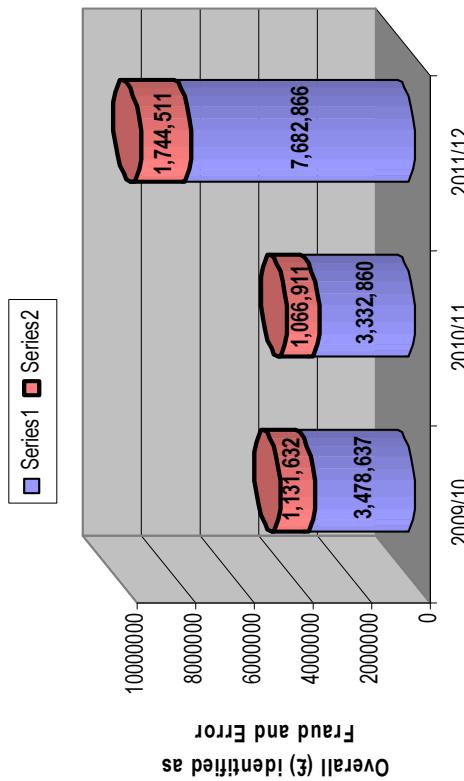
In recent years, the number of benefit claimants in the borough has

Due to the increase in benefit claimants the amount of benefit that

increased by 10.2%. This reflects the continuing national economic downturn resulting in an ever increasing Housing and Council Tax Benefit caseload for local authorities all over the country.

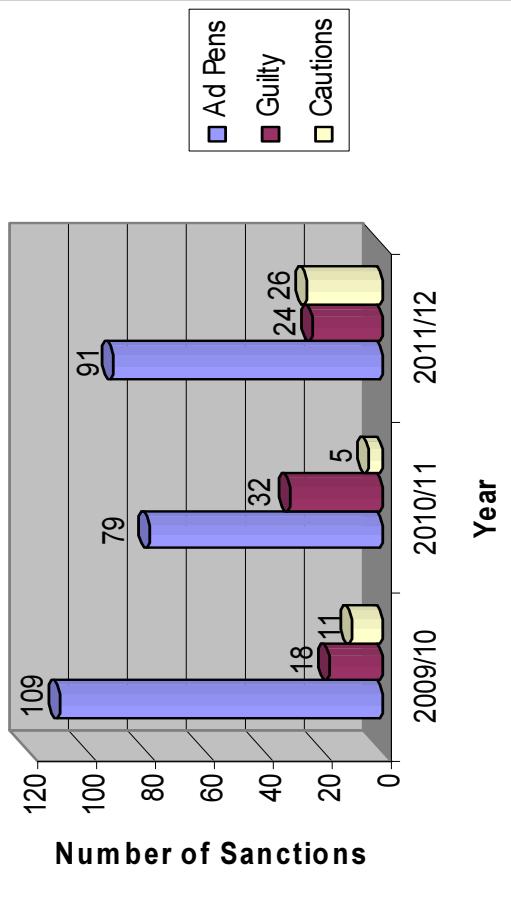
Barnet has paid out has also risen by 23% in the same period, further reflecting the current national and local situation.

Amount of Fraud and Error identified in the Barnet's Benefits System 2009 to 2012



Barnet's combined level of identified fraud and error for 2011/12 has increased significantly on previous years. This is mostly due to the way in which 'error' previously recorded by the Benefits Service. The implementation of the new Civica - Open Revenues Benefits System in 2011 has enabled the Benefits Service to have more accurate statistical data

Sanctions



The 2010/11 benchmarking results against London local authority fraud teams show that with the results above Barnet are placed once again in the top quarter for overall achievement of sanction numbers and top for achievement of number of sanctions per investigation officer to have demonstrating that working procedures are efficient, effective and value for money. This demonstrates that working procedures are efficient, effective and value for money.

CAFT have an excellent partnership working relationship with DWP. This has resulted in 12 successful joint prosecutions during 2011/12, as well as 2 joint cautions and 1 joint administrative penalty. These figures are included in the total above. Ongoing into 2012/13, we have 199 current investigations being carried out by the team. In addition to these investigations, we already have investigated and passed for prosecution 15 cases that are with our legal team and we have a further 12 cases that we have investigated jointly with the DWP and are with their legal team for prosecution. This level of prosecution demonstrates our successful joint working practices and our aim to deter and seek punishment for the more serious offenders of benefit fraud in our borough.

Benefit Fraud Investigation Case Studies:

A joint prosecution between CAFT and the DWP's Counter Fraud Investigation Service Organised (CFIS) is the case of Mr Jerry Zaandam: CAFT received an enquiry from the organised fraud team within CFIS concerning a Mr Jerry Zaandam. The allegation was that this was not his real name and he had been using numerous false identities to claim housing and council tax benefit, along with various DWP benefits. The investigation showed that Mr Zaandam's real name was Mr Oluseyi Jeremiah Adebayo and he had fraudulently claimed housing and council tax benefit totalling £26,199.97. These offences were part of 34 offences that Mr Adebayo was charged with and subsequently found guilty of at Crown Court. He was sentenced to 5 years and 8 months imprisonment and it was found that his British nationality was falsely obtained under the name Adebayo as he had previously been deported under another name. UKBA are dealing with his immigration status.

A joint prosecution between CAFT and DWP's local Counter Fraud Investigation Service (CFIS) is the case of Miss Lorraine Russell: CAFT received a referral from CFIS that the claimant may have a partner living in the property. Miss Russell had been claiming housing and council tax benefit since 1991. Miss Russell was interviewed under caution on two occasions and denied that Mr. Alan Carlton had been living in the property with her on a full time basis. She stated that he sometimes stayed there, but it was not his main residence. However, from the evidence gathered, her claim for income support, housing benefit and council tax benefit were cancelled back to 23 February 2004. The housing and Council tax overpayment amounted to £22,559.67 and the income support overpayment was £34,241.92. Miss Russell pleaded guilty at Wood Green Crown Court to three charges of dishonestly obtaining benefits and was sentenced to 6 months imprisonment, suspended for 18 months. She was also ordered to undertake 200 hours unpaid work

A CAFT prosecution is the case of Mr and Mrs Opoku-Annanne: CAFT received a referral from the benefits team in connection with the housing and council tax benefit claim of Mr Ben Opoku-Annanne and Mrs Rebecca Opoku-Annanne. There were concerns that they had not declared income or bank accounts on their benefit claim. Further checks were undertaken and it was found that both Mr and Mrs Opoku-Annanne had done work that they had not declared and also failed to disclose bank accounts that their earnings were going into. This resulted in a housing and council tax benefit overpayment of £14,244.42. Mrs Opoku-Annanne was charged with two offences of failing to notify Barnet of changes in her circumstances that she knew would affect her benefit entitlement. She pleaded guilty and was ordered to undertake 140 hours unpaid work for each offence, to run concurrently. Mr Opoku-Annanne was charged with three offences of failing to notify Barnet of changes in his circumstances that he knew would affect his benefit entitlement. He pleaded guilty and was sentenced to 4 weeks imprisonment, suspended for 12 months. The suspended sentence order also had a community requirement of 180 hours of unpaid work.

Corporate Fraud team deal with the investigation of any criminal and 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 and Police to ensure that the public purse is adequately protected.

The table below details the number of referrals that were made to CAFT during 2011/12 (87 cases) in addition to the ongoing investigations that were carried forward at the close of 2010/11 (24 cases). CAFT continue to deal with a variety of issues and are often requested to provide intelligence reports for the Police, other local authorities and advice and assistance to services within the Council on matters that do not necessarily equate to criminal activity but are still issues of concern that require CAFT expert advice. These include preventative fraud advice, breaches of internal procedures and disciplinary issues. This element of CAFT work is difficult to breakdown into statistical reporting as it is so varied, but is however listed below under advice and assistance given.

Directororate	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 2010/11	Total number of cases 2011-12 closed	Insufficient evidence to proceed with investigation	Closed insufficient Assets available for a financial investigation	Closed Agency (Money Laundering) to investigate	Closed Advice given to service	Closed No Fraud	Dismissed as a result of CAFT investigation		Closed Fraud Proven
										Passed to Police / Serious Organised Crime Agency	Closed	
Planning, Housing & Environment	9	26		9					9	7	3	
Deputy chief exec Service	9	23		5	2				5	9	1	2
Commercial services	2	8			1				6	2	1	
Adult Social Services	1	4			2				1			1
Children's Services	1	8			2				3	1	2	
Chief Executive Services	0	12			3				2	2	1	1
Corporate Governance	2	5							1			

Barnet Homes		0	1								
Total	90	24	87	86	22	2	0	27	22	9	4

The 9 cases above categorised as 'dismissed as a result of a CAFT investigation' relate to:

Operation QUEST was an investigation into illegal workers securing employment with the Council as Civil Enforcement Officers working within the Environment and Operations Directorate. **Ade ORESANYA** was arrested by the UKBA despite claiming that the details that she supplied were correct. She was taken to her home address where a premises search was conducted. Her real documents were recovered and it was confirmed that her real name is Adebukola Alaba ORESANYA. At that point, she confirmed that she used her sister's identity documents to secure a position of Civil Enforcement Officer with the Council. As a result, she has been detained by the UKBA whilst removal from the UK is being considered. **Oladokin AWONUSI** was arrested by the UKBA and confirmed to them that his real name was Olalekan Abraham ODUWAYE (dob 26/02/72). He also confirmed that he had used a false identity document to secure the position of a Civil Enforcement Officer with the Council. He also confirmed that he was really an 'overstayer' and did not have leave to be in the UK. As a result, he has been detained by the UKBA whilst removal from the UK is being considered

AA50 - was a proactive investigation relating to the verification of identity documents supplied by a Civil Enforcement Officer working within the Council's Environment and Operations Directorate. A temporary member of staff by the name of Arsen Fundi submitted an application for the permanent position of Civil Enforcement Officer. The application form was provided along with his passport and a change of name deed dated 1st December 2010 showing the name change from Eddy Nduwimana to Arsen Fundi. As a result of conducting an 'Enhanced vetting procedure' CAFT discovered that the applicant had failed to declare the fact that he had an 'unspent' criminal conviction for Theft and Deception. Upon questioning, the suspect confirmed that he had failed to declare the conviction. The investigation concluded that he had changed his name for the purpose of hiding this information from any prospective employer. The employee was dismissed.

Operation MIRAGE was an investigation into the unlawful access of the DWP's Customer Information System, by a member of the Benefits Administration Team within the Deputy Chief Executive's Service. Following receipt of a letter from the Department for Work & Pensions (DWP) security team, alerting the Council to a potential security breach, investigations were carried out into a Benefit Officer's usage of the DWP - Customer Information System (C.I.S) which is accessible by specific members of staff within the Council for the sole purpose of administering Housing/Council Tax Benefit. (HB/CTB). The investigation revealed that CIS records relating to 41 individuals were accessed by the employee between the 1st Jan 2010 and 31st March 2011 and in respect of which we were unable to establish any link between a current or previous claim for benefit to the Council. The employee attended an interview under caution and, when questioned regarding his use of the C.I.S system, fully admitted that he had used the system on six separate occasions for various non work related personal reasons. Following a disciplinary hearing, the employee was dismissed.

Operation MONTANA was an investigation into illegal workers securing employment with the Council's cleaning contractor. This investigation was conducted on behalf of the Commercial Services Directorate and took place both at North London Business Park and at Barnet House. The object of the operation was for UKBA and CAFT officers to identify and detain any illegal workers / cleaners employed by the cleaning contractor to clean the Council's office premises. All cleaners (14 at Barnet House and 15 at NLBP) were detained and their details were verified via the Home Office Immigration System. At Barnet House, 6 cleaners were identified and confirmed as illegal workers, 4 of these were released on reporting restrictions and 2 were arrested and detained. At NLBP, 2 cleaners were identified and confirmed as illegal workers and released on reporting restrictions, 4 were detained for the purpose of conducting house searches to obtain travel documents for verification. Whilst these illegal workers were not directly employed by Barnet Council, it was deemed to be a high risk situation that could have a severe detrimental effect on the integrity and reputation of the Council.

Operation PRIZM was an investigation into the fraudulent activities of the Bursary Officer working in one of the borough's school. This investigation was conducted on behalf of the Children's Services Directorate. The investigation revolved around the forging in autumn 2010 of an authorisation from the school's Chair of Governors by the school's Bursary Officer for a pay award to himself backdated to April 2010 and again in autumn 2011 backdated to April 2011. It was further found that payments from the school's bank accounts had been made into the Business Manager's own bank account via internet banking. The Bursary Officer was interviewed under caution and admitted forging signatures to obtain a pay rise as well as making unauthorised payments to himself from the school's bank account.

Operation MUSTANG: As a result of an ongoing investigation it was discovered that an employee in the Housing Supply Team had supplied falsified qualification certificates in order to secure a manager's position within a Council service. CAFT carried out background and enhanced vetting checks which revealed that the employee had been 'struck off' as a member of the Royal Institute of Chartered Surveyors (RICS), and had supplied a forged certificate. The employee was dismissed.

AA78: Relates to a referral from an HR Officer regarding an employee at a borough school who was using a false name to obtain a CRB check. This check showed that she had no previous convictions. However, further checks by CAFT identified her real name and confirmed that she had a conviction for fraud under a different name. the employee was dismissed.

AA78: Relates to a temporary member of staff working in the assisted travel department who was caught attempting to post jewellery to a friend using the Council post facilities. Her Temporary contract was terminated.

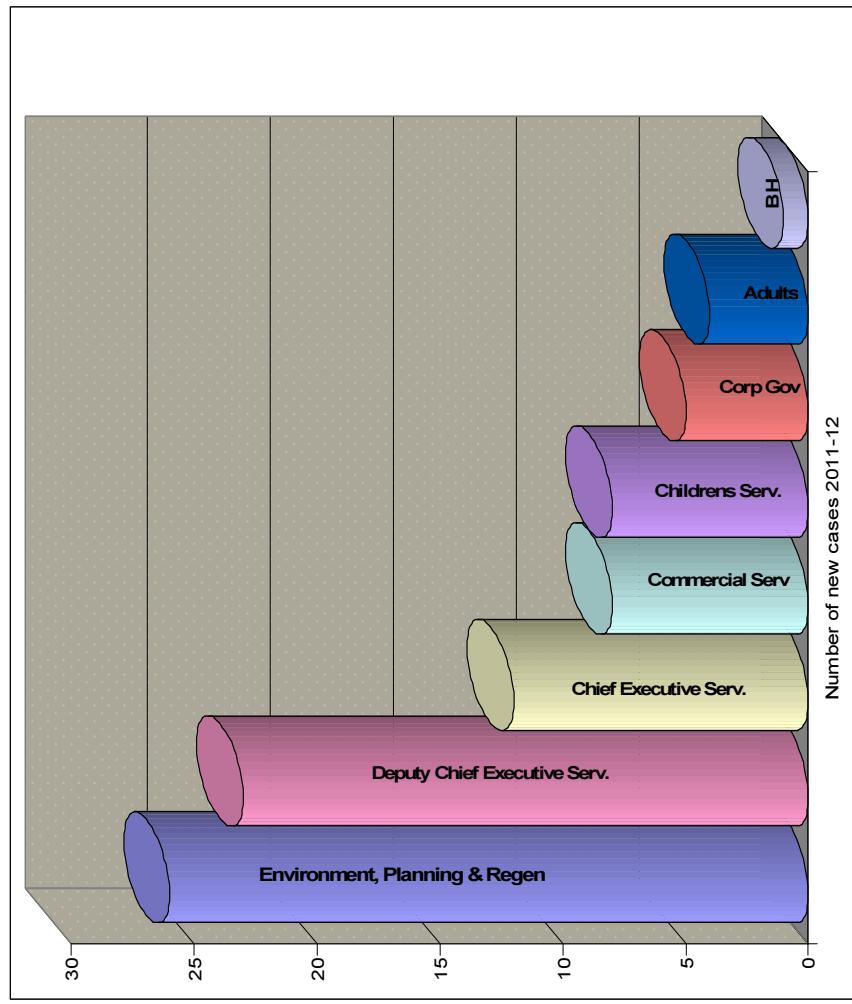
The 4 cases above categorised as 'Fraud proven' relate to:

Operation NEON: A Financial Investigation under the Proceeds of Crime Act 2002 relating to a benefit fraud case where an overpayment in excess of £21,000 was recovered in its entirety as a result of the claimant's house being "restrained" for compensation purposes.

Operation ODYSSEY: A Financial Investigation under the Proceeds of Crime Act 2002 relating to a benefit fraud case where an overpayment in excess of £7,300 was recovered in its entirety as a result of the claimant's bank account being "restrained" for compensation purposes.

Operation RIO: A Financial Investigation under the Proceeds of Crime Act 2002. A Barnet council cheque was issued but intercepted in the post and altered to read £1,300. CAFT were able to obtain the account opening details and statements relating to the account that the cheque was paid into and freeze all funds in that account. It was found that the account was opened using forged identity documents. As a result CAFT recovered the funds and the account was closed by the bank.

Operation PROWLER: A Joint CAFT / UKBA case resulting from a "sham wedding". CAFT were able to supply information to the UKBA regarding an Israeli male who was claiming to be a holiday maker in the UK. CAFT were able obtain evidence that the male was in fact living and working in the UK and had opened 2 businesses from which he was receiving a very significant income. The suspect was arrested and removed from the UK



This chart shows the number of new cases by Directorate referred to CAFT in the year 2011/12. It is clear to see that the number of cases relating to the Environment Planning and Regeneration Directorate (26 cases) exceeds all other Directorates. This is mainly due to the fact that CAFT have carried out a number of proactive investigations as a result of the partnership we have with the UKBA and the Police which had direct impacts on areas such as 'Street Scenes' and Parking.

The Deputy Chief Executive's Service (23 cases) showed an increase on previous years, mainly due to the increased proactive work within the 'Registration and Nationality' department that was conducted by CAFT and the UKBA into sham marriages.

Whilst the remaining Directorates show a lower number of referrals, it should be noted that there were no proactive reviews conducted by CAFT during the financial year 2011/12 in these areas.

Planned for 2012/13 are a number of proactive counter fraud reviews; some crosscutting and some targeted within specific areas such as Commercial Services, Adult Social Care and Barnet Homes.

Also included within the number of referrals shown are 6 whistleblowing cases which CAFT dealt with. This number is broken down into 3 cases within Environment, Planning and Regeneration, 1 case in Childrens Services and 1 case in the Deputy Chief Executive's Service. All of these referrals been have been investigated and resolved according to the whistleblowing policy.

Additionally in 2011/12, there have been 5 authorisations for surveillance in accordance with the Council's policy on covert surveillance, all have been conducted by CAFT officers and relate to the same ongoing internal investigation which we are unable to report on at this time.



NATIONAL ANTI-FRAUD NETWORK

Joint Pro Active Plan – CAFT, Internal Audit and Risk Management

During the last year, CAFT continued to work closely with Internal Audit (IA) and Risk Management (RM) on the work streams within this plan and to produce a new joint annual work plan. This plan signifies the way in which we now work in practice i.e. a joined up approach in ensuring the Council is making the most of the resources and knowledge of all our services and that there are robust processes to improve its internal control and anti fraud environment

The level of proactive anti-fraud work is dependent on how much reactive work is received and as a result not all areas planned were fully reviewed in 2011-12.

Adult Social Care and Health

Area of review	Description of Work	Status
Self Directed Support (Direct Payments)	CAFT instructed PWC specialist anti fraud / Direct payments specialists to undertake this audit to ensure the arrangements for direct payments are fit for purpose, in relation to anti fraud measures.	Draft report has been issued. The review identified a number of issues in relation to the controls in place to prevent and detect fraud during the direct payments process. These issues relate to controls to prevent and detect fraud during the assessments process, the robustness of direct payments monitoring, and fraud awareness amongst staff involved in the processes. Overall, management are required to implement a number of recommendations to improve the overall control environment, heighten awareness of fraud and enhance controls in place to detect and prevent fraud in this area. CAFT will follow this up in 2012 as well as proactively working with the service to ensure that any new schemes / procedures address fraud risks.
Children's service		

Nursery Funding (NEF Grants)	Proactive counter fraud work to review nursery funding and correct use of grants.	Due to a referral received from the service area, CAFT have reviewed current procedures as part of dealing with the referral. Initial findings are that the current procedures in place are fit for purpose with previous recommendations implemented and effective as they enabled this fraud to be detected. This will be fully confirmed at conclusion of investigation.
Continuous Anti Fraud work / reviews - The proactive plan anti-fraud plan covers investigations into all "internal" instances of suspected fraud, corruption and money laundering, ongoing proactive anti-fraud work including National Fraud Initiative (NFI) coordination and Investigation and fraud awareness training.		
Area of review	Description of Work	Status
Fraud awareness training	<p>CAFT will deliver fraud and anti money laundering training through e-learning materials.</p> <p>In addition to the e learning CAFT delivered further training to Members, Finance and HR these were specialist bespoke training and awareness sessions on Fraud, Anti Money laundering and roles and responsibilities.</p>	<p>There was a successful launch of this training and the good feedback received on training package, so far:</p> <p>113 Managers have successfully undertaken the Managers Edition of the course</p> <p>557 Staff have successfully undertaken the All Staff Edition of the course</p>
NFI co-ordination	<p>Ongoing NFI co-ordination and support including data uploading, training, assistance and investigation of relevant matches in accordance with Audit Commission timelines.</p> <p>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 sets</p> <p>All returns to Audit Commission were completed in January 2012.</p>	<p>Due to the volume of matches involved we concentrated on the high priority matches which amount to 15,159 matches, a substantial amount of these matches relate to Housing Benefit Matches (3041), Council Tax Single Person Discount (3856) and Blue Badge / Concessionary Travel Matches (1,791).</p> <p>To date, the exercise has identified over £162,932 of overpayments relating to various council payments such as housing benefit payments, pension payments and care homes</p>

		<p>payments. We are currently in the process of recovering £97,853. There is ongoing work in this area by all service areas and CAFT, and there are currently 1,193 open investigations in CAFT relating to NFI matches.</p>	
Payroll payment claims	Check sample of high overtime claims, sleep in, call out payments etc to supporting documentation. To include a focus on higher risk areas.	Ensuring arrangements are robust, with agreed targeted testing to verify compliance with checks that Council employees have the right to work in the UK, utilising UKBA embedded officer and UKBA intelligence in this area.	Unable to complete this review due to levels of re-active work.
UKBA Partnership + Vetting & Right to work in the UK	 <p>Last year CAFT continued to work in partnership with UKBA for the third year and continue to be one of five London Boroughs with a UKBA Officer embedded within a local authority. The indications are that the Barnet partnership has been the most successful of the five boroughs and has proven results for both the Council and UKBA.</p> <p>The partnership demonstrates value for money for the Council due to the minimal costs incurred (just the cost of office accommodation of the officer) and increased successful outcomes, especially as we now have immediate access to immigration records, assistance and advice when required. Whilst we are unable to report on UKBA successes, we have summarised below a pro active exercise that was carried out in the last year by CAFT / UKBA into 'Sham Marriages'</p>	<p>Ongoing CAFT / UKBA target work in this area.</p> <p>As a result of analysing information being received by our UKBA officer it was apparent that the London Borough of Barnet's Register Office in Burnt Oak was being targeted by immigration offenders who were entering into 'Sham Marriages' as a way to facilitate and legitimise their stay in the UK. Officers from CAFT, UKBA and Police carried out a number of joint operations by attending the Register Office on the date and time of the weddings to identify and capture immigration offenders and to prevent an abuse of the marriage ceremony process. These operations were all successful and resulted in 7 immigration offenders being arrested. Of these, 3 have been removed from the UK and 4 are currently being dealt with in accordance with the statutory immigration requirements. Additionally, information became available leading to the identification of a further 2 suspects who were involved in benefit fraud. As a result of the partnership, the UKBA have managed to remove a number of immigration offenders from within the Borough, such as failed asylum seekers, overstayers and illegal workers. Research carried out by the CAFT Intel</p>	

	<p>team helped the UKBA to identify and trace these offenders who were posing as claimants, students and employees, some of whom were found to be working in local schools.</p>	
Barnet Homes Partnership – to Combat Tenancy Fraud in Barnet. 	<p>Last year CAFT and Barnet Homes worked in partnership to combat "Tenancy Fraud" within the Borough. This partnership placed one fully qualified Fraud Investigator on secondment to the Barnet Homes Office in Grahame Park, along with a part time investigator from Barnet Homes staff.</p> <p>A Corporate Plan Target was set - <i>To work with Barnet Homes to recover properties where tenancy fraud is being committed</i>". The target was to recover 18 properties in a year).</p>	<p>The partnership has proven to be a success, with 19 properties recovered within the year.</p> <p>As well as recovering the properties the partnership raised awareness of tenancy fraud through a publicity campaign, setting up a dedicated tenancy fraud hotline and working closely with registered social landlords in the borough.</p> <p>The partnership has continued into 2012/13, but without the CAFT seconded officer. We are working closely with them and utilising various CAFT officers as and when required. There currently is one part time dedicated tenancy fraud officer based at Barnet Homes.</p> <p>Moving into 2012/13, CAFT have embarked on a new working relationship with the Barnet Group and its subsidiary companies Barnet Homes and Your Choice Barnet – this will expand the work of CAFT.</p>

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Meeting	Audit Committee
Date	21 June 2012
Subject	Exception Recommendations Report and Progress Report up to 6th June 2012
Report of	Assistant Director of Finance - Audit and Risk Management
Summary	Members are asked to note the progress against internal audit recommendations and work completed to date on the Internal Audit Annual Plan 2012-13
Officer Contributors	Assistant Director of Finance - Audit and Risk Management
Status (public or exempt)	Public
Wards Affected	None
Key Decision	No
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Appendix A: Internal Audit Progress Report (up to 6 th June 2012) Appendix B: Work completed to date for June 2012 Appendix C: Work in progress for June 2012 Appendix D: Internal Audit Recommendations quarter 1
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 against the Internal Audit Plan for 2012-13 to 6th June 2012 and the actions being taken to address some cases of non implementation of high priority recommendations.**

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 21st September 2010 that where an audit had limited assurance that greater detail be provided than previously.
- 2.2 At the meeting of the Committee on the 17th February 2011 it was decided that a report would be prepared quarterly regarding those internal audit recommendations not implemented.
- 2.3 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 provides that ‘...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 (Relevant section from the Constitution, Key/Non-Key Decision)

- 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.
- 8.2 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 The two internal audit reports for progress and exception audit recommendations have been combined for this reporting period as only 5 weeks have passed since the last meeting of the audit committee.
- 9.2 Since the last report the internal audit service has finalised 5 reports and all of these received satisfactory assurances. Information on the audit work carried out in the 5 week period has been included in Appendices A, B and C.
- 9.3 A number of recommendations that was due at the end of June are still in progress, however our early assessments have been included for the audit committee to review (appendix D). This shows that 54% had been implemented at the time of reporting (6th June 2012), however it should be noted that some were due by the end of the month.
- 9.4 The Committee’s role is to review the progress to date and challenge where appropriate the progress made. Directors and/or Assistant Directors were asked to attend the Committee where an amber rating had been received on the assessment of progress to discuss work to date and work planned to cover off any perceived risk.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Cleared by Finance (Officer's initials)	MCG and JH
Cleared by Legal (Officer's initials)	SS

Appendix A

London Borough of Barnet

Internal Audit & Risk Management

**Progress Report 2012-13 – Quarter 1
(up to reporting deadline of 6th June 2012)**

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

1. Introduction

The Internal Audit Plan was agreed by the Audit Committee on the 26th April 2012. 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. Information is also presented regarding the corporate risks.

2. Final Reports Issued

This report covers the period from 26th April to the 6th June 2012 and represents a 5 week period. The Internal Audit service has over this period issued 5 reports in accordance with the 2012-13 Internal Audit Plan. The full list of completed audits during this period is included within Appendix A. All of the reports issued in the current period were given satisfactory assurance and therefore there is no detailed analysis of audit findings to report over this period.

3. Work in progress and effectiveness review

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

As we are not at the end of the quarter for reporting purposes a number of the performance indicators have not been finalised, however of those reports issued they have all been issued within 10 days of finalising fieldwork and the service has had a number of performance indicators returned, of which the average rating is 5 (Excellent).

4. 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. External Audit carried out an assessment of PwC as part of their review of the internal audit service to ensure they could rely on their findings.

Regular meetings have occurred with senior officers regarding implementing action plans in accordance with the agreed timeframe.

5. 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 April 2012.

Type	Audit Title	Reasons
Deferred	Housing Needs and Resources	Deferred until Quarter 2 to ensure Internal Audit and CAFT resources could be used at the same time.
Deferred	SAP Access Controls	Deferred until quarter 2/3 and the scope of the audit may change depending on incorporating aspects of this review in financial system reviews.

6. Risk Management

Quarter 1 reporting of risk coincides with the performance reporting timeline and when the next risk and fraud forum is scheduled which is 11th July 2012. Since the end of April there have been workshops and training sessions ran on the revised risk management strategy and policy statement. There is also due to be an Assistant Director challenge session in June to improve the links between corporate objectives and the identification of risks relating to those. The Cabinet Member for Resources and Performance continues to challenge senior managers on quarterly performance reports, which includes risks.

Appendix B: 2012-13 work completed during quarter 1 including assurance levels as at 6th June 2012

Audit Opinions on Completed Audits during the period

Systems Audits	Assurance
Procurement Controls and Monitoring Action Plan (reported in April 1 2012)	Limited

School Audits	Assurance
1 Chalgrove Primary School	Satisfactory
2 Moss Hall Nursery	Satisfactory
3 St Margaret's Nursery	Satisfactory
4 Monken Hadley Primary School	Satisfactory

Appendix C: Work in progress

The following work is in progress at the time of writing this report (6th June 2012)

Work in progress

Systems Audits	Status
1 Business Continuity	Drafting report
2 Children in Care	Fieldwork
3 Children's Data Quality review	Fieldwork
4 Highways	Fieldwork
5 Voluntary Sector Grants	Fieldwork

School Audits	Status
1 Hampden Way Nursery	Drafting report
2 Barnfield	Fieldwork
3 Frith Manor	Fieldwork
4 Holly Park	Drafting report
5 Summerside	Drafting report

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Appendix D

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
Recommendation 1: Data Protection (Environment, Planning and Regeneration) Management should undertake the following action to ensure compliance with the ICO and LBB & Metropolitan Police CCTV Codes of Practice:	Environment, Planning and Regeneration	<p>The audit of the CCTV system has been completed and a section 29 form has been produced. The systems procedures manual and has not been written and issued to staff.</p> <p>Further Action: A systems procedures manual should be written and issued to all staff.</p> <p>Implementation date: July 2012</p>	Partially met The audit of the CCTV system has been completed and a section 29 form has been produced. The systems procedures manual remains outstanding.
Recommendation 2: Council Tax The planned review of user access in	Revenues and Benefits (CES – Customer		Implemented Significant progress has been made

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
<p>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.</p> <p>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</p> <p>The process for identifying and disabling leaver accounts should be strengthened to ensure that they are promptly disabled.</p>	Services)	<ul style="list-style-type: none"> - Data for quality checking is now sourced directly from OpenRevenues thereby ensuring the review/scrutiny of actual changes to Council Tax and NINDR accounts. - Senior officer (responsible for refund checking) access to create refunds was removed/disabled - The Local Taxation Manager processing access was removed/disabled - An effective process was implemented for identifying leavers and disabling them in the system. - the review of exception reports to identify / monitor any housing benefit assessment processing activity of the Control Team. - the introduction of a process to restrict access in line with identified conflicts on interest through completion of declaration of interest forms (in progress) 	<p>restricting staff access to OpenRevenues system, where necessary, based on information returned in declaration of interest forms. Forms to capture the information have been sent and restrictions have been applied for those returned.</p> <p>A process for identifying and analysing Council Tax and Business rates processing by members of the Control Team, through exception reporting, has started.</p> <p>Revised Implementation Date 1 June 2012</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
Recommendation 3: Data Security Risks and Issues 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. 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.	Information Systems (Commercial Services)	<p>Partly implemented</p> <p>The systems had not been taken offline to apply security patches.</p> <p>Dates to take the systems offline to apply the security patches had been proposed.</p> <p>Further Action Apply the security patches to the Network and Citrix systems on the proposed dates.</p>	<p>Implemented</p> <p>The patching of core system is now undertaken routinely in line with agreed/scheduled network infrastructure downtimes.</p> <p>Network infrastructure components have been taken down 3 times to apply the required level of patches (e.g. management confirmed that Citrix and Active Directory have been patched to the required level)</p>
Recommendation 4: Business Continuity – Corporate Support business continuity Plans IT Provision and accommodation Recommendation The Head of Insurance should co-ordinate the preparation and finalisation of Corporate Support IT and Accommodation business continuity Plans.	Corporate Governance	<p>Partly implemented</p> <p>The Head of Insurance has continued co-ordinating the finalisation of the IT and Accommodation Business Continuity Plans through engagement with the officers responsible for the development of those plans.</p> <p>Development of the IT Disaster Recovery plan and a viable</p>	<p>Partly implemented</p> <p>The process to the co-ordinate the development and completion of the Accommodation and IT Corporate Support Business Plans is ongoing. The business continuity plans have not been completed.</p> <p>Monthly meetings to monitor progress have been agreed between Head of Insurance and lead officers in IS, Estates and HR.</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
		<p>Accommodation business continuity plan was <u>in progress</u> but had not been completed.</p> <p>For instance, the need was identified for further action involving the collection and analysis of updated data on remote access availability and the numbers of officers required for critical services to ensure the development of a fit for purpose Accommodation Business Continuity Plan.</p>	<p>For the Corporate Support Accommodation Business Continuity Plan, consideration is being given to utilising 2 floors at Barnet House to accommodate an updated number of officers required to undertake Business critical services.</p> <p>For the Corporate Support IT Business continuity plan, the lead officers in IS are awaiting feedback about the Business IT processes, IT resource and delivery requirements linked to critical activities to progress development of the plan. IS Business continuity support arrangements will be enhanced/made more resilient following completion of the planned IS Disaster Recovery (DR) solution.</p>
Recommendation 5: Strategic Procurement, Policies and Procedures	Corporate Procurement Team (Commercial Services)	<p>Management are in the process of establishing three aspects that will build the basis for an appropriate balance of devolved and centralised procurement. These are the interaction between:</p> <ul style="list-style-type: none"> • Tools • Process • People <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</p>	<p>Revised due date: to be confirmed</p> <p>Partly Implemented</p> <p>Whilst approval has been given and action has been taken to align processes for centralisation there is still work to be done in putting in place the appropriate people and tools.</p> <p>Revised implementation date: September 2012</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
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.		<p>The tools aspect, such as the use of the SAP system, will be completed by June however people and processes will take longer and it is planned to have them completed by September.</p> <p>Processes with corresponding templates to build on good procurement practices for the devolved areas are being designed and implemented presently. E.g. Contract Management, where all devolved contract managers are taking the e-Training Contract Management module which is linked to a set of standard templates and processes.</p> <p>To establish clear roles and responsibilities, a number of meetings and workshops have been held between Service Areas and CPT to understand what areas of procurement will stay devolved and which are best centralised.</p>	Partly Implemented Contract monitoring models have been agreed depending on value and complexity
Recommendation 6: Contract Management, Contract management arrangements (EPR) Processes should be implemented	Environment, Planning and Regeneration	Contract monitoring models will be decided based on best practice, current effective practice in EPR and contract term values.	Partly Implemented Contract monitoring models have been agreed depending on value and complexity

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
<p>and responsibilities clarified across the Service for the ongoing scrutiny and challenge of contract management arrangements to ensure that they are undertaken for each contract in line with agreed and minimum contract management standards. Contract management minimum standards should be developed for contracts in line with the thresholds in the Contract Procedure Rules (CPRs), consultation should take place with Corporate Procurement to ensure practice is consistent.</p>		<p>The models will be applied to contracts with values equal to and above CPR limits for term and annual contracts. Identified contract managers will receive the appropriate contract management training to enable them to manage contracts effectively. Contract managers will be monitored through standard management processes (e.g. one to one supervision and team meetings) to ensure that they are undertaking contract management in line with the agreed model.</p>	<p>of contracts. Models will range from quarterly strategic/monthly technical meetings for high value complex contracts to milestone meetings for low value, less complex contracts.</p> <p>All managers involved in Contract management have been instructed to complete Contract Management through the E-Learning format. Further classroom type training of an interactive nature is being designed and piloted.</p> <p>The delivery of contract monitoring by contract managers will be monitored through 1-1 sessions and reviews by the EPR Performance and Development Officer accessing and reviewing evidence of contract monitoring processes (e.g. minutes) filed in a Corporate Contract Repository.</p> <p>Further Action:</p> <p>Complete planned training (30 June 2012) Evidence the monitoring of contract management arrangements</p> <p>Revised due date: 30/6/2012 (training), 1 August 2012 (monitoring)</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
Recommendation 7: Establishment List, Systems and processes Pay and Data changes to HR establishment data, particularly significant changes stemming from complex restructures, should be subject to independent check. Evidence (audit trails) of such check should be retained.	Deputy Chief Executive's Service	<p>Agreed. The Pay & Data Manager will ensure that all SAP organisational changes are fully checked and a record made of the inputter and checker. Audit evidence will be retained for all changes. The SAP Change form will be amended to record inputter and checker</p> <p>As recommendation 1 above. HR will issue revised detailed advice to the business to explain the process to make changes to the establishment. New detailed instructions and the SAP change form will be amended to require Finance, HR and the relevant Budget Holder to sign off and reference to the applicable DPR/GFC report. These actions will ensure ownership by all stakeholders of changes to establishment lists</p>	Implemented Fit for purpose guidance circulated to Senior Management communicated requirements and responsibilities for ensuring the validity and accuracy of Establishment data.
Recommendation 8: Establishment List, Data use and reporting HR should develop and communicate a protocol to ensure the ongoing and effective review of Establishment data	Deputy Chief Executive's Service	<p>HR will issue revised detailed advice to the business to explain the process to make changes to the establishment. New detailed instructions and the SAP change form will be amended to require</p>	Implemented Fit for purpose guidance circulated to Senior Management communicated requirements and responsibilities for ensuring the validity and accuracy of Establishment data.

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
<p>by Services. The protocol should define timeframes for reviews, the use of establishment data reports or the provision of Establishment reports to Services as part of the review. It should also identify the responsibilities for who should be engaged with the review process. The role of Business Partners in facilitating the review should be clarified and defined.</p>		<p>Finance, HR and the relevant Budget Holder to sign off and reference to the applicable DPR/GFC report. These actions will ensure ownership by all stakeholders of changes to establishment lists. The Guidance will include advice on checking actions to maintain accurate establishment lists. HR will formally communicate changes to establishment data protocols and processes to Directors and Heads of Service.</p>	<p>Establishment data.</p>
<p>Recommendation 9: Parking Service, Records Retention & Disposal</p> <p>That all records be stored manually or electronically in a logically searchable fashion, in line with the Records Retention & Disposal Guidelines, specifically section 3.9.23.</p>	<p>Chief Executive's Service (CSO)</p>	<p>The CSO team intends to start scanning all new parking permit application documentation from the end of April 2012, as well as back-scanning all documentation which has been retained. Documentation will be stored electronically and retained in line with Records Retention & Disposal Guidelines.</p>	<p>Partially met</p> <p>Although staff have been trained and scanning has begun, the recommendation is not yet fully implemented and Internal Audit will follow this up for the next Audit Committee.</p> <p>Further Action:</p> <p>The CSO branch of the Parking Service will continue to back-scan the documentation in order to ensure that records are stored in line with the Records Retention & Disposal Guidelines.</p> <p>Implementation date: August 2012</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
Recommendation 10: Human Resources Data Quality, Systems and Processes A risk assessment should be undertaken to assess the frequency of undertaking a sample check of the indicators. Once this has been assessed, checks should then include: <ul style="list-style-type: none"> • Sample checks to source records to confirm accuracy, validity and completeness of data prior to reporting; • Data cleansing by producing exception reporting, e.g. to remove duplicate / incorrect records or to fill in missing information. 	Deputy Chief Executive's Service	<p>We recognise the Corporate aim for data quality is for all data input to adhere to the principle of 'right first time' and we agree to undertake more robust data verification checks to maintain data quality. We would suggest that the possible errors in data submissions outlined in your sample check of Quarter 2 data found minor errors, resulting in the indicators being potentially misstated but with a small margin of error</p> <p>Average number of absence days per employee (rolling year) this variation relates to the movement of staff throughout the year. Where staff appear in more than one service during the year they become an additional member of staff in that service but not to the council as a whole. We will undertake further investigations to establish the most accurate way of reporting this indicator.</p> <p>Processes should be established with services to confirm when managers or staff should be included or excluded from the individual indicator data count.</p>	<p>Fully met The HR Data Quality team has carried out a risk assessment as recommended, and implemented several measures to improve data quality, as follows:</p> <p>Average number of absence days per employee (rolling year) From quarter one of 2012-13, this will be calculated manually, to ensure that duplicate/inaccurate records or missing information will not be included in the data.</p> <p>% managers submitting a monthly absence return The rate of return from Managers is currently 91%. HR has instigated a full check with managers, with each Service contacted monthly to confirm that the list of managers required to complete an absence return is accurate.</p> <p>% objectives set for eligible staff only This is an annual check every first quarter, and HR will ask Services to confirm the accuracy of any exemptions for all Performance Review reporting and an annual check of exemptions for each service will be undertaken.</p> <p>We have already implemented checks for the % managers submitting a monthly absence return. Each service is now given a</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
<p>Recommendation 11: Value for Money – Facilities Management, Leaseholder Relationship</p> <p>Management should liaise with the leaseholder to authorise and sign the lease for Building 1 Lower Ground Floor.</p> <p>Management should review all leases to identify any unbilled amounts, and liaise with the leaseholder to calculate a final amount payable.</p> <p>In addition, management should accrue for the full amount of payments not made since January 2008.</p>	<p>Commercial Services</p> <p>All necessary authorities are now in place for Officers to complete the outstanding lease.</p> <p>Day to day meetings exist through LBB Operations Manager and Landlord's representative, also forward planned meetings are now in place addressing all lease and operational issues.</p> <p>Adequate provision is being set aside for the properties.</p>	<p>complete list of managers and will be required to notify HR of any reason for exemption before the submission of data.</p>	<p>Partly implemented</p> <p><u>Signing Building 2 Lower Ground Floor</u></p> <p>The lease for Building 2 Lower Ground Floor has not been signed. The first quarterly meeting has been arranged for 29 May 2012 to take this forward.</p> <p>Management expect the lease to be signed latest 30 June 2012 following which the leaseholder will identify and communicate the final amount payable.</p> <p><u>Provisions / accruals for unbilled amounts</u></p> <p>A provision of 370K has been raised in relation to Building 2 leases relating to Building 2 Lower Ground floor for amounts owed since 1 January 2008.</p> <p>A provision of 85K has been raised relating to outstanding service charge for Building 4</p>

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
Recommendation 12: Integrated Children's System – Liquidlogic, Password security As outlined in the password policy, Management should ensure : <ul style="list-style-type: none"> • Password expiry is enabled in the system and passwords are used for no more than 45 days; • Initial passwords are strong and not of a common form; and • The requirement for new users to change their initial password at the time of first log on is enforced. Where system limitations do not allow specific password controls to be implemented, other technical (e.g. single sign-on) or manual (e.g. periodic policy reminders, user	Children's Service	ICS password to be in line with LBB corporate password policy. Management should liaise with the leaseholder to authorise and sign the lease for Building 1 Lower Ground Floor.	Further Action Revised due date: 30/6/2012 Fully met Strong password requirements have been configured within the system, with alphanumeric minimum length passwords enforced. The Project Manager, Children's Services, emails users every 45 days to ensure that passwords are changed in accordance with the Council's password policy.

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
awareness training) options should be implemented.	Children's Service	<ul style="list-style-type: none"> • LBB IS will implement and perform a quarterly care system audit to assess all accounts and disable ones that are no longer required. Proposed process written and sent to Paul Kennedy for assessment and agreement. • Reference number from service Management Tool (Hornbill Supportworks) is recorded in SWIFT and ICS. Old entries before the implementation of Support Works won't have a reference attached to them. • Perform an exercise to assess all accounts within ICS and remove those that are no longer required; • Periodically review the active ICS user accounts and disable any that do not require access or do not have a justifiable business requirement for access, as per the requirements in the client access procedure; • Apply the same access and monitoring procedures in the test environment as applied in the live environment; and • Ensure reference numbers are recorded in ICS, Hornbill and Swift 	<p>Fully met</p> <ul style="list-style-type: none"> • All Team Managers have been sent staff lists to check, so that accounts which are no longer required can be disabled. • The service desk reference is now recorded in ICS, Hornbill and Swift where required to ensure auditable evidence of appropriate managerial approvals are retained for all new user accounts created. • Access for the testing area has been removed for all users except for the System Admin user. • Managers must now apply for system access for their staff, and confirm as part of the application process that an enhanced CRB check is present. The new method of application has been notified to managers and the IS service desk.
Recommendation 13: Integrated Children's System – Liquidlogic, User access procedures Management should:			

Audit Title and Recommendation	Responsible Area	Response from Management	Audit Assessment July 2012
where required to ensure auditable evidence of appropriate approvals are retained.		<p>The ICS team will no longer complete the Additional system access form on behalf of managers but the managers themselves will complete it. This form asks for confirmation that an enhanced CRB check is present. A record in Hornbill completed by the team manager for the employee with access to ICS will then recorded with the call ref recorded in ICS.</p>	

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Meeting	Audit Committee
Date	21 June 2012
Subject	Internal Audit Annual Opinion
Report of	Assistant Director of Finance – Audit and Risk Management
Summary	The Committee is asked to note the content of the Annual Opinion for 2011-12.

Officer Contributors	Maryellen Salter, Assistant Director – Audit and Risk Management
Status (public or exempt)	Public
Wards Affected	None
Key Decision	No
Reason for urgency / exemption from call-in	Not applicable
Function of	Full Council
Enclosures	Appendix A: Internal Audit Annual Opinion 2011-12
Contact for Further Information:	Maryellen Salter, Assistant Director – Audit and Risk Management, 020 8359 3167

1. RECOMMENDATIONS

1.1 That the Committee note the contents of the Annual Opinion/Report.

2. RELEVANT PREVIOUS DECISIONS

2.1 The Audit Committee Work Programme which was approved at the meeting on 26th April 2012 included the Internal Audit Annual Opinion for inclusion at this meeting.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 All internal audit planned activity is aligned with the Council's objectives and, thus, supports the delivery of those objectives by giving an auditor judgement on the effectiveness of the management of the risks associated with delivery of the service.

3.2 The Internal Audit Annual Opinion forms part of the Annual Governance Statement that is presented to this Committee.

4. RISK MANAGEMENT ISSUES

4.1 All Internal Audit activity is directed toward giving assurance about controls put in place by management to mitigate risks they have identified. Specifically giving assurance around the design of those controls and the operating effectiveness.

4.2 Internal Audit work contributes significantly to increasing awareness and understanding of risk and controls amongst managers and thus, leads to improving management processes for securing more effective risk management. Internal Audit also makes recommendations to assist managers in improving the internal control environment.

5. EQUALITIES AND DIVERSITY ISSUES

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

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

6.1 None directly as a result of this Report.

7. LEGAL ISSUES

7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

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

9. BACKGROUND INFORMATION

- 9.1 This report summarises the work that Internal Audit has undertaken during 2011-12 and the key internal control environment strengths and high priority recommendations identified within each directorate during the year.
- 9.2 This annual report has the primary function of giving an overall opinion on the internal control environment. The 2011-12 financial year has evidenced improvement in the quality of design and effectiveness of controls in place to mitigate risk. This was particularly evident for fundamental and key financial systems in place, for which now satisfactory assurance is given that these are in place and operating as designed.
- 9.3 Overall 51% of audits undertaken were given satisfactory assurance compared to the previous year where only 28% received satisfactory assurance. However once the fundamental and key financial systems were excluded from this analysis it was clear that the overall control environment had not improved significantly so as to change the limited assurance on the overall internal control environment. As such an overall limited assurance has been given on the overall internal control environment but with improvement noted.
- 9.4 Schools financial management continues to receive satisfactory assurances around schools that we have direct responsibility for. We audit schools on a three year cycle, and although not directly comparable year on year as the same schools are not audited, we have noted a slight reduction on the number of schools receiving satisfactory assurances.
- 9.5 The Audit Committee's role in receiving this report is to note the overall assurance given for the financial year and to focus on the areas noted as themes for 2012-13 for improvement, which are:
- Contract management and compliance
 - Data quality
 - Data protection
 - Improved efficiencies within processes

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Cleared by Finance (Officer's initials)	MGC and JH
Cleared by Legal (Officer's initials)	TE

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Appendix

London Borough of Barnet

Internal Audit Annual Opinion 2011-12 - Draft

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

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1. Introduction and Overview

Purpose of this report

This report summarises the work that Internal Audit has undertaken during 2011-12 and the key internal control environment strengths and high priority recommendations identified within each directorate during the year.

Overview of our approach

In line with CIPFA Best Practice, the 2011-12 Internal Audit plan was risk based, which has been formulated by:

- Linking with the Directorates' plans;
- Risk Management meetings with officers from all Directorates;
- Assessing the risk management system for adequacy; and
- Internal Audit's 'Cumulative Audit Knowledge and Experience'

Our role in internal audit is to provide an annual assurance statement on the adequacy and effectiveness of the Council's governance processes, risk management and control environment – the 'system of internal control'.

In broad terms our Internal Audit approach takes into account the following (according to 2010/11 statement of accounts):

- **Annual gross revenues of approximately £766m** - Internal Audit performs key fundamental audits of all major income systems each year (for example council tax, NNDR, parking, Housing Benefits). Our work is focused on the system controls (including interfaces) and manual controls such as performance of reconciliations and clearing of suspense accounts. In addition, we review the collections of income through an annual review of income and debt management controls.
- **Annual gross expenditure of approximately £1.280bn** – Each year we perform key financial system audits around the Council's devolved accounts payable system. We also conduct reviews into the effectiveness of controls over other significant areas of spend e.g. payroll, grants, corporate procurement.
- **Long term assets of approximately £1.336bn** - The majority of assets are property and so pose less risk to the Council. We generally undertake one review in this area each year based on risks identified.
- **Other assets of approximately £232m** - We annually review treasury controls and the Council's administration of investments.

Overview of our work

The Annual Internal Audit Plan for 2011-12 highlighted that a total of 32 systems based audits and 26 school audits were planned. We have communicated closely with senior management throughout the year to ensure that the audit reviews actually undertaken continue to represent a focus on high risk areas, in the light of new and ongoing developments in the council to ensure the most appropriate use of our resources.

As a result of this liaison, some changes were agreed to the plan during the year. Some projects have been added to or deleted from the Plan, others have been consolidated or split into separate elements, and the timing of a number of others has been changed. Consequently, the total number of audits undertaken in 2011-12 was actually 37 systems based audits and 24 school based audits (2 deferred into 2012-13). See Section Overall Summary.

We generally undertake individual audits with one of two objectives in mind. The majority of audits are geared towards providing assurance to management on the operation of the Council's internal control environment. Other audits are geared towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible.

All audit reports include our recommendations and actions agreed with management that will, if implemented, further enhance the control environment and the operation of the controls in practice.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report ratings and priority of recommendations
- **Key themes identified** during our work in 2011-12 and an update on those themes identified from the previous year
- **Service Summaries** providing an overview of audit work done in each department, the assurances given and any high priority recommendations raised.

In this report, we have drawn on the findings and assessments included in all of the reports issued, all reports had been finalised in full and signed off by the relevant Director/Assistant Director.

2. Overall Summary

Overall, as illustrated in the tables below, we have noted an improvement in the percentage of satisfactory assurance reports issued compared to limited. Overall there were more satisfactory audit reports issued (51%) compared to 28% of audit reports in the previous year.

Based on the internal audit work completed in 2011-12 I can give limited assurance on the Council's overall internal control environment.

However, based on the internal audit work performed I can give satisfactory assurance on the key controls in operation within fundamental and key financial systems.

Report ratings

Assurance opinions	No of Projects/Audits			
	2011-12		2010-11	
	No.	%	No.	%
Substantial	-		1	2
Satisfactory	19	51	11	26
Limited	14	38	29	67
No	-	-	2	5
Risk Assurance	4	11		
Sub-total	37		43	
Schools audits**	25		34	
Merged audits/no opinions	-		2	
Total Audits	62		79	
Total	62*	100	79**	100

* the number of audit days planned was 1,007 for 2011-12

** the number of audit days planned was 917 for 2010-11

Fundamental and Key Financial Systems

Fundamental and key financial systems	2011/12		2010/11	
	No.	%	No.	%
Substantial			1	9
Satisfactory	8	80	4	33
Limited	2	20	7	58
No			-	-
Total Assurance ratings	10	100	12*	100

* In 2010-11 the additional 'systems' reviewed were debit and credit cards and compliance with financial regulations. In 2011-12, these two areas were considered within each of the key financial systems we reviewed rather than separately.

Positively there was an evident improvement within the controls surrounding fundamental and key financial systems with 80% now with satisfactory position; this represents a 90% improvement in comparison to the prior year.

Analysis of School audit assurances

The Scheme for Financing Schools states that "the Chief Finance Officer shall arrange an adequate and effective internal audit, under his/her independent control, to examine the schools' accounting, financial and other operations." The table below outlines the assurances given for those 24 schools reviewed. This is the first year in which comparison can be made between years, as previously schools were not given an assurance rating. The results highlight that there is some slippage of financial management capability within Schools, compared to the previous year. However it is important to note that we are on a three year cycle with schools and we are not comparing the same schools year on year

Assurance opinions	2011-12		2010-11	
	No.	%	No.	%
Substantial	2	1	-	
Satisfactory	18	72	31	91
Limited	4	16	2	6
No	-	-	1	3
Special Audits	1	1		
Total	25	100	34	100

Based on the school audits carried out during 2011-12 I am able to give satisfactory assurance that there is an adequate system for financial management processes and controls among the Council's schools.

3. Key themes

There are a small number of areas that are cross-cutting included within our Internal Audit Plan. By pulling together all summaries for the directorates for the year it enables us to draw out key themes that require attention by the Council.

Internal Control and Governance

From a governance point of view, the following areas have been noted as still relevant for the Annual Governance Statement:

Contract Management/Procurement – although improvement has been made since last year towards the Procurement Controls and Monitoring Action Plan there is still some progress to be made in making the compliance regime business as usual. The council now have the right data in which to make further efficiencies in contract and category management, and the control framework should be embedded to further support these objectives.

Data Quality – although overall arrangements at a corporate level to support data quality have improved there are still instances observed where data quality arrangements within services have not met all data quality standards. It is important as aspects of the value chain are outsourced that standards for data quality are understood and developed to ensure data quality issues can be identified and flagged with providers prior to placing reliance on data for decision making purposes.

Data protection – during the year a number of improvements occurred to the data protection framework, there is a requirement however to sharpen the compliance framework for more proactive targeted improvement to take place.

Focus on internal processes and relevance for the customer – there were a number of opportunities observed across a range of services to redesign processes and procedures to better achieve outcomes for the customer/resident/service user. For example, some processes were inefficient in that they did not act as a control to be relied upon by management but rather added additional time/resource to the customer journey.

In addition, the following control issues were noted consistently and although not considered a significant governance issue they require focus by senior management during 2012-13:

Training and development – common across a number of reviews was the piece meal approach to training and development. Key to an adequate internal control environment is equipping staff with the necessary tools to carry out the tasks that they have been assigned. Whilst training and development had been provided across directorates there was little management oversight of that training and development to ensure the right people attended and all training needs had been met.

Audit Recommendations – whilst the direction of travel had improved for implementing audit recommendations on a timely basis, there were instances in a number of audits, or from other sources of assurance received by the council, that highlighted some recommendations were repeated from previous periods. It is important that accepted recommendations are actioned in order to support the improvement of the internal control environment.

Risk Management

Arrangements for risk management were reviewed by PwC to ensure they could be relied upon as a basis for setting the Internal Audit Plan. Based on that review they gave satisfactory assurance that the risk management arrangements were operating as intended; this was an improvement to the previous review undertaken in 2009/10 which gave limited assurance that arrangements were effective. The service continues to benchmark its risk management arrangements through CIPFA and also within the current year the risk management strategy and policy was revised and reported to the Audit Committee.

We do note however from our internal audit work within the services that in some cases controls had not been designed effectively to mitigate the risks identified, and therefore more training is planned for 2012-13 to ensure the link is understood between achievement of objectives and the management of risk.

Performance of Internal Audit

All of the 2011-12 Audit Plan was delivered by the end of the financial year (March 2012), over the past two years there has been a focus on delivering assurances on a timely basis and this year marks another 3 month improvement to the process. During the year the Internal Audit and risk management service has made some further improvements to its performance including:

- Completing the joint procurement process with London Borough Enfield for IA services, awarding PwC the contract for the next three years;
- Completing an internal restructure to enable the service to meet the needs of stakeholders;
- Refocused the audit approach to ensure focus on key risks;

- Improved quality assurance processes in place;
- Revising the risk management strategy and policy statement to align with the new models of delivery the council is progressing towards; and
- Training on risk management processes and procedures, including the use of JCAD the risk management system

We continually request feedback from senior management and service managers to ensure we address any perceived or actual weaknesses. This year we received 16 performance questionnaires back following completion of audits. These questionnaires gave a rating from 1 (Excellent) to 5 (Unacceptable), we set a target for the Internal Audit Service to achieve 90% of those to be rated over 3. This year the service achieved 100% (88% in 2010-11) rated satisfactory or above. As most of the feedback was positive there was not too much negative feedback to action however there were the following suggestions:

- Adjusting the tone within some of the schools audit reports
- Being clearer in recommendations raised

There continues to be a need to review the Internal Audit Service and seek to improve the arrangements further.

4. Service Summaries

The number of audits completed by department and the overall report ratings given is summarised in the table below:

Directorate	Substantial	Satisfactory	Limited	No	No opinion	Total
Fundamental and key financial systems		8	2			10
Cross cutting		2	3			5
Integrated Specialist Audits		1				1
One Barnet					2	2
Corporate Governance		1				1
Environment, Planning and Regeneration		1	3			4
Commercial Services			2		2	4
Adults Social Care and Health		2				2
Children's Services		3	1			4
Chief Executive Service		1	1			2
Deputy Chief Executive Service			2			2
Total	-	19	14	-	4	37

The number of recommendations raised by directorate is noted below and the number of high priority recommendations accepted:

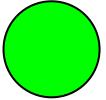
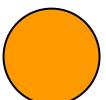
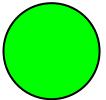
Directorate	High (Priority 1)	Medium (Priority 2)	Low (Priority 3)	Total	Total Priority 1 Accepted (No.)
Fundamental and key financial systems	2	31	6	39	2
Cross Cutting	5	20	2	27	5
Integrated Specialist Audits		1	1	2	
One Barnet	1	15		16	1
Corporate Governance		5		5	
Environment, Planning and Regeneration	3	17		20	3
Commercial Services	2	11		13	2
Adults Social Care and Health		7	1	8	
Children's Service	3	11	11	25	3
Chief Executive Service	1	3	2	6	1
Deputy Chief Executive Service	3	6	1	10	3
Total	20	127	24	171	20

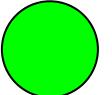
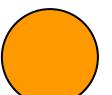
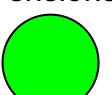
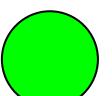
As at the end of April the priority 1 recommendations were 75% implemented, an improved direction of travel in implementing recommendations was demonstrated in the year however the target is to have 90% consistently implemented quarter on quarter.

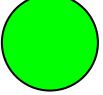
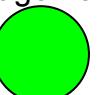
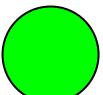
Compared to last year, there were 234 recommendations raised: 45 high priority, 166 medium priority and 23 low priority recommendations raised. This number of recommendations this year is a positive improvement on last years results, with a smaller number of high and medium recommendations raised. As all recommendations were accepted by management we would expect all of these recommendations to be implemented by the time of our follow-up timetable.

Fundamental and key financial systems

Each year Internal Audit carries out reviews of the council's fundamental financial systems, to provide the council with the necessary assurance that key financial controls in the fundamental systems are operating satisfactorily and support a robust internal control environment. Overall we have noted an improvement in the internal control environment compared to last year. The reviews undertaken during the year are listed below along with a summary of key strengths and high priority recommendations noted:

Assurance and Title	Strengths	High priority Recommendations
Housing Benefits 	<ul style="list-style-type: none">Clear and allocated responsibility for key processes within Housing BenefitsThe existence of updated, accessible documented procedures for review by Housing Benefit staffAdequate and effective staff training and development arrangements for ensuring the accurate processing of benefit claims	<ul style="list-style-type: none">There were no high priority recommendations
Council Tax 	<ul style="list-style-type: none">Clear and allocated responsibility for key processes for Council TaxThe existence of documented processes for referral for key Council Tax processesAdequate and effective training and development arrangements for ensuring accurate processing of Council Tax exemptions, discounts and disregards.	<ul style="list-style-type: none">Need to strengthen and complete access controls review within the Council Tax teams
NNDR 	<ul style="list-style-type: none">Clear and allocated responsibility for key processes for NNDRThe existence of documented processes for referral for key business rate processes for exemption and relief processes, property	<ul style="list-style-type: none">There were no high priority recommendations

Assurance and Title	Strengths	High priority Recommendations
	<ul style="list-style-type: none"> database processes, interface reconciliation, refund processing and recovery. Adequate and effective training and development arrangements for ensuring accurate processing of NNDR relief. 	
Accounts Payable 	<ul style="list-style-type: none"> All audit recommendations from the previous year had been implemented in full for accounts payable 	<ul style="list-style-type: none"> There were no high priority recommendations
Payroll 	<ul style="list-style-type: none"> The clear allocation of roles and responsibilities for payroll related processes The existence of documented procedures for related processes for referral 	<ul style="list-style-type: none"> Although there were systematic arrangements for submitting P45 certificates for leavers, there were instances where they had not been documented as submitted. This issue had not been rectified since the previous year's audit.
LG Pensions 	<ul style="list-style-type: none"> Our testing confirmed that controls were designed and operating effectively for those areas of high risk with pensions. 	<ul style="list-style-type: none"> There were no high priority recommendations
Treasury Management 	<ul style="list-style-type: none"> Our testing confirmed that controls were designed and operating effectively for those areas of high risk with treasury management. 	<ul style="list-style-type: none"> There were no high priority recommendations

Assurance and Title	Strengths	High priority Recommendations
Cashbook 	<ul style="list-style-type: none"> Recommendations raised in the previous years audit for cashbook control had been implemented in full 	<ul style="list-style-type: none"> There were no high priority recommendations
Income and debt management 	<ul style="list-style-type: none"> All recommendations raised in relation to the prior years audits had been implemented in full for the income and debt management review. 	<ul style="list-style-type: none"> There were no high priority recommendations
Non-current assets (incl. Heritage Assets) 	<ul style="list-style-type: none"> Roles and responsibilities for related processing were clear and allocated; and Documented procedures covering key aspects of non-current asset processing were in place and up to date Effective processes for ensuring the timely identification of Heritage assets in line with the Code definition for Heritage assets; Effective processes for measurement of Heritage Assets at fair value where possible 	<ul style="list-style-type: none"> There were no high priority recommendations

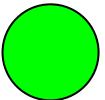
Integrated Specialist Audits

The reviews undertaken during the year used for strategic support and projects with a high degree of specialist input, this included:

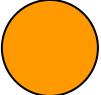
Assurance and Title	Strengths	High Priority Recommendations
Risk Management	<ul style="list-style-type: none">• There is a risk management strategy in place that had been revised annually.• The risk management system (JCAD) is being used across the Council with all risks being maintained on it. The internal controls checklist is currently being included on JCAD.• From our work performed it was clear that the use of JCAD and the monitoring and updating of risks is being met within the Council through the activity highlighted in JCAD on the five risks registers reviewed in this audit. We noted the following trends:<ul style="list-style-type: none">• 54% of the risks had reduced their risk score since being inputted onto the risk register;• 31% of the risks had the same score as when they were inputted onto the risk register; and• 15% of the risks had a score which had worsened since they were inputted onto the risk register.• All previous audit recommendations had been implemented.	<ul style="list-style-type: none">• There were no high priority recommendations.

Cross Cutting

The reviews undertaken during the year as listed below are cross cutting in that they cross over more than one service. The strengths and any high priority recommendations identified from these reviews are noted below:

Assurance and title	Strengths	High Priority Recommendations
Access to housing and effect on homelessness 	<ul style="list-style-type: none">Our audit focused on the processes and controls in place for assessing applicants for housing assistance in the Council, the fulfilment of statutory obligations and the maintenance of accurate and complete information. There were no high priority issues found as a part of this auditThe controls relating to referrals to Broadway Housing (formally Threshold Housing Advice) were appropriately designed and operating effectively, with no issues noted from those tested as part of this review.The LEAN review had been effective in delivering efficiencies and responding to the customer	<ul style="list-style-type: none">There were no high priority recommendations.
Domestic Violence 	<ul style="list-style-type: none">Following the December 2010 Co-ordinated Action Against Domestic Abuse (CAADA) quality assurance process Barnet implemented an action plan. The latest CAADA assessment in July 2011 illustrated a significant improvement, reflecting the successful implementation of many of these actions.Within the housing directorate there is a domestic violence policy which clearly explains	<ul style="list-style-type: none">There was no overriding mapping document which illustrated the assessment and referral process across the Council and how the support agencies and directorates link together.From review of the procedures in Housing we understand that there were some specific procedures covering domestic violence and the approach required. This was considered to be an area of good practice in the Council. However,

Assurance and title	Strengths	High Priority Recommendations
	<p>the process to be followed when a domestic violence case is identified. Additionally, mandatory training on domestic violence has been provided to all housing needs officers and induction training on domestic violence is provided to new starters.</p> <ul style="list-style-type: none"> • There is a signed Multi-Agency Risk Assessment Conference (MARAC) information sharing agreement in place making partners aware of the information they are able to share with other agencies in support of domestic violence cases. 	<p>within Children's Service and Adults Social Care and Health, the domestic violence process was incorporated within the safeguarding procedures that were followed and there was no specific domestic violence policy. Consequently there was a lack of clarity over the referral process required to be followed.</p> <ul style="list-style-type: none"> • There were differences in the risk assessment tools for referrals being used in the directorates, with the Housing Social Care Direct Team not using any initial assessment tool.
Complaints 	<ul style="list-style-type: none"> • There is clear guidance on the internet for residents to use if they wish to make a complaint • There is a SAP Customer Relations Management (CRM) model in place for recording and logging complaints received by the Council • Directors receive reports on a quarterly basis on complaints management performance across service areas 	<ul style="list-style-type: none"> • The Council had not communicated its strategy for dealing with complaints as well as internal procedures which set out how council officers should manage corporate complaints
Carbon Reduction Commitment 	<ul style="list-style-type: none"> • The evidence pack informing the Footprint Report and the Annual Report has been prepared in line with the Guidance in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme Evidence pack (Guidance). 	<ul style="list-style-type: none"> • There were no high priority recommendations

Assurance and title	Strengths	High Priority Recommendations
Data Protection 	<ul style="list-style-type: none"> • 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 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. 	<ul style="list-style-type: none"> • Council contract terms and conditions require 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. • Clear desk requirements were not fully in place, in two service teams visited at Barnet House. • 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. • A review of the CCTV arrangements was required across the Council.

One Barnet Programme Controls

One Barnet encompasses a number of projects that are sponsored by Directors; our internal audit plan has covered a number of projects embedded with the services within the current year: Customer Services risk management, and Right to control, these have been reported within the service summaries and both received satisfactory assurance.

In addition, we reviewed on number of projects and the programme overall against PwC methodology that suggest a well managed, effective programme will have fit-for-purpose controls that address the 12 points in the table below.

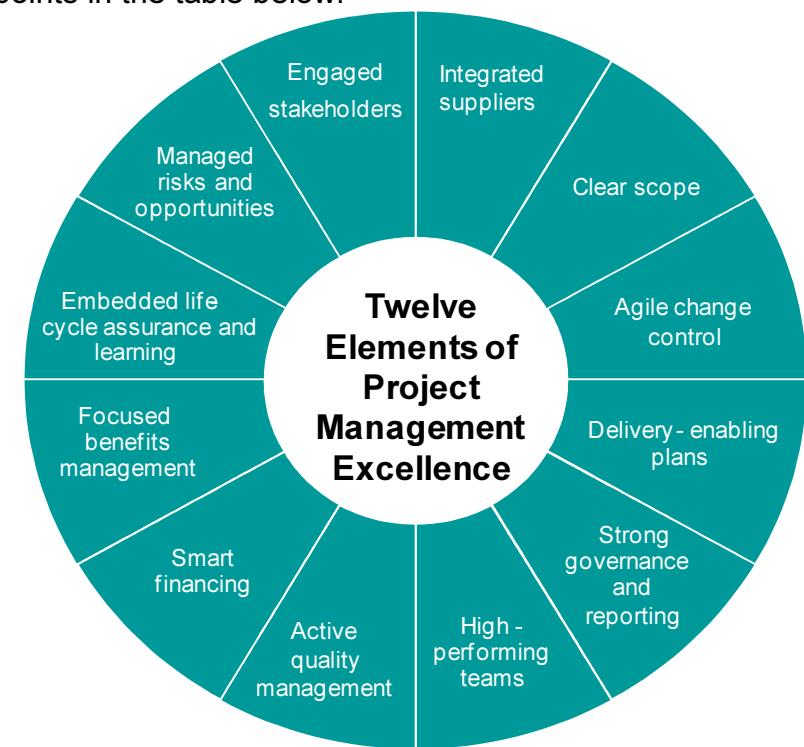
Since commencement of PwC (October 2011) there has been two reviews undertaken (quarter 3 and 4) covering management controls designed for the One Barnet programme. The scope of these review included:

- Programme scope and change control
- Programme dependencies
- Programme governance
- Project governance
- Programme and project capacity and capability
- Change management
- Risk and issues management

Out of those reviews there was one action that required immediate action:

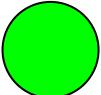
- Management should take steps to standardise and optimise usage of the corporate risk management tool, JCAD, within the programme, with a particular focus on risk actions and risk scoring.

We are pleased to note that this recommendation had been implemented with appropriate training and quality checking role established within the programme. All recommendations raised for the One Barnet Programme are followed up regularly through-out the year and reported to the One Barnet Programme Board.



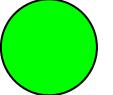
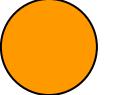
Corporate Governance

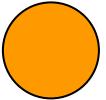
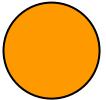
The reviews undertaken during the year are listed below along with the strengths and weaknesses identified of each review.

Assurance and Title	Strengths	Areas for development
Elections 	<ul style="list-style-type: none">Policies and procedures are in place to ensure compliance with legislative and statutory requirementsRoles and responsibilities are formally documented for the Elections Registration Office and in line with legislative requirementsReconciliations are performed on a regular basis, this includes reconciling to prime documents such as notice of deathArrangements are in place to monitor performance of the Electoral Registration Office and effectiveness or management actions to address poor performance	<ul style="list-style-type: none">There were no high priority recommendations

Environment, Planning and Regeneration

The reviews undertaken during the year are listed below along with the strengths and weaknesses identified of each review.

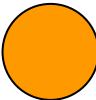
Assurance and Title	Strengths	High Priority Recommendations
Budget Monitoring 	<ul style="list-style-type: none">• Responsibility for budget monitoring clear and allocated to budget (cost centre) managers• Confirmation of Senior Management challenge and planned challenge of budget managers following outturn.• The reporting of the budget overspends to Chief Finance officer in line with the Financial Regulations• Confirmation of Chief Finance Officer challenge of budget• A systematic process, understood by officers interviewed, undertaken sufficiently in advance of the budget reporting deadline for identifying and challenging budget savings proposals• Confirmation of the prior engagement with stakeholders associated with the savings items	<ul style="list-style-type: none">• There were no high priority recommendations
New Homes 	<ul style="list-style-type: none">• There were processes in place for the allocation of responsibilities for the delivery of key outputs under the New Homes Bonus, arrangements for the monitoring of Regeneration delivery and the reporting and review of related performance.	<ul style="list-style-type: none">• There was no formal strategy or clear mandate in place focussed on maximising the economic and social benefits of the New Homes Bonus Scheme. As a result of this operational delivery had not integrated the policy aspects of the New Bonus Scheme in with current regeneration activity.

Assurance and Title	Strengths	High Priority Recommendations
Contract Management 	<ul style="list-style-type: none"> Responsibility for the administration of aspects of the Environment, Planning and Regeneration (EPR) contract register were documented and allocated; and Where formal contracts were available and where applicable, identified variations had been authorised by the Members and officers with appropriate level of seniority. 	<ul style="list-style-type: none"> There was a lack of contract management activity and governance evidenced for two contracts we selected with values of less than £1m. There was a lack of training for contract managers observed There was not always formal record of meetings held reflecting Key Performance Information (KPI) output and discussions, and resulting actions that were agreed within the meetings
Parking 	<ul style="list-style-type: none"> We confirmed Civica-produced system-specific guidance, the provision of training for taking card payments by telephone, the allocation of roles and responsibilities for and the undertaking of key functions such as income reconciliations and charge backs and the correct allocation of income to profit centres. 	<ul style="list-style-type: none"> There has been a failure to retain permit application supporting documentation for sufficient time period, in accordance with the Records Retention & Disposal Guidelines, or in a structured manner. As a result of this finding we were unable to review the effectiveness of the controls in operation as an audit trail only existed for 3 months and the filing of records for the three month period was completed on an ad hoc basis.

Commercial

The reviews undertaken during the year are listed below along with the strengths and weaknesses identified of each review.

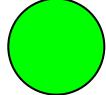
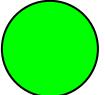
Assurance and Title	Strengths	High Priority Recommendations
IT penetration testing		<ul style="list-style-type: none"> • Little progress has been made to address the issues identified in the External Penetration Testing (testing of the externally facing infrastructure – Internet). Of the 17 issues identified none have been fully remediated. • Some progress has been made in addressing the issues that were identified as part of the Internal Penetration Testing (testing of infrastructure within the Barnet IT environment). Of the 37 issues identified; <ul style="list-style-type: none"> • 20 have been resolved and • 17 remain open (five high and 12 medium severity.) • In addition, three high severity vulnerabilities identified during the March 2010 Penetration Testing were identified again during the Penetration Tests carried out in March 2011.
Review if Children's and Adults contracts <i>Conclusions and recommendations only</i>	<ul style="list-style-type: none"> • 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. • The adult residential/nursing care market has 	<ul style="list-style-type: none"> • There were a number of recommendations made to improve Part B of the Contract Procedure Rules (CPRs) to provide more clarity to Adults and Children's Services.

Assurance and Title	Strengths	High Priority Recommendations
	<p>grown organically over the years, but now the Council is beginning to use the weight of its purchasing power to influence the market and, in particular, to negotiate rates.</p> <ul style="list-style-type: none"> • Children's 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. • 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. 	
 Procurement Controls and Monitoring Action Plan	<p>We monitored the progress throughout the year against the Procurement Controls and Monitoring Action Plan. At each review there had been improvement in arrangements noted. Specifically since our review in December there have been some improvements made in the processing of transactions in compliance with the Contract Procurement Rules (CPRs). In particular, there are now some areas where no findings were noted with the control design and the operating effectiveness of the system. This includes:</p> <ul style="list-style-type: none"> • Protocols for monitoring spend and ensuring staff responsibilities are in place across 	<ul style="list-style-type: none"> • Although a training package for contract management has been developed, and there are minor amendments to be made to bring it fully in line with the CPRs, it has not yet been rolled out to relevant staff members. Without consistent training delivered to all staff members who are involved in procurement, the CPRs may not become culturally embedded within the Council. We note however that procure to pay training had occurred to relevant staff, or access turned off, as reported in December.

Assurance and Title	Strengths	High Priority Recommendations
	<p>directorates. These were reviewed and are in line with the CPRs.</p> <ul style="list-style-type: none"> No findings were noted in substantive testing of contract extensions in relation to the procedures to ensure that contract extensions are considered in the same way as new contracts, and go through a process to ensure they are appropriately extended for the Council. 	
Value for money – Facilities Management 		<ul style="list-style-type: none"> There is a lease in place, for Building 2 Lower Ground Floor, and the lease contract has not been signed, despite the Council starting the tenancy in January 2008. Only two meetings with the lessor could be confirmed as occurring during 2011-12, despite the requirement for them to be held every six to eight weeks by Council procedures during 2011-12.

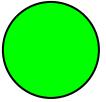
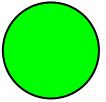
Adults Social Care and Health

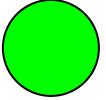
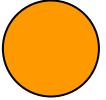
The reviews undertaken during the year are listed below along with the strengths and weaknesses identified of each review.

Assurance and Title	Strengths	High Priority Recommendations
Right to control 	<ul style="list-style-type: none">Controls were found to be appropriately designed and operating effectively in the Statutory Requirements area	<ul style="list-style-type: none">There were no high priority recommendations, however opportunities exist to streamline procedures and focus on controls
Fairer Contributions 	<ul style="list-style-type: none">No issues with the design of controls or the operating effectiveness of controls in the Policy Implementation.	<ul style="list-style-type: none">There were no high priority recommendations, however opportunities exist to streamline procedures and focus on controls

Children's Service

The reviews undertaken during the year are listed below along with the strengths and weaknesses identified of each review.

Assurance and Title	Strengths	High Priority Recommendations
Apprenticeships 	<ul style="list-style-type: none"> The London Borough of Barnet offers a unique Apprenticeship programme that is currently in its third year, with plans for further development. The Scheme is not offered by other London Borough Councils and is one work stream that contributes to the objectives of the Children's Service. As part of the 2011/12 cohort, a total of five apprentices have been appointed by the Council. 	<ul style="list-style-type: none"> There were no high priority recommendations, however opportunities exist to streamline procedures and focus on controls
Schools placements 	<ul style="list-style-type: none"> The service is a member of the Pan London eAdmission systems, which allows interfaces to existing Local Admissions Systems, via the Pan London Register, so that applications can be transferred directly without the need for manual entry. The take-up of online services is a government priority and the expectation is that local authorities will increase the proportion of applications for school places being made online for the 2012 secondary transfer round to at least 80%. Last year Barnet achieved a take-up of 76% for 2011, which was the highest within the Pan London Group of authorities. Places are only 'offered' for each school based on the published criteria to decide which 	<ul style="list-style-type: none"> Schools Admissions guidance provided to parents and carers, requests for copies of proof of the child's age (if not attended a Barnet Primary school) and/or address (if change in the last 2 years). A sample check of 30 paper and 5 on-line applications found that in 10 cases the required number and type of address proofs were not received or followed-up by the service.

Assurance and Title	Strengths	High Priority Recommendations
	<p>children are eligible for places and the current system ensures that no child is 'offered' more than one school place.</p> <ul style="list-style-type: none"> • Processes are in place for the service to meet the National 'Offers' day for both secondary and primary reception transfers. • Staff have been assigned clear roles and responsibilities for dealing with and managing various aspects of the school placement processes. 	
Foster Carers 		<ul style="list-style-type: none"> • There were no high priority recommendations, however opportunities exist to streamline procedures and focus on controls
IT review of Children's Services LiquidLogic 		<ul style="list-style-type: none"> • The application password security settings do not meet the corporate security policies • No independent verification that CRB checks have been undertaken is performed prior to granting access to new users and users from third party organisations. There is no periodic review of user access and the test environment which contains a copy of data from the live environment. The live and test environments are not monitored to ensure that unauthorised or inappropriate access is gained and privacy breached.

Chief Executive's Service

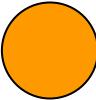
The reviews undertaken during the year are listed below along with the strengths and any high priority recommendations of each review.

Assurance and Title	Strengths	High priority Recommendations
Customer Services Transformation Programme Risk Management	<ul style="list-style-type: none"> • The Programme and associated projects have adopted and developed a standard and simplified method of managing projects based on PRINCE2. • Project governance arrangements are in place • The Programme Board and Project teams meet to gauge progress, identify concerns, discuss risks and confirm tasks for completion. • We confirmed that risk management processes existed. • There is a process to escalate risks to the One Barnet Programme Level. 	<ul style="list-style-type: none"> • There were no high priority recommendations raised.
Libraries	<ul style="list-style-type: none"> • Management have in place a governance and oversight role in the Library Strategy Programme Board, which meets monthly. This has been set up to include review of detailed management information of both the “business as usual” aspect of the strategy, and the development of the capital aspects. 	<ul style="list-style-type: none"> • At the time of our review there has been little progress in implementation of the Strategy, with a limited operational work plan developed to incorporate staff resource, delivery timescales and budget.

Deputy Chief Executive's Service

The reviews undertaken during the year are listed below along with the strengths and any high priority recommendations from each review.

Assurance and Title	Strengths	High Priority Issues
Establishment Lists 	<ul style="list-style-type: none">• Governance and clarity of roles for ensuring validity and accuracy of HR Establishment data are stated in the Financial Regulations and Scheme of Delegation;• There was adequate communication and knowledge of the Scheme of Delegation and related responsibility to senior managers in Services;• Responsibility for the update of establishment data in HR, clear and allocated to Pay and Data Team;• The identification in the Council's risk management system, of the issue / risk for relating to inaccurate establishment data;• The undertaking of specific initiative, championed at Senior Management level, to review and align HR establishment data to SAP Finance budgeted post/cost centre structure to address the identified risk;• Evidence of the authorisation of recruitment to established posts by HR and Finance experts for independent confirmation of availability of post, hours and budget, prior to recruitment.	<ul style="list-style-type: none">• Instances where establishment change requests by Services were not formally authorised using SAP Organisational structure control forms. This, coupled with the lack of independent checks of establishment list changes has resulted in data quality issues with some of the establishment lists we reviewed• Errors/discrepancies existed within the sample we reviewed with Establishment data. In addition, there were inconsistent approaches by Services to ongoing reviews of their Establishment data.

Assurance and Title	Strengths	High Priority Issues
Data Quality – HR data 	<ul style="list-style-type: none"> There is a clear commitment to data quality, with Human Resources responsible for data quality and for the HR Business Partners to provide a central support service to Service Teams on data quality issues. There is a Corporate Policy and Guidance on Data Quality which provides the framework for service-specific arrangements for data quality. Services receive progress performance reports and these are followed up by meetings with the HR Business Partners to discuss any data quality issues. Performance data is also published to residents through the council's website and placed on the London Data Store website. Both of these initiatives support the council's transparency agenda. 	<ul style="list-style-type: none"> Although the methodology for collating, calculating and reporting the indicators is correct, the weaknesses found during our review resulted from effective verification checks not always being carried out to confirm the accuracy of the indicators to identify possible errors before reporting

Appendix A: Guide to assurance and priority

For each audit, we arrive at a conclusion that assesses the audit assurance in one of four categories. These arise from our assessment of the system of controls, which are in place to achieve the system objectives, and our testing opinion: we check whether the controls said to be in place are being consistently applied.

	Substantial Assurance	<p>There is a sound system of internal control designed to achieve the system objectives.</p> <p>The control processes tested are being consistently applied.</p>
	Satisfactory Assurance	<p>While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk.</p> <p>There is evidence that the level of non-compliance with some of the control processes may put some of the system objectives at risk.</p>
	Limited Assurance	<p>Weaknesses in the system of internal controls are such as to put the client's objectives at risk.</p> <p>The level of non-compliance puts the system objectives at risk.</p>
	No Assurance	<p>Control processes are generally weak leaving the processes/systems open to significant error or abuse.</p> <p>Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.</p>

Appendix B: 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. This report is a summarisation of the 2011-12 and individual reports for each area should be reviewed in detail. Recommendations for improvements should be assessed by management 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.

Meeting	Audit Committee
Date	21 June 2012
Subject	Accounts Audit Approach Memorandum
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	This report advises the Committee of Grant Thornton's audit approach and provides an update on results of interim audit work to date
Officer Contributors	Maria G. Christofi – Assistant Director, Financial Services Catherine Peters – Head of Finance, Closing & Monitoring
Status (public or exempt)	Public
Wards Affected	Not applicable
For decision by	Audit Committee
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Appendix A – Grant Thornton's Accounts Audit Approach Memorandum
Contact for Further Information:	Antony Russell, Finance Manager Closing & Monitoring (020 8359 7862)

1. RECOMMENDATIONS

- 1.1 That Grant Thornton's Accounts Approach Memorandum be noted.
- 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 Grant Thornton's Accounts Approach Memorandum for 2010/11 was noted at the Audit Committee of 16 June 2011.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The audit approach memorandum provides additional detail regarding the audit approach, as set out in the Audit Plan 2011/12. The audit plan assesses fundamental aspects of financial standing and performance management in Barnet, which relates to the council's 'Better Services with Less Money' corporate priority.

4. RISK MANAGEMENT ISSUES

- 4.1 The audit approach memorandum provides an update on accounts audit risk assessment. If these risks are not taken into consideration it carries the risk of adverse financial and / or reputational consequences.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 The audit approach memorandum covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community.

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

- 6.1 This report sets out the framework for the assessment of the Council's financial reporting, management and standing, as well as value for money.

7. LEGAL ISSUES

- 7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

- 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 Accounts Audit Approach Memorandum intends to provide additional detail regarding Grant Thornton's audit approach, as set out in their Audit Plan 2011/12, as well as an update on their response to key risks from the results of interim audit work carried out to date.

9.2 Grant Thornton's audit strategy comprises of:

Planning:

- Updating their understanding of the council through discussions with management and a review of in year internal financial reporting;
- Identifying and resolving specific accounting treatment actions

Controls Evaluation:

- Reviewing the design, effectiveness and implementation of internal financial controls;
- Assessing audit risk and developing and implementing an appropriate audit strategy;
- Testing the operating effectiveness of selected controls;
- Assessing the council's arrangements for complying with tax legislation and Bribery Act requirements;
- Assessing the effectiveness of internal audit

Substantive Procedures:

- Reviewing material disclosure issues in the financial statement;
- Performing analytical review;
- Verifying all material income and expenditure and balance sheet accounts

Completion:

- Performing overall evaluation of their work on the financial statements to determine whether they give a true and fair view;
- Determining an audit opinion;
- Reporting to the Audit Committee through their ISA 260 report and Annual Audit Letter

9.3 Grant Thornton will consider an item to be material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

9.4 Grant Thornton will work with internal audit to ensure the audit approach takes account of the risks identified and the work they have conducted, subject to our review of the effectiveness of internal audit.

9.5 IT, outsourced systems and internal controls will also be reviewed as part of the audit.

9.6 The Audit Approach Memorandum includes as part of its planning and control evaluation an update on audit risks identified for 2011/12, outcome of work completed to date and further work planned.

9.7 As part of the interim audit, and in advance of the final accounts audit, Grant Thornton considered:

- The effectiveness of internal audit
- Internal audit's work on the council's key financial systems
- Journal entry controls
- Walkthrough testing to confirm whether controls are implemented as per their understanding in areas where they have identified significant accounting assertion risk
- Review of information technology controls

- 9.8 Grant Thornton have reviewed the work of internal audit and concluded that internal audit continues to provide an independent and effective service to the council and that they can take assurance from their work in contributing to an effective internal control environment at the council.
- 9.9 No significant issues were noted where walkthrough testing was completed as planned and in-year internal controls were observed to have been implemented in accordance with Grant Thornton's documented understanding.
- 9.10 Grant Thornton's information systems specialist has performed a high level review of the internal controls system. This has concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the council's financial statements.
- 9.11 Grant Thornton have reviewed the council's journal entry policies and procedures as part of determining their journal entry testing strategy and have not identified any weaknesses which are likely to adversely impact on the Council's control environment or financial statements. To date they have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that require to be reported.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Cleared by Finance (Officer's initials)	MC
Cleared by Legal (Officer's initials)	TE

London Borough of Barnet Accounts Audit Approach Memorandum

June 2012

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2. Update on accounts audit risk assessment 4
3. Results of interim audit work 7

Appendices

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- B. Action plan (IT Controls)

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Our accounts audit approach

This memorandum is intended to provide additional detail regarding our audit approach, as set out in our Audit Plan 2011/1, 2 as well as an update on our response to key risks from the results of interim audit work carried out to date.

Audit approach reminder

We will:

- work closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently.
- plan our audit on an individual task basis at the start of the audit, and agree timetables with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

Planning

- Updating our understanding of the Council through discussions with management and a review of in year internal financial reporting
- Identifying and resolving specific accounting treatment issues

Controls evaluation

- Reviewing the design effectiveness and implementation of internal financial controls including IT, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Testing the operating effectiveness of selected controls
- Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements
- Assessing the effectiveness of Internal Audit

Substantive procedures

- Reviewing material disclosure issues in the financial statements
- Performing analytical review
- Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate

Completion

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit Committee through our ISA 260 report and Annual Audit Letter

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements.

These are assessed individually and in aggregate, communicated to you and, if you agree with any management decisions to not adjust for such items, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be separately judged to be material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may equally be judged not material if it does not distort the truth and fairness of the financial statements.

Cooperation with internal audit

We work with internal audit to ensure our audit approach takes account of the risks identified from reviews they have conducted relevant to the financial statements, subject to our review of the effectiveness.

Where significant risks to the financial statements are identified from our own work, it may be possible to coordinate with the work of internal audit to avoid unnecessary duplication of effort. Where such reliance takes place this will be specifically detailed in the reporting of our results.

Review of IT systems

Our audit approach assumes that our clients utilise complex computer systems and accounting applications to routinely process large numbers of transactions. These may be used either directly or indirectly in preparing financial reporting information, including the annual accounts. Accordingly, our approach requires a review of the internal controls in the Council's information technology (IT) environment.

Based on our assessment of the complexity of the overall IT environment, we have involved specialist Technology Risk Services (TRS) team members in our audit work in order to undertake a review of the overall IT control environment.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

In order to assess whether controls have been implemented as intended, we will conduct a combination of inquiry and observation procedures, and, where appropriate, transaction walkthroughs. Where further assurance or audit efficiency may be gained, we will consider directly testing any controls that we may consider to be key in relation to the identified risk.

However, our controls work cannot be relied upon to identify all areas on non-compliance or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

The results of our controls work can be found on page 7.

Update on accounts audit risk assessment

As part of our planning and control evaluation work we have reviewed the key audit risks identified in our Audit Plan 2011/12 and have set out in Table 1 below the outcome of work completed to date and further work planned.

We will report our full findings and conclusions in respect of each risk identified in our Annual Report to Those Charged with Governance (ISA 260) on completion of our final accounts audit.

Table 1. Key accounting risks and planned assurances

Issue	Audit areas affected	Work completed to date	Further work planned
Financial performance	All areas of the financial statements	<ul style="list-style-type: none">The financial performance of the Council has been discussed at quarterly meetings with senior officers.We have reviewed quarterly financial performance reports in the financial year to track progress.We have also performed preliminary work on our financial resilience follow-up review.	<ul style="list-style-type: none">The Council's outturn results will be reviewed as part of our final audit procedures.Our financial resilience review will conclude on the basis of the audited financial outturn, including the final position of the general fund reserve and other earmarked reserves.

Table 1. Key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed to date	Further work planned
Use of Estimates & Judgements	All areas of the financial statements	<ul style="list-style-type: none"> The importance of disclosing estimates and judgements was discussed with Council officers at the interim audit. Key estimates and judgements were identified and these include Property, Plant and Equipment (PPE) valuations, impairments and depreciation, and provisions including accounting for bad debts. It was noted that there are no major new areas of disclosure in 2011/12 required by the Code of Practice. 	<ul style="list-style-type: none"> All significant estimates and judgements will be reviewed and challenged at the final audit. The disclosure of key estimates and judgements will also be reviewed to ensure that the requirements of the Code of Practice have been met.
HRA self financing & Housing Benefit	Income and expenditure & borrowing	<ul style="list-style-type: none"> The Council's proposed accounting treatment and disclosures in respect of the Housing Revenue Account (HRA) settlement due on 28 March 2012 were discussed at the interim audit. We have concluded our work on Housing Benefit claims for 2010/11, and have used this to inform our approach to the main audit fieldwork. 	<ul style="list-style-type: none"> The HRA loan arrangements and accounting treatment will be reviewed at the final audit. Third party confirmation will be obtained for the new debt the Council will recognise in 2011/12. Our work will provide assurance that the large monetary amounts, and high volume transactions involved are free from material error.
Accounting for property, plant and equipment (PPE)	Non current assets & Income and expenditure	<ul style="list-style-type: none"> We reviewed and challenged a draft schedule Property Services produced prepared which highlights the valuation methodology that is applied for each type of asset. We have used this to develop our approach to the main audit fieldwork. 	<ul style="list-style-type: none"> We will conduct audit procedures to ensure that capital transactions in the year have been correctly reflected in the accounts. We will confirm our view on reported impairments and re-valuations. We will complete our work on valuations and look at the depreciation policies have been correctly applied.

Table 1. Key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed to date	Further work planned
Accounting for heritage assets	Non current assets	<ul style="list-style-type: none"> The new Code of Practice requirement to identify and disclose heritage assets in line with FRS 30 was discussed with Council officers. In particular, discussions focused on the documentation of processes undertaken to identify heritage assets, since this will be an important source of audit evidence. 	<ul style="list-style-type: none"> We will review the outcome of the heritage assets identification process as well as the accounting treatment and required disclosures.
Accounting for schools	Non current assets & grants and contributions	<ul style="list-style-type: none"> The treatment of schools within the accounts was discussed with Council officers. It was noted that there is currently no definitive guidance from CIPFA on whether some school categories should be included 'on-balance sheet' and which should not. We concluded that until such guidance is available, the Council should apply a consistent policy for each type of school. 	<ul style="list-style-type: none"> We will review the accounting of schools as part of our final audit procedures. We will look to perform a detailed review of the treatments of grants and contributions in regard to schools.
Employee Remuneration	Income & Expenditure	<ul style="list-style-type: none"> We have conducted preliminary work on employee remuneration costs which are reported within the services. Our work has focused on creating an expectation for salary costs in 2011/12 and comparing this to the values reported in each service. This analysis helps us to understand the impact of service reconfiguration and helps direct our detailed work during the main audit fieldwork. 	<ul style="list-style-type: none"> We will review the accounting for employee remuneration as part of our final audit procedures. This will include some detailed testing to support our analytical procedures. We are also awaiting the results of the HMRC review to gain assurance on the treatment of employee taxation.

Results of interim audit work

Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we considered:

- the effectiveness of internal audit
- internal audit's work on the Council's key financial systems
- journal entry controls
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified significant accounting assertion risk
- a review of information technology controls.

Internal audit

We have reviewed internal audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Overall, we have concluded that internal audit continues to provide an independent and effective service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.

To support this assessment, we reviewed internal audit's work on the financial systems. Our work included a review of the files of the Council's new internal audit supplier. In assessing the effectiveness of internal audit work, we reviewed three internal audit files to ensure that:

- systems were adequately documented.
- key controls have been identified and evaluated.
- key controls have been tested.
- weaknesses have been reported to management.

We were pleased to note from these files that no issues were identified with internal audit's work and, in our view, these met the CIPFA standards.

Closedown procedures

We considered the Council's timetable for closedown and the arrangements for preparing the draft accounts, including guidance provided on working papers required to be made available as part of the closedown process.

The Council has established a timetable for submission of the accounts that is significantly in advance of the national deadline. The Council expects to provide detailed working papers to support the accounts at the start of our final accounts audit fieldwork, which is scheduled to commence on 11 June 2012, as well as providing the draft Annual Governance Statement and explanatory foreword in advance of this date.

Walkthrough testing

Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a significant risk of material misstatement to the financial statements.

We have not yet been able to complete our work as planned in the area of property, plant and equipment since some of the transactions do not occur until the year end. This work will be completed in June 2012 and the results will be considered as part of our accounts audit planning process prior to the commencement of our final accounts audit fieldwork.

No significant issues were noted where walkthrough testing was completed as planned and in-year internal controls were observed to have been implemented in accordance with our documented understanding.

Information technology controls

Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that have been raised in the previous year. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.

Journal entry controls

We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any weaknesses which are likely to adversely impact on the Council's control environment or financial statements.

To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that require to be reported.

Additional assurance work

To support the audit opinion for 2011/12, we have undertaken brief reviews in the following areas:

- VAT - a checklist of the Council's current arrangements has been completed to identify whether they are appropriate to ensure VAT is accounted for correctly and in accordance with current legislation. This is currently being concluded.
- PAYE - our PAYE team have considered the work of internal audit, and the coverage of the recent HMRC review of employee taxation and concluded that this provides sufficient coverage for us to assess audit risk in this area. There are no significant matters arising at this point, however we are awaiting the results of the HMRC review.
- Fraud - our forensic team have reviewed the overall adequacy of the Council's arrangements to ensure that the risk of fraud and corruption is managed effectively. This is currently being concluded.

The results of this work will be reported alongside our accounts audit findings in our Annual Report to Those Charged with Governance (ISA260).

Appendices

A. Logistics

Timetables and milestones

The following proposed timetable and deadlines have been set and agreed with management:

Event	Date
Pre year end fieldwork including internal controls review	Jan 2012
Completion of outstanding internal controls reviews and housing benefits testing	June 2012
Statutory accounts emailed to auditor	31 May 2012
Commence accounts audit fieldwork on site	11 June 2012
Engagement Lead visit to review work	10 July 2012
Draft ISA 260 report to be issued by	18 July 2012
Clearance meeting to discuss our findings	24 July 2012
Report to Audit Committee (ISA 260)	13 Sept 2012

Engagement team

In accordance with our Audit Plan 2011/12, the main engagement team for the accounts audit will include:

Name	Role	Contact details
Paul Hughes	Engagement Lead	T: 020 7728 2256 E: paul.hughes@uk.gt.com
Thomas Foster	Client Service Manager	T: 07920 073654 E: thomas.foster@uk.gt.com
Melanie Fox	Accounts Audit Manager	T: 020 7728 2419 E: melanie.fox@uk.gt.com
Daniel Maton	Audit Executive	T: 020 7728 3049 E: daniel.maton@uk.gt.com

Information requirements

The information and working paper requirements that would assist us in an efficient and timely audit of the year-end financial statements have been communicated to the finance team within our Arrangements Letter, issued in April 2012.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable. An agreed format and schedule of informal update arrangements will be maintained throughout the course of our audit fieldwork in support of this aim.



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The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP

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Meeting	Audit Committee
Date	21 June 2012
Subject	Draft Annual Governance Statement 2011/12
Report of	Director of Corporate Governance
Summary	This report seeks approval of the proposed Draft Annual Governance Statement 2011/12 to be included in the annual account.
Officer Contributors	Maryellen Salter – Assistant Director Finance, Audit and Risk Management Jeff Lustig – Director of Corporate Governance
Status (public or exempt)	Public
Wards affected	All
Enclosures	Appendix A – Annual Governance Statement
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 Finance, Audit and Risk Management – Tel: 020 8359 3167 or Jeff Lustig, Director of Corporate Governance -Tel: 020 8359 2008

1. RECOMMENDATIONS

- 1.1 To comment upon and approve the proposed Draft Annual Governance Statement for inclusion with the Statement of Accounts for 2011/12.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee 5 December 2007 approved the arrangement for preparing an Annual Governance Statement.**

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1** The Annual Governance Statement is a public document that shows that the council recognises that there are areas for improvement; the Committee's scrutiny of their progress supports the priorities in the 2011/14 Corporate Plan of delivering 'better services with less money' within which is the further aim 'to improve the effectiveness and transparency of decision making within the council'.

4. RISK MANAGEMENT ISSUES

- 4.1** The Council's approach to the Annual Governance Statement is to have a 'live' system whereby issues are identified and escalated to the appropriate level. The Annual Governance Statement is a process of identifying governance issues and suggesting key actions to mitigate potential risks to the Council. These are then monitored throughout the year until resolution.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1** Good governance arrangements are necessary to ensure that the council is meeting its equalities and diversity obligations and objectives.

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

- 6.1** Sound corporate governance is at the heart of effective use of resources. Embedding the AGS framework within the business planning and performance management framework will ensure a robust corporate approach is maintained for the future.

7. LEGAL ISSUES

- 7.1** The legal matters that are relevant to this report are referred to in paragraph 9 of the report.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

- 8.1** The Audit Committee's responsibilities include "to oversee the production of the Annual Governance Statement (AGS) and to recommend its adoption".

9. BACKGROUND INFORMATION

9.1. Background to the Annual Governance Statement

- 9.1.1 Regulation 4 of the Accounts and Audit Regulations 2003 (amended 2006) requires a local authority to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement each year with the authority's financial statements.
- 9.1.2 Circular 03/206 issued by the Department for Communities and Local Government (DCLG) in August 2006 stated that proper practice in relation to internal control would include guidance in the "Corporate Governance in Local Government. A keystone for Community Governance (Framework and Guidance Note)" produced by CIPFA/SOLACE in 2001. The CIPFA/SOLACE Framework was revised in 2007 and it is this Framework which requires authorities to produce an AGS rather than a SIC to meet the requirements of the Accounts and Audit Regulations 2003 (as amended).
- 9.1.3 The CIPFA/SOLACE Framework is titled "Delivering Good Governance in Local Government". It sets out the following core principles of corporate governance. They are:
 1. Focussing on the purpose of the authority and outcomes for the community and creating and implementing a vision for the local area.
 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
 3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
 5. Developing the capacity and capability of members and officers to be effective.
 6. Engaging with local people and other stakeholders to ensure robust accountability.
- 9.1.4 In essence, the AGS is the formal statement that recognises, records and publishes the Authority's governance arrangements as defined in the framework.

9.2. Content of the AGS

- 9.2.1 The AGS should incorporate a review to ensure that the council has effective governance, risk management and internal control processes in place. Actions being taken or required to be taken should be identified.
- 9.2.2 The best practice framework provides guidance on what the AGS should contain including:

- Responsibilities for ensuring there is a sound system of governance (incorporating the system of internal control).
- Indication of the level of assurance that the systems and processes that form the governance arrangements can provide.
- Brief description of the key elements of the systems and processes that have been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- An outline of the actions taken, or proposed to deal with significant governance issues, including an agreed action plan.

9.2.3 The purpose of the AGS is to report on the Council's governance arrangements and covers all systems processes and controls, spanning the whole range of its activities.

9.3. Process

- 9.3.1 The Framework requires the AGS to be reviewed at least once a year. The AGS document is required to be included in the annual statement of accounts. The statutory reporting requirement for the AGS, however, is linked to the publication of the Authority's statement of accounts which is 3 months after the deadline for approval (i.e. end of September 2012).
- 9.3.2 Part of the review process includes this reporting to the Audit Committee, which is responsible for assessing that the arrangements in this respect are effective to determine if their work during the year has identified issues of significant weakness.
- 9.3.3 If the Committee approves the AGS, it will be incorporated into the statement of accounts for 2011/12 which is considered later on the Agenda. The Council's External Auditors will comment on the robustness of the AGS when carrying out the external audit of the 2010/11 accounts. Those comments will be reported to the Committee at its meeting in September 2012 in order to enable the Committee to take those comments into account before the statutory reporting deadline of 30 September 2012.
- 9.3.4 The draft AGS for 2011/12 is attached at Appendix A. Further work following upon the review may result in updating of the position and some changes to the content of the AGS when the matter next comes before the Audit Committee in September 2012.

10. LIST OF BACKGROUND PAPERS

- 10.1 CIPFA/SOLACE - Delivering Good Governance in Local Governance Framework. Available at:
http://www.cipfa.org.uk/panels/corporate_governance/good_gov_briefing.cfm
- 10.2 Any person who cannot view the background papers should telephone Maryellen Salter – Assistant Director Finance, Audit and Risk Management -

Telephone: 020 8359 3167 or Jeff Lustig, Director of Corporate Governance
– Telephone: 020 8359 2008.

Cleared by Finance (Officer's initials)	MC
Cleared by Legal (Officer's initials)	JEL

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Annual Governance Statement

2011-12

1. Scope of Responsibility

- Barnet London Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency and effectiveness.
- In discharging this overall responsibility the Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk.
- Barnet London Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework delivering Good Governance in Local Government. This statement explains how the Council has complied with the code and also meets the requirements of regulations 4[2] of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations 2006 in relation to the publication of a statement of internal control.
- The Director of Corporate Governance completed his biennial review of the Code of Corporate Governance during 2010-11. The Code of Corporate Governance is included within Part 5 of the Constitution.

2. The Purpose of the Governance Framework

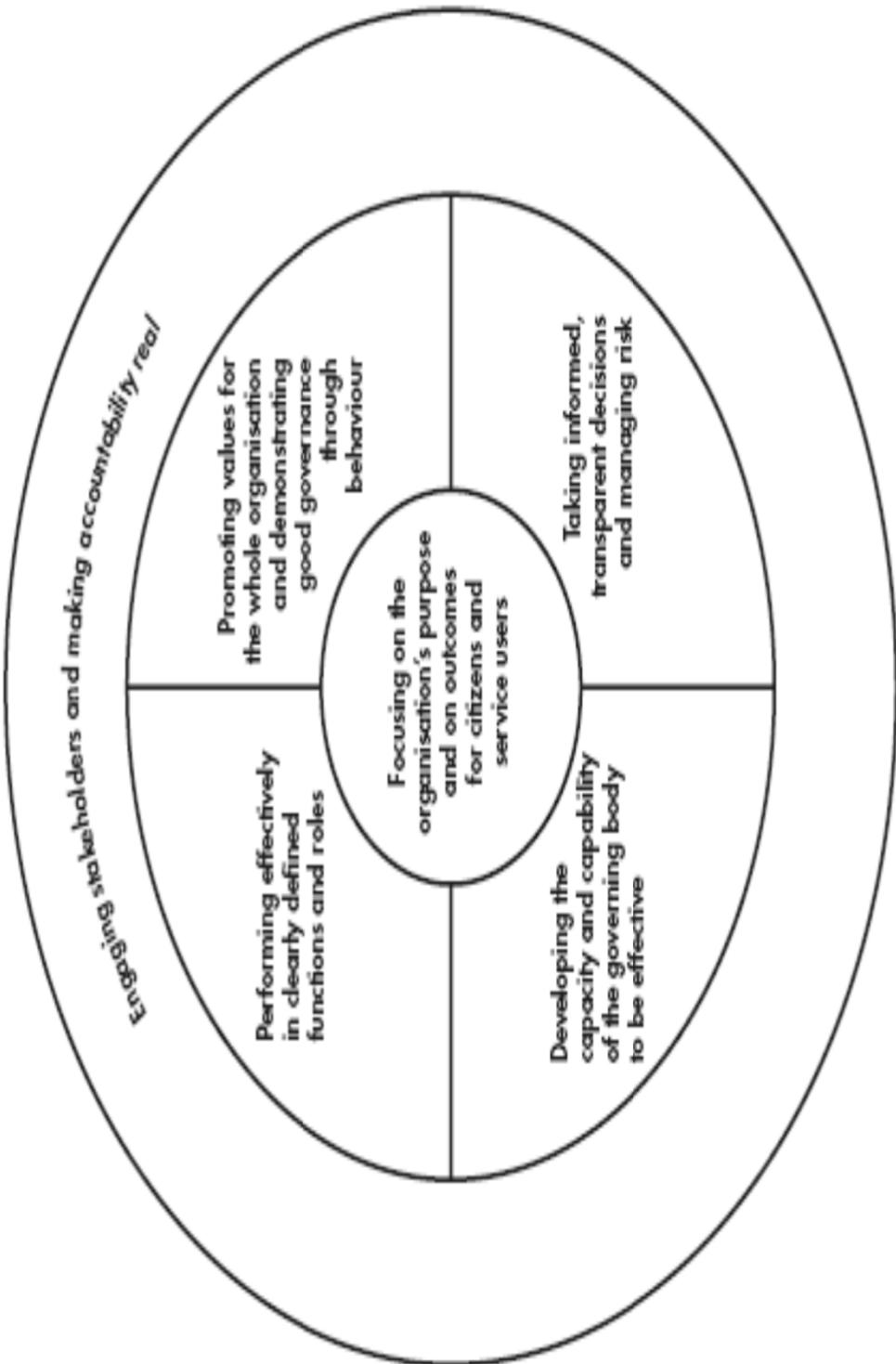
- The governance framework encompasses the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to achievement of Barnet policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- The governance framework has been in place within Barnet London Borough Council for the year ended 31st March 2012 and up to the date of approval of the annual report and accounts.

Assurance Cycle

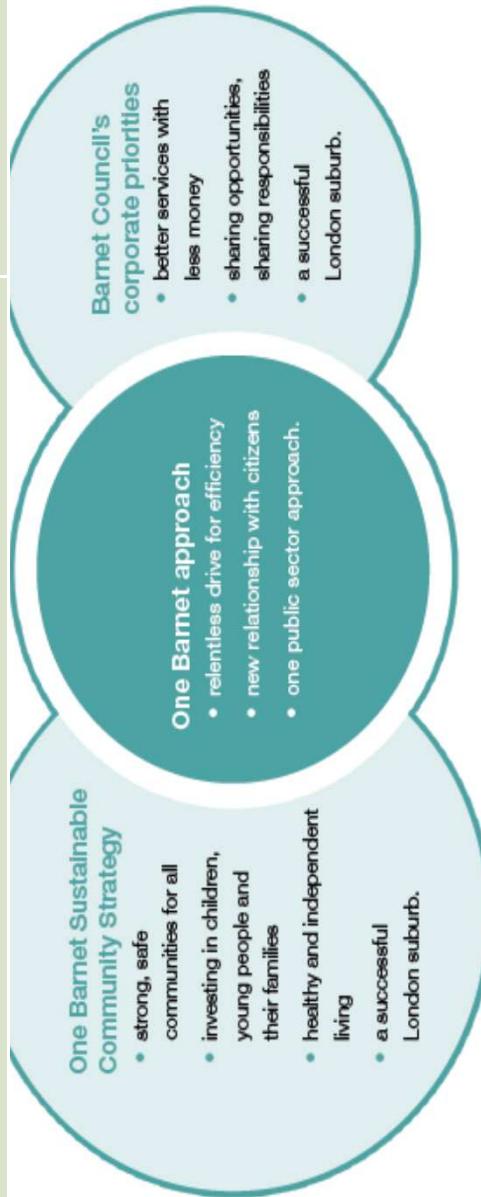


3. The Governance Framework

- The Council's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework, within each principle we have identified the sources of assurance.



Principle	Description of Governance Mechanisms	Assurances received
1. Identifying and Communicating the Council's Vision and Purpose	<ul style="list-style-type: none"> Members, working with officers, have developed a clear vision of their purpose and intended outcomes for citizens and service users: The One Barnet Sustainable Community Strategy sets out the ten year vision for the borough One Barnet Partnership Board works to the shared vision and oversees the other delivery boards that are tasked with leading on specific themes in the Strategy The Corporate Plan expresses the vision and priorities of the council and this has been communicated to residents, service users, partners and other stakeholders Delivery Boards: Safer Communities Board, Children's Trust Board, Health and Well Being Board continue to meet and are leading the development of integrated services around specific themes The Council uses different performance measures (quality, outputs, value for money, customer satisfaction) to give an overview of council performance and stimulate improvement A new governance structure around Partnerships and Partnership Boards was approved by Cabinet in February 2012. 	<ul style="list-style-type: none"> Performance Management Framework – information is published quarterly against the corporate priorities and targets and reported through Cabinet Resources Committee subject to call in by scrutiny committees Externally reported data: Government Single Data List, London benchmarking and LGG Inform benchmarking available to support performance reporting We publish strategic and service data online to enable residents to hold us to account Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement Employee Annual and Half-year review process linked to the Council's objectives Governance paper on Strategic Partnerships, Cabinet February 2012



Principle	Description of Governance Mechanisms Assurances received
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles	<ul style="list-style-type: none"> Elected Members are collectively responsible for the governance of the Council. Decision making and scrutiny of these decisions has been separated through the executive arrangements introduced by the Local Government Act 2000. The Constitution includes a statement on the roles of the Executive and clarifies the Scheme of Delegation in place. Statutory Officers are also documented within the Constitution. The Chief Executive (Head of Paid Service) is documented in the Constitution and works with Members and Strategic Directors to deliver the council's themes. Role of the Chief Finance Officer (s. 151 officer), as documented in the constitution, has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and maintaining an effective system of internal financial control The Monitoring Officer is in place and, in accordance the Constitution, is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with. Formal procedures and rules govern the Council's business: Constitution, Scheme of Delegation, Financial Regulations, Contract Procedure Rules The Special Constitution Review Committee is in place to monitor and agree changes to the Constitution, making recommendations to full council. Published Pay Policy 2012/13 in place in accordance with the Localism Act section 38 (1) and the Remuneration Committee has been set up for 2012/13 whose remit will be the review of pay and pay policy General Functions Committee continues to be in place whose remit it is to review conditions of service and appointments Arrangements exist within services and corporate performance to evaluate value for money. Benchmark information is collated and reported quarterly along with an overall corporate value for money indicator.

Principle	Description of Governance Mechanisms	Assurances received
3. Values of Good Governance and Standards of Behaviour	<ul style="list-style-type: none"> The Council recognises that good governance is underpinned by shared values demonstrated in the behaviours of its Members and staff. On online staff survey assisted the Council in deciding the four core values of the Council, these were launched in 2011. The values are intended to shape the culture and define the character of the organisation now and into the future. The values are positioned at the core of all we do, guiding our decision making and informing our behaviour. The Director of Corporate Governance is the Monitoring Officer and is responsible for ensuring that the Council acts in accordance with the Constitution Directors have the primary responsibility for ensuring that decisions are properly made within operations of the Scheme of Delegation Standards of conduct and behaviour expected of Members and officers exist and are communicated and training programmes were in operation during the year to support good governance Arrangements are in place for Members and Officers to manage conflicts of interest Performance management framework is in place to embed values with staff Standards Committee was in place during the year There are plans for the values to be reflected within partnerships with private, public and voluntary sector bodies. The council has published its strategic equality objective as being 'our commitment is that citizens will be treated equally, with understanding and respect, have equal opportunity with other citizens; and receive quality services provided to Best Value principles'. These will be delivered through three corporate priorities which will act as the Barnet Standards : reducing disadvantage, promoting community cohesion, and delivering our values. 	<ul style="list-style-type: none"> Values Awards Nomination Panel made decisions on who embodied the Values Awards Monitoring Officer reports to Statutory Officer Group Standards Committee minutes and decisions Minutes and Decisions of all Committees observed by Monitoring/Deputy Monitoring Officer Half-yearly and Annual Performance Review RAGG ratings for staff, explicitly linking to achievement of objectives Equalities Impact Assessments carried out for the 2011-12 and 2012-13 budget proposals, this was achieved without legal challenge Member training and development programme provides assurance that skill and capability is focussed on annually.



Principle	Description of Governance Mechanisms	Assurances received
4. Making transparent decisions which are subject to scrutiny and risk management	<ul style="list-style-type: none"> The Council has processes in place to demonstrate that decision makers followed due process, the decisions were properly documented and was taken having regard to all relevant considerations The Scrutiny function is in place to challenge policy development and performance and to be a 'critical friend' to the Executive. The Scrutiny function is supported by Task and Finish Groups and Scrutiny Panels, who comprise 5 elected councillors who work together to undertake in-depth reviews of a service, policy or issue of concern to local people Decision making is supported by adequate risk management arrangements, with the Risk Management Strategy and Policy Statement reviewed annually by the Audit Committee and approved by the Cabinet Resources Committee. Arrangements exist for the consideration of assurances from the Council's major partners/providers. Corporate Risks are considered quarterly by the Cabinet Resources Committee, Audit Committee and officer groups. Operational day to day risk management exists at an officer level with lead member involvement at trigger points. The Council's arrangements for providing economy, efficiency and effectiveness are reviewed by the external auditors on an annual basis. Their Annual Audit Letter provides a summary of the activity undertaken during the year. The Council is complying with minimum requirements of the Code of Recommended Practice for Local Authorities on data transparency, a standard which aims to enable residents to hold the Council to account. The Council has future plans to become more demand led in publishing data following improvements to the Council's website. 	<ul style="list-style-type: none"> Overview and Scrutiny Annual Report, including the work of the 5 Task and Finish Groups <ul style="list-style-type: none"> - Early Intervention and Prevention - Fostering and Adoption - Contract Management - Carbon footprint - Health and Social Care Integration Statutory Officer monthly reporting Barnet Homes/Barnet Group Annual Internal Audit Report External Audit Annual Audit Letter 2010-11

WITH OUR LOCAL
police, social
care standards
vulnerable
population
orders
time spent
Nestor Care, S.

How we will achieve this objective
Early identification, accurate needs assessment and effective interventions key in supporting and empowering families to ensure that all children have the best possible start.

To achieve this we will:

- implement the Family Focus programme to work with one hundred

Principle	Description of Governance Mechanisms	Assurances received
4. Making transparent decisions which are subject to scrutiny and risk management (continued)	<ul style="list-style-type: none"> An effective Audit Committee is in place whose purpose is to provide independent assurance of the adequacy of the internal control environment, and to oversee the financial reporting process. The Audit Committee is chaired by a member of an opposition party and has two independent members. The Chief Internal Auditor supports the Audit Committee and reviews its effectiveness on an annual basis The Internal Audit function operates in line with the Code of Practice for Internal Audit on Local Government. There is a 'managed audit approach' with the Council's external auditor in place which ensures there is no duplication of effort. The internal Audit plan is based on the high risks reported within the risk registers. The Constitution makes it clear that management have the responsibility for operating a sound system of internal control. Internal Audit collaboratively works with services to make recommendations around improvement to the control environment. The Head of Corporate Anti Fraud Team (CAFT) supports the Audit Committee and reports to Statutory Officers. CAFT fulfils the Council's statutory obligation to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption. The council have zero tolerance to fraud and other irregularity. The Head of CAFT is the designated Whistle blowing officer which is accessible by officers, staff and those contracting with or appointed by the Council. There is an improved Counter Fraud Framework in place designed to prevent and detect fraud. The system of internal financial control is based upon a framework of regular management information, financial regulations, administrative procedures and a structure of delegation and accountability. The Medium Term Financial Strategy is updated each year and includes a risk assessment of budget options, the MTFS is agreed by Full Council. Within the year the Complaints process was revised and independently audited by internal audit and received limited assurance. In addition, the council received feedback from the local government ombudsman that required improvement in process. The Ofsted report also noted that the Children's service needed to identify complaints from children and reporting these and any trends to the safeguarding board. 	<ul style="list-style-type: none"> Audit Committee Annual Report 2011-12 Audit Committee workplan and terms of reference stipulating the way in which responsibility is discharged Internal Audit review on risk management arrangements 2011-12 Internal Audit Annual Report 2011-12 CAFT Annual Report Complaints Annual Report RIPA – Commissioner Office Surveillance control Finance and Business Planning group reviews budget risks on a monthly basis Ofsted report rating the Council as Good for Safeguarding and Looked after Children Medium Term Financial Strategy and signed Statement of Accounts

Principle	Description of Governance Mechanisms	Assurances received
<p>5. Developing the capacity of members and officers to be effective</p> <ul style="list-style-type: none"> • The Council is committed to having Leaders with the right skills to direct and control staff. In addition, a member development programme was carried forward into 2011/12 following successful induction and training in 2010/11. The Council's learning and development needs are met through training, e-learning and other methods. • Member Development sessions not only covered functional roles and responsibilities of the Council but also related to good governance and standards of behaviours such as Corporate Anti Fraud, Audit/probity, Code of Conduct for planning and Local Government Finance & Budget setting. • The Council has an Employee Performance Management Strategy to strengthen the relationship between corporate objectives and individual performance. Employees have half year and year end performance reviews and are rated under the RAGG (red, amber, green and gold) methodology. • The Council's value set have been incorporated within the Council's Leadership Framework and form the basis of individual performance reviews. • A corporate governance objective was mandatory for 2011/12 for all corporate management group members during 2011/12. • The Council had a Standards Committee in place during the year that considered complaints against the Member Code of Conduct. Whilst there were increases in the number of complaints received there were no serious governance issues noted during the year. • Full Council in May 2012 accepted changes to the Standards Committee going forward, in that there will not be a Standards Committee and that the Monitoring officer will liaise with group leaders over any complaint and any sanctions there after. 	<ul style="list-style-type: none"> • Individual performance review rating give assurances that staff are carrying out their work in accordance with Council priorities and objectives • Member role Profile establish role and appraisal system agreed by General Functions Committee • Attendance at Member Development sessions • Standards Committee reports 	

Principle	Description of Governance Mechanisms Assurances received
6. Engaging with local people and stakeholders	<ul style="list-style-type: none"> The Council feels it is important to consult, involve and listen to our citizens so that we can improve our services and plan for the future. The Council is also committed to publishing the results of all our consultations and explaining how we will use the results. A consultation hub 'Barnet Citizen Space' was set up on the web to allow residents to take part in consultations, this also includes a section on 'We Asked, You Said, We Did' feeding back the results of consultations We also have an ongoing dialogue between community and voluntary organisations via CommUnity Barnet, the umbrella organisation for community and voluntary groups in Barnet businesses via our quarterly themed Business Breakfast meetings. The Council has a Barnet Citizen's Panel, the panel is statistically representative of the population of Barnet, and has been invaluable to the council and its partners in researching how Barnet residents feel on issues. It also acts a sounding-board for future policies and decisions. The budget consultation also involved the 'ideas website' which asked for suggestions from residents on budget proposals. The website was re-launched in April 2012 and assists in ensuring transparent decision making processes take place and encourages public engagement with the council and the decision making process. Pledge bank is also another way in which residents can interact with the Council, against the priority of 'new relationship with citizens' this initiative looked to involve citizens by making part contributions to their community. In February 2011 the council and its partners conducted a Residents Perception Survey with over 2000 residents from across the borough. The survey asked residents for their views on local services and various aspects of life in their local area Public Participation rules are included within the Constitution guiding public participation at Council meetings. Ward Walks continued into 2011-12, focusing on key officers of the council meeting with ward members in their wards for discussion around the 'Place'.

4. Review of Effectiveness

- The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers of the Council who have responsibility for the governance environment, the Chief Internal Auditors annual report, any comments made by the Council's external auditors and any other review agencies and inspectorates. In addition, the Council has assessed its group relationships (The Barnet Group) as part of this review framework.
- Internal Audit has concluded overall, based on the findings of work undertaken at London Borough of Barnet that only limited assurance can be given on the systems of internal control in place, however satisfactory assurance has been provided on the fundamental financial systems in place within the Council. Areas of weakness has been included within the governance issues noted for monitoring during 2012-13.
- The Council is able to confirm that its financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.
- A number of areas were identified in the proceeding Annual Governance Statement, an update has also been included on our progress to improve governance regarding these issues. Where they have not been sufficiently progressed they have been included within our governance issues for 2011-12.

Governance issues – progress

The table below describes the governance issues identified during 2010-11 and the progress made against these during 2011-12:

Key Improvement Area	Lead Officer	Update on position	Carry forward for 2011-12
An overarching Information Management Strategy to pull together the various policies and procedures relating to information governance, data processing and management	Commercial Director	The Information Management Strategy was approved by the Information Governance Council in November 2011.	Complete.
Contract Management/Procurement – work is underway to ensure that the Council has an accurate and complete contracts register and that centrally there is a process to monitor spend in accordance with the contract procedure rules (CPR).	Commercial Director	Monitoring of compliance is now a regular activity across the service areas and a centrally held contract's register is in place. Contract management and supplier relationship management will now be implemented which will lead to good procurement practice across the Council. Recommendations identified in the April audit will be closed by end of July.	Internal Audit – Limited Assurance issued in April 2012, carry forward to 2012-13.

Governance issues – progress

Key Improvement Area	Lead Officer	Update on position	Carry forward for 2011-12
<p>Data Quality – all services are to review their arrangements to have reliable, accurate, timely, complete, relevant and valid data, in particular services will review their quality assurance processes and work with the Assistant Chief Executive to perform 'spot checks' of current arrangements.</p>	<p>Assistant Chief Executive</p>	<p>Each service has developed a Data Quality action plan following the DQ learning event in June 2011, and are responsible for improving the data quality in their services. Corporate Performance Team provide a quarterly assurance report to Statutory Officers Group, the current compliance framework, status and action required to improve data quality.</p> <p>Internal Audit gave limited assurance the data quality of the HR establishment data. Key challenges were change processes, sign-off, and errors/discrepancies in the establishment and sickness data. HR will deliver an action plan to respond to the limited assurance.</p> <p>New corporate data quality policy was approved in principle in March 2012 by the Information Governance Council. The new policy focuses on developing a consistently high level of data quality across all functions, the behaviours required to improve data standards, the application across internal and external delivery units, and the accountabilities of those working with data in different roles.</p>	<p>Internal Audit – limited assurance on HR data quality indicators, carry forward to 2012-13</p>

Governance issues – progress

Key Improvement Area	Lead Officer	Update on position	Carry forward for 2011-12
<p>Oversight of devolved processes – work is required to set a series of expectations for Assistant Director level and below for the level of internal controls required to ‘meet the grade’.</p>	<p>Assistant Director of Human Resources</p>	<p>An Accountabilities and Leadership Framework has been completed for the new Council senior management structure. All Directorates updated their scheme of delegation in year to be clear around responsibilities and accountabilities, this will however be redesigned following the restructure to ensure it remains fit for purpose.</p>	<p>Complete</p>
<p>Measuring success of strategies – work is underway to better join business and financial planning and to ensure that strategies are reviewed from the previous period and included within forward looking plans.</p>	<p>All Directors</p>	<p>The Chief Executive commissioned an audit of strategies owned across the Council in June 2011. The outcome of that mapping exercise was that the number of strategies in place to be reduced and consolidated where possible. The review also gave assurances that we are meeting all of our statutory requirements for strategy documents.</p>	<p>Complete</p>

Governance issues – progress

Key Improvement Area	Lead Officer	Update on position	Carry forward for 2011-12
<p>Data protection – the Council has completed a large scale review to address concerns raised by the Information Commissioner in respects of personal data which has largely addressed major concerns, however during 2011-12 the focus will be on the security of paper documentation containing personal information.</p>	<p>Director of Corporate Governance</p>	<p>Using the 'governance group' model the Children's Service initiated in their service the IMS project has supported other services in rolling out governance groups in their Directorates. These governance groups are playing a central role in improving information management practice by reviewing governance issues, carrying out information and business process audits to understand where there are IM weaknesses and leveraging 'local' channels of communication to disseminate information management messages. All of these efforts are intended to provide a sustained focus on improving information governance.</p> <p>The IMS project has also refreshed all Information Mgmt and Security policies and communicated them via first team and the dedicated information governance newsletter. In June an e-learning tool will be launched to further communicate and test people's understanding of the policies, of which the paper handling policy is one. Results will initially be analysed by the IMS project however, Governance groups and champions will again play a critical role in assessing compliance, identifying areas of weakness and devising/tailoring a response to address issues.</p>	<p>Internal Audit review – Limited Assurance issued during the year, improvement from No Assurance in previous year.</p>

Governance Issues – progress

Key Improvement Area	Lead Officer	Update on position	Carry forward for 2011-12
IT functionality – a detailed action plan has been devised to take forward the current arrangements within the IT service, work around project management arrangements will seek to address some IT dependencies within the Services.	Commercial Director	The Investment Appraisals Board (IAB) approved the implementation of the IS Project Gateway process. The process ensures all Capital projects are considered for IT impact prior to approval. In March 2012, the IS service reorganised to provide a project management office function, with responsibility to manage all IT projects. IT projects are delivered along with principles of the Prince2 standard.	Complete.
Partnerships – work is underway to make the best use of partnerships by agreeing mutual responsibilities, accountabilities and expectations. This includes forming a better understanding of neighbouring boroughs and their fit within key decision making bodies.	Assistant Chief Executive	Partners were engaged and consulted on the proposed changes to partnership working. New arrangements were approval by Cabinet in February 2012. The first meeting of the Barnet Partnership Board has been set for 24 May 2012.	Completed.
Work is required to understand how the Localism Bill will impact upon the Council's governance arrangements and also affect our relationship with the community particularly in the context of the provision for local authorities to work with locally established Neighbourhood Forums to prepare Neighbourhood Plans. The Bill is progressing through Parliament and Royal Assent is not expected until late 2011 with the main provisions implemented in 2012.	Director of Corporate Governance	A Localism Project Board has been formed and has delivered aspects of the Localism Act required at this stage, the main provisions however require implementation in 2012. However the governance has been established to monitor the delivery of these requirements. On-going action is regarding the delivery against the Act.	On-going action required however no governance issues identified.

Governance issues – progress

Key Improvement Area	Lead Officer	Update on position	Carry forward for 2011-12
As the One Barnet Programme progresses work is required to set out the principles on how the relationship between a potential provider and the Council will work in a way that clearly defines roles and responsibilities, supports good governance and openness and provides transparency in decision making.	Director of Commercial Services/Deputy Chief Executive	A senior management governance board has been formed to define accountabilities, responsibilities and decision-making alongside the Senior Management Restructure. This work will remain on-going until go-live date of the major outsourcing of the new support and customer services organisation (NCSO) and Development and Regulatory Services (DRS).	Work on-going until go-live date

5. Governance Issues for 2011-12

The table below describes the governance issues identified during this review period 2011-12 to carry forward for monitoring within 2012-13.

Key Improvement Area	Lead Officer	Reporting through	Expected Delivery of Actions
Governance, accountabilities and decision-making – the change in organisational form to support the externalisation of elements of support services and regulatory services requires an updated governance model which clarifies accountabilities and responsibilities and provides assurance to decision-making bodies.	Assistant Chief Executive and Director of Corporate Governance	Special Constitution Committee and Full Council Leader of the Council (corporate governance)	December 2012
Operating around outcomes – whilst the council is currently progressing the implementation of different models of delivery, its own policies and procedures will need to be aligned to ensure organisational boundaries are removed and there is a shift change is designing processes that focus on operating around outcomes for local people.	Assistant Chief Executive	Deputy Leader of the Council, Resources and Performance Cabinet Resources Committee (performance)	April 2013
Devolving decision making to local people – the Localism Act requires devolving governance closer to local neighbourhoods and being cost effective in the process. Work is currently progressing to determine methods to grant communities more power to enable them to influence their local area.	Director of Corporate Governance and the Assistant Chief Executive	Member for Community Safety and Community Engagement Special Constitution Committee and Full Council	April 2013

5. Governance Issues for 2011-12

Key Improvement Area	Lead Officer	Reporting through	Expected Delivery of Actions
Complaints – there is more work to do to embed arrangements to be effective, particularly to ‘close the loop’ and learn from complaints.	Assistant Chief Executive	Member for Customer Access and Partners Audit Committee will monitor improvement to control environment	March 2013
Contract compliance and management post implementation of controls – continuing the progress in implementing an improved framework for contract compliance. The Procurement Controls and Monitoring Action Plan details the specific control improvements required.	Commercial Director	Deputy Leader of the Council, Resources and Performance Audit Committee will monitor improvement to control environment	July 2012
Data Quality – embedding the updated data quality policy across the authority and its delivery partners. The data quality policy contains the expected implementation plan.	Assistant Chief Executive	Deputy Leader of the Council, Resources and Performance Audit Committee will monitor improvement to control environment	May 2013
Data Protection – the Information Governance Council is progressing the Data Protection Compliance Project ensuring that areas such as records retention and management are being addressed with the roll out of Delivery Unit Governance Groups (DUGG) that sit within each service area. Third party interactions and processing are the focus of the project in the short term.	Director of Corporate Governance	Leader of the Council (Corporate Governance portfolio) Audit Committee will monitor improvement to control environment	On-going

6. Certification

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 5. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Leader of the Council: _____

Date: _____

Chief Executive: _____

Date: _____

Appendix A: Published sources of Assurance

- Code of Corporate Governance – Part 5 of the Constitution
- Corporate Plan 2012-13, specifically the equalities page 18
- Quarterly Performance Reports 2011-12
- Internal Audit, Risk Management and CAFT Annual Plan 2011-12
- Internal Audit Annual Report 2011-12
- Pay Policy 2012-13
- CAFT Annual Report 2011-12
- External Audit Annual Audit Letter 2010-11
- Overview and Scrutiny Annual Report 2011-12
- Task and Finish Group reports
- Audit Committee Annual Report 2011-12
- Audit Committee Terms of Reference and workplan 2011-12
- Governance of Strategic Partnerships, Cabinet February 2012
- Ofsted report into Safeguarding and Looked After Children 2012
- Citizen Panel Annual Report 2012
- Local Account for Adults Social Care and Health
- Statement of Accounts and Medium Term Financial Strategy
- Residents Perception Survey 2011
- Review of residents forums and area sub committees, April 2011
- Committee minutes, agendas and reports 2011-12

Meeting	Audit Committee
Date	21 June 2012
Subject	Un-audited Statement of Accounts 2011/12
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	To note the un-audited Statement of Accounts for 2011/12

Officer Contributors	Maria G. Christofi – Assistant Director, Financial Services Catherine Peters – Head of Finance, Closing & Monitoring
Status (public or exempt)	Public
Wards Affected	Not applicable
For decision by	Audit Committee
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Appendix A – Un-audited copy of Statement of Accounts 2011/12 (to follow) Appendix B - External Auditor's report under International Standard on Auditing (ISA) 260 for 2010/11
Contact for Further Information:	Antony Russell, Finance Manager Closing & Monitoring (020 8359 7862)

1. RECOMMENDATIONS

- 1.1 **That the Committee review the un-audited Statement of Accounts 2011/12.**
- 1.2 **That the Accounting Policies included in the Statement of Accounts be adopted.**
- 1.3 **That the Deputy Chief Executive and Chief Finance Officer, in consultation with the Chairman of the Audit Committee, be authorised to agree significant changes, if any, to the Statement of Accounts, following discussion with the external auditor, and to inform members of the Committee accordingly.**
- 1.4 **That the Committee consider and advise Officers whether there are any areas on which they require additional information or action.**

2 RELEVANT PREVIOUS DECISIONS

- 2.1 The 2010/11 Statement of Accounts were reviewed and approved by Audit Committee on 16 June 2011.

3 CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Statement of Accounts 2011/12 outlines fundamental aspects of financial standing and performance management in Barnet during the year, which relates to the council's "Better Services with Less Money" corporate priority.

4 RISK MANAGEMENT ISSUES

- 4.1 These are addressed in the Annual Governance Statement and will form part of the Statement of Accounts. The Draft Annual Governance Statement is due to be considered elsewhere on this agenda.

5 EQUALITIES AND DIVERSITY ISSUES

- 5.1 Financial monitoring is important to the management of resources to ensure the equitable delivery of services to all members of the community.

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

- 6.1 The Statement of Accounts shows the financial position of the council as at 31 March 2012.
- 6.2 No procurement, staffing, IT, property or Sustainability issues will arise from implementation of the Recommendations of this report.

7 LEGAL ISSUES

- 7.1 Pursuant to Regulation 11 of the Accounts and Audit Regulations the Council

must, as soon as reasonably possible after conclusion of an audit, and in any event before the 30th September immediately following the end of a year, publish a Statement of Accounts prepared in accordance with regulation 7 and keep copies available for purchase by any person on payment of a reasonable sum.

- 7.2 In the event of a grant of authority, in accordance with Recommendation 1.3 (above), the Chief Finance Officer, in consultation with the Chairman of the Audit Committee, will take account of any legal issues which may arise in the exercise of the delegated authority.

8 CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

- 8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including “To review and approve the annual Statement of Accounts. Specifically, to consider whether the appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council”.

9 BACKGROUND INFORMATION

- 9.1 The Statement of Accounts represents an important formal corporate statutory document.
- 9.2 The un-audited Statement of Accounts is attached as appendix A. The external audit began on 01 June 2012 and it is proposed that the Deputy Chief Executive and Chief Finance Officer in consultation with the Chairman of this Committee agree any significant changes following discussions with the auditors. Alongside the audit, the Statement of Accounts and all the supporting documents will be open for public inspection for a period across June and July 2012.
- 9.3 The 2011/12 accounts have been prepared under International Financial Reporting Standards (IFRS) in line with the Code of Practice on Local Authority Accounting.
- 9.4 As in previous years, it is essential that the Comprehensive Income and Expenditure Statement (CIES) is considered alongside the council's financial outturn, included in a note to the accounts and which will be presented to Cabinet Resources Committee on 20 June 2012. This shows how the council performed against its approved budget for 2011/12. The CIES is reconciled back to the outturn via the Movement in Reserves Statement (MiRS), which in effect contains the technical and other accounting adjustments that ensure that certain capital charges (eg, depreciation) do not impact in the council tax payer.
- 9.5 Whilst further explanations of the accounts are contained within the Chief Finance Officer's foreword, it is worthwhile highlighting some of the key points for 2011/12:

- 9.5.1 The overall financial position of the council has remained consistent from that of 31 March 2011. The general fund balance (excluding schools balances) has remained at £15.780m. This is in excess of the council's target balance of £15m.
- 9.5.2 Earmarked reserves have increased to £65.105m, thereby ensuring that the council is in a strong position to cope with the financial risks outlined in the 2012/13 council budget report. It is important to emphasise that the earmarked reserves have been established for specific reasons (i.e. to support the One Barnet transformation project, cover the costs of potential corporate risks and other service specific projects) and are not for general utilisation.
- 9.5.3 The Housing Revenue Account balance has increased to £7.806m due to an in year surplus of £3.576m in 2011/12.
- 9.5.4 The value of the impairment of the Icelandic investments that had previously been recognised in the accounts was £5.969m. In the 2011/12 Accounts this impairment has been reduced by £2.825m to £3.144m. The value of the impairment has reduced in 2011/12 compared to previous years due to payments received by local authorities during 2011/12 and payments expected to be received in the future, as projected by CIPFA's impairment calculator.
- 9.6 The Statement of Accounts also includes group account statements for the council and its subsidiary companies. The draft accounts of Barnet Homes Ltd have been consolidated into the Group Accounts. The Barnet Group Ltd and Your Choice (Barnet) Ltd were in operation for two months of the year 2011/12. However, they will produce 14 month accounts at the end of 2012/13 that will be consolidated into the council's 2012/13 Group Accounts.
- 9.7 Appendix B is the external auditors report to those charged with governance for 2010/11, under the International Standard on Auditing (ISA) 260. All issues raised by the external auditor have been addressed in the statements or the processes of the council.

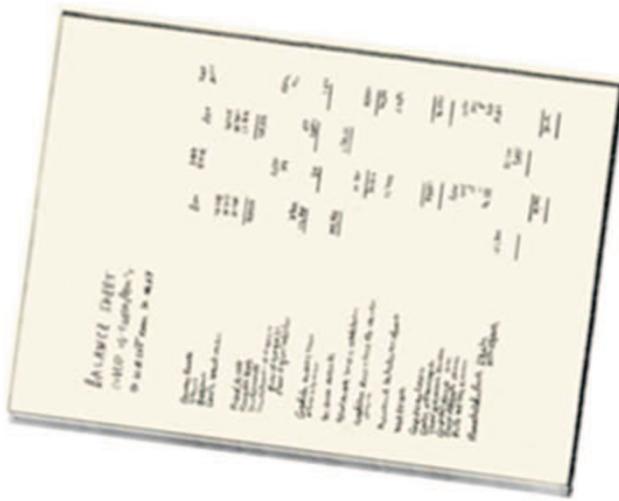
10 LIST OF BACKGROUND PAPERS

- 10.1 None.

Cleared by Finance (Officer's initials)	MC
Cleared by Legal (Officer's initials)	SCS

London Borough of Barnet Annual Report to Those Charged With Governance (ISA 260)

25 August 2011



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1. Executive summary

Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of London Borough of Barnet (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail in Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial statements opinion

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 normal and we recognise the significant achievement by the Council's finance team in managing this. The working papers were of a high quality and the financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS). Co-operation in dealing with audit issues has been strong, such that we were in a position to issue this report in draft, based on a substantially complete accounts audit, on 15 July 2011.

We identified seven adjustments, that did not impact upon the general fund but that have an impact on the Council's income and expenditure position (comprehensive income and expenditure statement). The audit adjustments on the balance sheet (statement of financial position) were of a presentation nature only and had no overall net effect on the Council's reported assets and liabilities.

The key messages arising from our audit of the Council's financial statements are:

- The Council has successfully made the transition to accounting under International Financial Reporting Standards (IFRS).
- Significant changes in the valuation of property plant & equipment have been reviewed and found to be in line with accounting standards.
- There were a small number of significant accounting adjustments (Summarised in Appendix B).

- There were a number of control issues arising that the Council should address (summarised in Appendix C).

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 6 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for Money Conclusion

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

However, we would like to draw attention to the control weaknesses around contract management identified by internal audit. It is important that the Council carefully manages the completion of a number of current actions to improve contract management controls. We, and internal audit, will continue to monitor and report on progress until we have sufficient assurance that the identified weaknesses have been fully resolved.

Further details of the outcome of our value for money review are given in section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Chief Finance Officer. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Chief Finance Office and the senior finance team.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

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

Grant Thornton UK LLP
25 August 2011

2. Financial statements

Matters identified at the planning stage

We report our findings in line with our planned approach to the audit which was communicated to you in our Audit and Approach Memorandum dated April 2011.

Our response to the matters identified at the planning stage are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
All areas of the financial statements	Accounting under IFRS	<ul style="list-style-type: none">• We have reviewed the Council's process for restating the 2009/10 account balances, that form the comparative and opening balances in the 2010/11 accounts. This was necessary to bring the 2010/11 accounts into line with new Code of Practice for Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS). Prior to 2010/11 Local Government Accounts had been based on UK accounting standards. As a result of this change, the Council made a number of adjustments to 2009/10.• We have reviewed the Council's revised accounting policies to ensure compliance with the new Code and we tested accounts balances to ensure that these followed the revised policies.• We have considered the information contained with the note to the accounts which details the impact of the transition to IFRS and reviewed the content for compliance with the Code.	<ul style="list-style-type: none">• As previously reported, our work on the processes put in place by the Council for IFRS restatement provided assurance that the key changes had been made.• The accounting policies followed by the Council are compliant with the Code. We have found that transactions are processed in line with the stated accounting policies.• Our detailed review of the note to the accounts provided assurance that the significant changes were identified and that the note complied with the Code requirements.

Issue	Audit areas affected	Work completed	Assurances gained
All areas of the financial statements	Financial performance pressures	<ul style="list-style-type: none"> Using our knowledge from regular meetings with senior management we completed a detailed analytical review of the Council's performance for the year, investigating variances which were not inline with our expectations and agreeing them to independent evidence. We have used substantive testing, taking a risk based approach to determine sample sizes, to test a sample of payments made in April and May 2011. This work included consideration of existence, the value and the timing of the transaction. In addition we reviewed the creditor listing, tracing key balances to supporting information and ensuring that where necessary accruals had been appropriately recognised. We considered the provisions recognised by the Council at year end, together with movements against previously recognised provisions for appropriateness. We also used our knowledge of the Council and information gained from other areas of our audit work to ensure that all required provisions had been recognised. Our work on Council reserves considered the use of reserves during the year and the balances held at year end to understand the Council's financial position at year end. 	<ul style="list-style-type: none"> Our review of the Council's performance for the year included review of financial information and discussion with officers. Our work on the financial statements at year end provided assurance that published results are in line with Council activities during the year. The work completed on creditors, payments and accruals has provided sufficient assurance that amounts have been appropriately recognised and in the correct period. Detailed testing of the Council's provisions, including additions during the year, confirmed that provisions are reasonable and in line with the accounting standards. Our knowledge of the Council has not indicated the omission of significant provisions at year end. The Council's reserves have been reviewed for accounting treatment and the appropriate use of reserves. This did not identify any areas of concern.

Issue	Audit areas affected	Work completed	Assurances gained
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> The new Code of Practice for Local Authority Accounting requires that the Council continue to value its 'specialist assets', which do not have a readily ascertainable market value, at Depreciated Replacement Cost, but that this now be derived using the Modern Equivalent Asset (MEA) valuation technique. The intention is that this would provide a more accurate value than the old methodology, as it recognised the difference between a modern building and a like for like replacement of an old building. The MEA approach currently allows for a wide range of interpretation of what constitutes a modern equivalent building and therefore requires significant judgements to be made by management. In the Council's case this resulted in a significant net increase in the value of these assets in 2010/11 compared to values in the prior year. We therefore reviewed in detail the Council's approach to this change in the valuation methodology, including the Council's treatment of different types of specialist assets (schools, libraries, leisure centres, recycling depots, registry offices, museums, mortuaries, cemeteries and crematoria). <ul style="list-style-type: none"> Our work in this area included a detailed review of the methodologies applied by the Council and the assumptions on which these were based. <ul style="list-style-type: none"> Where actual local cost information is not available, as for the other types of specialist assets, national information on contract pricing from the Building Cost Information Service (BCIS) is used as a basis for the valuation adjusted to reflect the existing state of repair. The Council's accounting policy reflects this approach. 	<ul style="list-style-type: none"> The Council's approach to MEA is to use the current cost of providing the same function as the existing asset, including the need to meet modern regulations. Where available, as in the case of schools, the cost is based on actual build costs derived from recent local projects. This provided the explanation of why the Council has seen a net increase in value. We examined the Council's approach in the light of the Code and other available guidance. We concluded that the Council's methodology was robust, had a strong rationale and did not contravene existing accounting guidance as it currently exists.

Annual Report to Those Charged With Governance (ISA 260)

Issue	Audit areas affected	Work completed	Assurances gained
Revaluation of fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> Using a risk based sampling approach we reviewed the valuation changes processed through the Council's accounts for appropriateness of the accounting entries processed and compliance with the accounting standards. Under IFRS when recognising upward valuations the Council should reverse impairments previously recognised against that asset since the last formal valuation for that asset. We tested a sample of such assets to ensure that appropriate entries had been processed to reverse previous impairments through the income and expenditure account. The basis for the calculation of Housing Stock values changed during the year and we checked to ensure that the new guidance had been correctly implemented. 	<ul style="list-style-type: none"> We have reviewed this approach and determined that it is a reasonable compromise where information on cost, that incorporates modern regulations and planning intentions, is not available. We are satisfied that the approach taken by the Council is reasonable and acceptable within the Code of Practice for Local Authority Accounting. In testing a sample of assets valued in 2010/11 we noted that the calculation of the reversal for previous impairments, did not extend to the asset's last full valuation. An adjustment has been agreed with management to correctly account for this adjustment. The new guidance on the calculation of Housing Stock values changed during the year and this was correctly reflected in the 2010/11 balances. A prior year adjustment was also implemented to correct the interpretation of the guidance in prior years. Our testing in all other areas of valuations has provided satisfactory assurance that such transactions are correctly accounted for.

Issue	Audit areas affected	Work completed	Assurances gained
Revaluation of investment properties	Property, plant and equipment	<ul style="list-style-type: none"> Our work programme included a review of the Council's approach to valuation of investment properties, including consideration of asset reclassifications into investment properties for compliance with accounting standards. The Council's approach to investment properties is for all assets to be valued on a 5 year cycle, which is consistent with its policy for all other assets. We understand that the property team consider market changes throughout the year and that if necessary complete additional valuations. 	<ul style="list-style-type: none"> Our testing demonstrated that documentation of the valuations process appropriately considered market conditions. However, the Code requires all investment properties to be valued at 'fair value' (in an arms length transaction). The Council should evidence their review of market conditions which may take the form of an overarching document to support the approach taken and compliance with the Code.
Accounting for fixed assets	Property, plant and equipment	<ul style="list-style-type: none"> As part of our IFRS restatement work we reviewed a sample of lease contracts held by the Council to determine whether the substance of the contract was one of a finance lease and the asset should be included in the Council's accounts or an operating lease where only the rental charges are reflected in the accounts. 	<ul style="list-style-type: none"> Our testing of leases did not identify any contracts which were incorrectly categorised which provided assurance that the Council's review of all leases was satisfactory and had considered the correct factors to reach a decision. Whilst there were significant asset reclassification entries processed as part of the IFRS transition, our work provided assurance that the entries were in accordance with the definitions for each asset category as set out in the Code.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for fixed assets 	<ul style="list-style-type: none"> Our audit approach included substantive testing of all fixed asset transactions, including additions, disposals, depreciation, assets under construction, non-enhancing expenditure and the PFI scheme. 	<ul style="list-style-type: none"> Our work in these areas has identified some classification adjustments and some disclosure amendments, which have subsequently been processed by management. We have gained satisfactory assurance that the accounting entries processed for fixed asset transactions are appropriate and supporting evidence is available. 	
New revenue and benefit system 	<ul style="list-style-type: none"> We have maintained regular contact with the Council throughout the implementation process and were aware of all operational issues associated with the project. Consequently, we undertook a detailed review of the reconciliation performed on the "go live" transition date to gain assurance over the accuracy of data transfer between the two systems. 	<ul style="list-style-type: none"> The reconciliation was performed by the software provider and while this work identified benefit entitlement differences between the two systems, the Council continued payment at the old rate and are currently working through the differences to ensure correct entitlement information is recorded in the new system. We tested a sample of such instances and gained assurance that payments continued to be made at the old rate throughout 2010/11, whilst also noted that many had been subsequently corrected in 2011/12. The work completed has provided overall assurance that the benefit expenditure recorded in the accounts is not materially misstated. 	

Issue	Audit areas affected	Work completed	Assurances gained
Use of estimates and judgments	All areas of the financial statements	<ul style="list-style-type: none"> Our testing of provisions identified those balances where judgement was considered to be significant and reviewed the evidence provided by the Council to support those provisions. When auditing the debtor balances contained in the Council's accounts we undertook discussions with Council officers to understand the basis for their expected future recovery and why the proposed level of provisions were appropriate. In our review of the Council dwelling valuation we specifically considered the indices and assumptions used by the Council in preparing this valuation. 	<ul style="list-style-type: none"> Our review of the provisions noted that where new provisions are created or values increased these are supported by documentation explaining the need for the provision. This is then reviewed and signed off by the Chief Finance Officer as approved. This process used by the Council provides satisfactory assurance that judgemental provisions are reviewed and considered prior to recognition in the accounts. Detailed debtor testing did not identify any concerns over the judgements made regarding recoverability of debtor balances. In our work on the Council dwelling valuations we noted that the assumptions were clearly documented and our work concluded that the judgements made in preparing the valuation were reasonable. The Council should ensure an overarching document is prepared to support the approach taken to valuations.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for grants	Income and expenditure account and reserves	<ul style="list-style-type: none"> The Council has a number of capital grants where monies had been received at year end but not yet utilised. We tested a sample of these grants and the conditions attached to determine the appropriate accounting treatment. 	<ul style="list-style-type: none"> The Council has treated £25m of capital grants as liabilities on the balance sheet where the funds have not yet been utilised. We sampled £14m of these and noted that there is no evidence to suggest the grant conditions will not be satisfied. The Code requires such grants to be recognised in full through the income and expenditure account with the portion of funds not utilised transferred to a 'capital grants unapplied' reserve. The Council has agreed to process an adjustment to reclassify these balances in line with the Code.

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete although we are finalising our procedures in the following areas:

- sign off of the audit of the Council's Pension Fund
- review of the final version of the financial statements as part of our normal audit sign-off procedures
- obtaining and reviewing the Council's letter of representation
- reviewing post balance sheet events, up to the signing of the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 6 September 2011.

In addition, we would like to acknowledge that the Council's finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

A small number of additional issues arose during the course of the audit, which whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Other matters arising from the financial statements audit

Following certification by the Council's responsible Finance Officer, we were presented with draft financial statements for audit. We are pleased to report that the financial statements were accompanied by high quality working papers and that finance staff provided us with a high level of support.

Segmental Reporting

Under the requirements of the Code based on IFRS, Councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's chief operating decision maker ("CODM"), to assess the segment's performance and allocate resources. The Council disclosed nine operating segments in its 2010/11 financial statements, namely Adults, Central expenses, Chief executive, Children's services (net of DSG), Commercial services, Deputy chief executive, Environment and operations and Planning, housing and regeneration.

We have reviewed the disclosure presented in the accounts against the information presented to the Council's Cabinet Resource Committee regarding financial performance and note that the information is consistent. On the basis of this Committee being the CODM we are satisfied that the disclosures made comply with the requirements of the Code.

Transition to IFRS

As previously reported the Council commenced its work on transition to IFRS early and we were able to review the arrangements for transition and key accounting changes prior to year end. We would like to formally recognise the work done by the finance team in this area and their approach to working with us at an early stage to review the work done prior to the main audit.

Disclosure of the Remuneration of Senior Employees

In the draft accounts the Council did not include senior employee disclosures for those individuals who have held office at the Council in 2010/11 on a temporary or interim basis (i.e. not paid through payroll). We received a formal question under the Audit Commission Act 1998 from a local elector on this matter.

Following discussion with management that the note has been amended to include details for interim postholders.

Supplier payments

We received a formal elector question and associated documentation about the adequacy of controls over purchase orders and the payment of invoices, from a local elector. We incorporated this into our work in testing supplier payments and confirmed that there were some system weaknesses around the completeness and timeliness of purchase orders against which supplier payments were made. We note that this issue was raised by internal audit during the year and that the Council has since made changes to the IT system to rectify the problem.

We found no evidence of inappropriate payments and note that the Council had arrangements in place to mitigate the risk by matching of goods or services received to invoices prior to payment, and through the overriding budget monitoring controls.

Other accounts issues arising

In addition to the matters raised above, there were a number of minor presentational changes that arose during the course of our audit that have been made to the financial statements, including:

- Revision of the property, plant and equipment note to the accounts including some minor disclosure amendments.
- Correction of some figures within the financial instruments note to enable reconciliation with other areas in the accounts.
- Inclusion of details relating to the Council's valuation team.
- Amendment to the maturity analysis of PFI liabilities.
- Some minor amendments to the Housing Revenue Account to ensure figures reconcile with the main accounts where appropriate.
- Inclusion of additional information in the accounting policy for property, plant and equipment to increase the clarity.

Misstatements

A number of misstatements were identified during the audit the most significant of these are detailed below. The adjustments processed have had no impact upon the Council's general fund.

- Recognition of decanted Council dwelling incorrectly removed from the asset valuation totalling £3.1m.
- Impairment of buyback properties disposed of as part of the Edgware regeneration project totalling £4.9m.
- Reduction of £4.2m from school valuations due to application of incorrect obsolescence rate.
- Recognition of £3.4m of benefit expenditure relating to 2010/11 paid in 2011/12 together with corresponding subsidy income receivable from central government.

- Reversal of impairments recognised in prior years totalling £6.7m in the income and expenditure account.
- Recognition of capital grant income received in the income and expenditure account and unutilised monies included in the capital grants unapplied reserve.
- Reduction in government debtors due to incorrect classification of £1.5m between business rate debtors and council tax debtors.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them. Our audit has not identified any amendments to the financial statements that have not been processed by management. All of the misstatements are set out at Appendix B.

Evaluation of key controls

Internal Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any significant control issues, additional to those already identified by internal audit, that present a material risk to the accuracy of the financial statements. Where we have identified issues relating to the Council's internal controls and made recommendations for improvement these are detailed in Appendix C.

Review of IT

We performed a high level review of the IT control environment as part of our review of the internal control system. We concluded that there were no material weaknesses within the IT arrangements that could impact on our audit of the accounts. There were two main control weaknesses, on which we have made recommendations (Appendix C):

- The review of IT user access rights is inconsistent across different systems, affecting individuals who change roles or functions.
- We noted that there is no Intrusion Detection System (IDS) to alert the Council to instances of unauthorised access to its network (although we acknowledge that the Council undertakes penetration testing of its network security to identify improvement areas.)

We have also identified a number of minor IT control issues which have been communicated to management. These do not present a material risk to the accuracy of the financial statements or in regard to fraud, and are therefore not detailed in this report.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in March 2011 concluded that the Council met these requirements. We consider that the Council has put in place sufficient resource to deliver the internal audit plan and has an appropriate risk based methodology, which is comparable to other London Boroughs. We also considered whether the Council had sufficient flexibility in its resource to respond adequately to unplanned risks arising in the year. We are satisfied that the existing arrangements are sufficient to achieve this.

We draw on this work in forming our overall Value for Money (VFM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VFM conclusion and our audit of the financial statements.

Where internal audit have identified control issues, or where there has been no internal audit coverage we have not placed reliance on internal controls and have taken a more substantive based audit approach. This means that we place more reliance on analytical procedures and detailed transaction testing. Where issues arising from our audit work have been identified these are reported as part of our key findings from the audit. Where we have identified additional internal control issues, not previously reported by internal audit or other sources, we have made recommendations for improvement (Appendix C).

Internal audit opinion

We noted that the Council's Assistant Director of Finance - Audit and Risk Management provided a limited assurance opinion in respect of the system of internal control in place during the year. This was due to a number of limited assurance opinions given in respect of work done during the year.

The concerns raised related to specific areas of the control framework which we took into account when designing our audit approach.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We reviewed the draft AGS and considered the document to be satisfactory in terms of content, a fair representation of Council operations during the year and in line with the Code. We concluded that although there were some areas for improvement, the overall arrangements were satisfactory and appropriate to ensure that management actions are reviewed effectively.

Public questions

We received questions from the public in respect of the financial statements for the year ended 31 March 2011. These related to senior officer remuneration disclosures and supplier payments. We have considered the points raised, as required under the Audit Commission Act 1998, and set out our response to these matters in this report (page 13). No formal audit action will result from this work.

Next steps

The Audit Committee is required to approve the financial statements for the year ended 31 March 2011 on behalf of the Council. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

Management of the risk of fraud

We have sought assurances from the Chief Finance Officer and the Chair of the Audit Committee in respect of processes in place to identify and respond to the risk of fraud at the Council. We have also considered the work of the Council's counter fraud service. From these enquiries we have established that those charged with governance have sufficient oversight over these processes to give them the assurances they require in regard to fraud.

In the course of our accounts audit work, we did not uncover any evidence of fraud or previously undisclosed control weaknesses which might undermine the Council's process for mitigating the risk of fraud.

3. Value for money

Value for money conclusion

The Audit Commission Code of Audit Practice 2010 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.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

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

In order for us to provide an unqualified conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

We expect to present an unqualified Value for Money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources. We set out the basis for this conclusion in this section of the report, with reference to the control weaknesses around contract management and other issues referred to in the Assistant Director of Finance - Audit and Risk Management's annual opinion.

Programme of work - review of proper arrangements

Our work considered proper corporate performance and financial management arrangements as defined by the Code. The findings from our risk assessment and work in these areas is summarised below:

Area	Work completed	Conclusion
Planning finances effectively to deliver strategic priorities and secure sound financial health	Reviewed as part of financial resilience work and from our overall review of Council performance against its strategic targets.	Proper arrangements considered to be in place.

Annual Report to Those Charged With Governance (ISA 260)

Area	Work completed	Conclusion
Having a sound understanding of costs and performance and achieving efficiencies in activities	Considered in our review of the Council's financial resilience	Proper arrangements considered to be in place.
Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people	Reviewed as part of financial resilience work and our audit of the financial statements.	Proper arrangements considered to be in place.
Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money	Considered in our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. We have also considered the effectiveness of the Council's actions to address control weaknesses identified in recent internal audit reports.	In the context of Council operations as a whole, our conclusion is that the identified control weaknesses, whilst significant, are not so fundamental as to result in a qualified VFM conclusion. (See pages 20 to 23 for more detail).
Producing relevant and reliable data and information to support decision making and manage performance priorities	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	Proper arrangements considered to be in place.

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Area	Work completed	Conclusion
Promoting and demonstrating the principles and values of good governance	Considered in our review of the Council's financial resilience and review of the AGS.	Proper arrangements considered to be in place
Managing risks and maintaining a sound system of internal control	Considered in our review of financial resilience and review of the AGS. We have also considered the Council's current and planned actions to address various control weaknesses identified by internal audit.	There are known control weaknesses in contract management and other areas, as identified by internal audit. However, we consider that actions have and are being taken to address these weaknesses and conclude that they are not sufficient to result in a qualified VFM conclusion this year.
Making effective use of natural resources	Considered as part of our risk assessment of the Council's arrangements to make effective use of natural resources.	Proper arrangements considered to be in place.
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.	Proper arrangements considered to be in place.
Planning, organising and developing the workforce effectively to support the achievement of strategic priorities	Considered in our review of the Council's financial resilience and as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.	Proper arrangements considered to be in place.

Matters arising from the review of Value for Money

Key outcomes from our local programme of work are detailed below.

Securing Financial Resilience

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 its:

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

Our summary findings are that the Council's financial performance indicators are in line with expectations and overall compare favourably in the context of other London Boroughs. The Council has adequate arrangements around financial planning, governance and control in overall terms, subject to our comments elsewhere in this report around contract management.

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 adequate.

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:

- 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 although there were some areas for improvement, 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 also considered issues raised with us by local electors in relation to the financial statements (referred to on pages 13 and 15) when forming our conclusion on VFM.
- We considered the control weaknesses that resulted in the Council's Assistant Director of Finance - Audit and Risk Management, issuing a 'Limited assurance' internal audit opinion of the Council's system of internal control in 2010/11. Although the number of limited assurance conclusions is a concern, evidence demonstrates 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.

- We reviewed the Council's investigation into contract management issues following the recent internal audit report on the contractual failings in relation to the use of MetPro. The results of this work are set out below.

The agreed actions have been carried out by management and internal audit as planned.

We have reviewed the Council's progress in implementing the MetPro recommendations. It is our view that the Council is on track to deliver the required actions by the agreed deadlines.

The Council's further investigation into contract management has included extensive work in producing a current contracts register and collating underlying records. Internal audit has been involved in reviewing the process. A report of the key findings has been produced for the Audit Committee.

Our work involved interviews with directors, procurement managers, service management and internal audit and review of the contract register and supporting evidence.

We sought to establish whether:

- the recently compiled contracts register was sufficiently complete to use for our testing to support our conclusion on VFM
- the entries on the register suggesting that a contract was in place were supported by appropriate evidence
- in the absence of a signed contract there were adequate arrangements in place to ensure VFM
- the extent of unmitigated VFM risk was so fundamental as to result in a qualification of our VFM conclusion or to require the use of our special reporting powers under the Audit Commission Act 1998.

Our findings are set out in overleaf.

Contract management

Contract management was an area of specific concern raised during the year by electors and the Assistant Director of Finance - Audit and Risk Management. Following the internal audit report on MetPro, the following actions were agreed:

- management would implement the action plan in relation to the identified specific failings
- management would carry out a further review to establish the extent to which the Council was entering into arrangements with suppliers without having a formal signed contract
- internal audit would review progress and provide quality assurance and internal challenge over management actions

we would review progress and carry out further work necessary to be assured over the Council's response.

Issue	Audit areas affected	Work completed	Findings
		<ul style="list-style-type: none"> The Council has recently completed an exercise to produce a register of all arrangements requiring a contract under Council policies. We conducted work to assess the completeness and accuracy of the register and analysed the extent of arrangements with suppliers that did not have a formal signed contract. 	<ul style="list-style-type: none"> Although the register requires further review and validation by management to ensure it is fully complete, the content was sufficient to allow us to carry out our VfM assessment work. We tested a sample of 40 items from the contracts register to confirm that contracts were actually in place. Our work confirmed that the underlying evidence supported the entries in the contract register, either through a formal signed contract or formal sign-off under delegated authority limits. The Council's register indicated that approximately 18% (£94.9m) of the total value of current arrangements that should be subject to contract under the Council's financial regulations, did not have fully compliant contracts in place. The Council has benchmarking information that suggests that this is not unusual compared to other London Boroughs. Within this figure, the majority related to arrangements to purchase accommodation and care - approximately 75% (£71.4m) within Adults and 18% (£16.7m) within Children's services. The remaining 7% (£6.8m) related to other contracts across the services. We acknowledge that the specific nature of social care spot contracting arrangements requires a more flexible approach to contracting than, for example, an arrangement to supply goods. We also note that contract management had already been raised as an issue in Adults Services, with associated actions agreed, in an internal audit investigation in January 2011. The main reasons for non compliance were contracts being drawn up but not being signed and arrangements covered by a contract being rolled forward without formal sign off.

**Securing
Economy,
Efficiency and
Effectiveness
Contract
Management**

Issue	Audit areas affected	Work completed	Findings
		<ul style="list-style-type: none"> We undertook further work on arrangements within Adults and Children's where the register indicated that complaint contracts were not in place. This looked at the extent to which adequate processes were in place to manage value for money in terms of four key elements: cost, public safety, quality and fraud. This focused on the perceived greatest area of risk, specifically private sector placements (rather than other public sector bodies with whom the Council enters into supplier arrangements). 	<ul style="list-style-type: none"> For Adults we found that in most cases overall framework contracts and individual placement contracts with suppliers had been issued, but copies signed by the supplier had not been obtained. However, in mitigation the day rate paid for each placement had been set by the Council, providing a control over cost. In addition, we found that the Council's annual inspection process for both venue and resident was in operation provided a control over safety, quality and fraud. For Children's we found that in the majority of cases, overall framework contracts were in place and individual funding agreements had been signed by suppliers. An effective inspection process was also in place. We noted that in both cases, the majority of suppliers were subject to central government regulation (primarily CQC and Ofsted) providing additional assurance in regard to safety, quality and fraud. We noted that significant number of suppliers in this category were other governmental bodies (such as the NHS) or were in regard to specialist care, where a competitive market for services purchased did not exist, further mitigating VFM risk in these cases.

Contract management conclusions:

- Weaknesses in contract management have been identified by the Council, most notably around not having formally signed contracts for significant numbers of supplier arrangements.
- The Council's work in this area demonstrated that there are mitigating controls in place to ensure safeguarding and service quality, guard against fraud and to provide some assurance that expenditure represents value for money.
- No evidence was found to indicate the presence of improper persons or activity in arrangements not covered by compliant contracts and there have been no instances of fraud reported by the Council's counter fraud service in relation to suppliers deemed non-compliant on the asset register.
- Our review of this work and further testing supports the conclusions reached by management and internal audit.
- There is a clear need for the Council to 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 (see action plan at Appendix C).

Value for Money Conclusion

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

Based on our findings, the existing level of public reporting of the identified weaknesses and the progress that the Council is making in dealing with these, we confirm that we do not, at this time, need to exercise our statutory reporting powers under the Audit Commission Act 1998.

We stress the importance of the Council carefully managing the completion of a number of current actions to improve contract management controls. We, and internal audit, will continue to monitor and report on progress until we have sufficient assurance that the identified weaknesses have been fully resolved.

In the context of Council operations as a whole, our conclusion is that the identified contract management control weaknesses, whilst significant, are not so fundamental as to result in a qualified VFM conclusion.

Appendices

A. The reporting requirements of ISA 260

Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors
The directors are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Committee that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit Committee.

ISAUk 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
 - nature and scope of the audit work
 - significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

- The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.
- Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

	Audit services
Statutory audit	£ 415,000
	Other services
Grant certification work	£ 85,000*

*Estimated based on charge for 2009/10

B. Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the financial statements

Classification - The movement of a balance from one location in the accounts to another

Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the financial statements

Adjustment type	£'000	Account balance	Impact on financial statements
Misstatement	£3,130	Council dwellings	The adjustment increases the value of Council dwellings and reduces the value of impairments charged to the income and expenditure account during the year in respect of assets incorrectly removed from the valuation. The value of this adjustment is then reversed from the general fund to the capital adjustment account as part of the Council's unusable reserves.
Misstatement	£4,955	Investment properties	The adjustment decreases the value of investment properties relating to council property buy backs disposed of by the Council during the year as part of the Edgware regeneration project. The impairment of these assets is processed through the income and expenditure account and then reversed from the general fund to the capital adjustment account as part of the Council's unusable reserves.
Misstatement	£3,387	Provision of services	The adjustment increases the service expenditure in respect of benefit payments relating to 2010/11 not paid until April 2011, however, a corresponding income adjustment is also processed to reflect the subsidy income would be received from central government in respect of the Council's expenditure.
Misstatement	£6,690	Financing income	The reversal of impairment charges recognised in previous period following an asset valuation is processed as income through the income and expenditure account. The balance is then reversed from the general fund into the capital adjustment account as part of the Council's unusable reserves.

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Adjustment type	£'000	Account balance	Impact on financial statements
Miss statement	£4,225	Other land and buildings	The adjustment decreases the gross value of schools by £4,391 , less a reduced depreciation of £166 due to application of the incorrect obsolescence rate when calculating year end valuation. The adjustment to gross book value is processed against the revaluation reserve and the reduced depreciation charge is reversed from the general fund to the capital adjustment account as part of the Council's unusable reserves.
Miss statement	£25,582	Capital grants unapplied	The Council can be reasonably expected to satisfy the conditions attached to these utilised capital grants and therefore should be recognised in full through the income and expenditure account . The unspent monies would then be reversed between the general fund and capital grants unapplied reserve account.
Miss statement	£1,502	Government debtors	The adjustment relates to the Council's share of £1,918 misclassified as business rate debtors. The misclassification of the balance between business rate debtors and council debtors also reduces the surplus on the collection fund by £1,918 .

C. Action plan

Priority
 High - Significant effect on control system
 Medium - Effect on control system
 Low - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	Documentation to support decisions, judgements and estimates New auditing standards introduced in 2010/11 (the charity ISAs) have required us to place an increased emphasis on the judgements and decisions made by the Council in preparing their accounts, and how this is documented. In line with these new requirements, the Council should prepare an overarching document to set out the approach taken for property valuations.	Medium	Property Services currently documents the approach taken for each property valuation it undertakes. The council accepts that it may be useful to have a summary document that sets out the general approach to each category of asset and will work to produce this in time for inclusion in next year's Statement of Accounts working papers.	Responsibility: Property Services 31 March 2012
2	Leases Our testing of lease contracts noted that of the 40 tested in 6 cases documentation was insufficient with either no documentation, unsigned lease contracts or lease contracts which had expired with no contractual extension. The Council should undertake a complete review of all such lease contracts to ensure that appropriate documentation is present and where required seek to agree updated lease contracts.	Medium	Property Services will check that all legal documents now form part of the asset valuation process. This should ensure that within the 5 year rolling programme, all documents are available. Any that are unavailable will be noted on a separate list with reasons.	Responsibility: Property Services 31 March 2012 (for those asset in current year valuation cycle)

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Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
3	Follow up of internal audit recommendations We noted that some in some specific service areas there was evidence that internal audit recommendations had not been progressed in line with agreed timescales. In these areas there is a need for improved management oversight and more proactive risk management in their work to address the issues raised. The Council should take steps to change and improve the management culture in this regard.	Medium	The quarterly and annual internal audit report documents any high priority recommendations that have not been implemented by management. This report is presented to the Statutory Officers Group and the Audit Committee on a quarterly basis. Where relevant senior management respond to Audit Committee regarding why the recommendation has not yet been implemented in the agreed timescales. Each service has an Assistant Director nominated as an audit lead who receive regular updates of agreed dates for action of all priority 1 recommendations, they act as the point of contact for Internal Audit to liaise with if any problems are noted.	Responsibility: Assistant Directors / Deputy Chief Executive / Internal Audit 31 March 2012
4	Regular Review of Access Rights The review of IT access rights is inconsistent across different systems, affecting individuals who change roles or functions within the Council. <ul style="list-style-type: none">• Access rights for all systems should be reviewed on a periodic basis (at least quarterly) to identify any inappropriate settings.• The Council should ensure that when a member of staff changes job role, the line manager notifies the Information Systems team promptly so that the access levels can be amended accordingly.	Medium	The council is working internally to streamline the process so that IS are informed in a timely fashion when staff change job roles. IS will work with managers and HR to achieve this.	Responsibility: Information Systems 31 March 2012

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Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
5	Intrusion Detection Systems (IDS) In order to mitigate the risk of unauthorised access to Council IT systems, the Council undertakes penetration testing of its network security. This identifies areas for improvement. We noted that there is no Intrusion Detection System (IDS) to alert the Council to instances of unauthorised access to its network. We suggest that the Council considers and formally concludes on whether this control should be introduced.	Medium	The council will continue to assess risk to its network security and as part of this, if IDS is shown to provide value for money and remove clear risk, it will be considered for implementation.	Responsibility: Information Systems 31 January 2012
6	VFM and Compliance with Contract Policies 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	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.	Responsibility: Director of Commercial Services Ongoing



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