

## **AUDIT SUB-COMMITTEE**

Minutes of the meeting held at 7.00pm on 27 November 2014

### **Present:**

Councillor Neil Reddin FCCA (Chairman)  
Councillor Alan Collins (Vice-Chairman)  
Councillors Ian Dunn, Simon Fawthrop,  
William Huntington-Thresher, Russell Mellor and  
Keith Onslow

### **Also Present:**

Mark Bowen, Ian Leadbetter, James Newell, Charles  
Obazuaye, Linda Pilkington, Luis Remedios and Kay  
Weiss

### **13 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies were received from Councillor Nicholas Bennett; Councillor Russell Mellor attended as substitute.

Apologies were also received from Councillor Steven Wells, Councillor William Huntington Thresher attended as substitute.

### **14 DECLARATIONS OF INTEREST**

Councillor Fawthrop declared an interest as his wife was employed by Bromley Adult Education.

Councillor Reddin declared an interest as a governor of St Olave's School, and as the parent of a child at Warren Road Primary School.

Councillor Fawthrop declared an interest as the parent of a child attending a Bromley school.

Councillor Onslow declared an interest as he worked for the Zurich Insurance Company.

Councillor William Huntington Thresher declared an interest as a Member of the scrutiny panel of Affinity Sutton Homes.

### **15 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 25th JUNE 2014 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

**RESOLVED that the minutes of the meeting held on the 25<sup>th</sup> June 2014 (excluding exempt information) be confirmed.**

**16 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

No questions had been received.

**17 MATTERS OUTSTANDING FROM THE LAST MEETING**

Report CSD 14119

There was a previous issue noted regarding the rate of compliance with the Full Budget Monitoring Process. It was noted that the rate of compliance had increased to 92%, and so this matter could now be closed.

The other matters raised in the Matters Arising report were either implemented or covered within the Internal Audit Progress Report or the Internal Audit Fraud and Investigation.

**RESOLVED**

**(1) that the Matters Arising report be noted.**

**18 ANNUAL AUDIT LETTER & LETTER OF REPRESENTATION**

The Committee were updated with respect to the Annual Audit Letter and the Letter of Representation. It was noted that the Committee normally received the Annual Audit Letter, and that this document summarised the work of the external auditors PWC, for audit work taken in 2013/14. The Letter of Representation was noted by the Committee. The letter detailed the key undertakings given by the Director of Finance to the External Auditors.

Members were informed that the 2013/14 external audit could not be concluded (and the relevant certificate issued) as there had been an objection to the 2012/13 accounts in relation to the Authority's parking enforcement contract.

The Committee were informed that the auditors had issued an unqualified opinion of the accounts, and that they had made four recommendations:

- use of a pension bank account
- refresher training to be provided to surveyors regarding accruals
- amending and review of bank mandate
- recommendations relating to pension leavers on the administration system

With respect to fees, Members heard that the expected fee for dealing with the objection relating to parking enforcement had increased to approximately £32,000--£35,000. The total of the external audit fees was expected to be in

the region of £193,000. It was explained to Members that the Annual Audit Letter was a requirement under the Audit Code of Practice, and Statement of Responsibilities of Auditors and Audited Bodies.

The Committee heard that there were four main areas that the auditors wished to highlight:

- 1) The audit raised concerns with how the Authority was going to manage its projected medium term budget gap. It was estimated that the budget gap in 2017/18 would be in the region of £53.1m.
- 2) The way that the Authority accounted for the capitalisation of fixtures and fittings was not in line with Accounting Standards
- 3) The Authority's pension liability was the most significant estimate. The 2013 triennial valuation calculated that the pension deficit at that time was in the region of 18%. To recover the pension deficit over 15 years, it was recommended that the employer contribution rate be set at 15.3%, and that an annual lump sum past-deficit contribution, be set at £5.9m.
- 4) It was noted that from 2013/14 there had been changes to the accounting for defined benefit schemes and termination benefits. The auditors considered that these changes had been dealt with adequately.

Councillor Mellor was of the opinion that it may be prudent to have a separate bank account for the Pension Fund. Members enquired:

- What the estimated cost of setting up a separate pension bank account would be
- Confirmation that there were robust controls to ensure that the fund was ring fenced to pension related transactions.

These questions were subsequently emailed to the Director of Finance for clarification, and an update will be provided to Members in due course.

**RESOLVED:**

- 1) that the Annual Audit Letter from PWC, the External Auditors, be noted**
- 2) that the Letter of Representation from the Director of Finance be noted**

**19 INTERNAL AUDIT PROGRESS REPORT**

Report: CEO 1402

I. Transforming Community Equipment Services.

The Committee were reminded that previously, audit had identified three priority one recommendations in this area. These areas were Invoicing,

Stock/Reconciliation and Charges/Contract monitoring. The Committee were provided with a detailed update, and it was noted that good progress had been made. Members heard that previously, Internal Audit had recommended that a more robust method of checking orders and invoices be introduced in compliance with financial regulations, and that these recommendations had been acted upon.

The Committee were informed that finance had developed new electronic systems to check and to identify discrepancies between orders and invoices, and that as a result of changes recommended by Internal Audit, there had been improvements in the speed of delivery of community equipment.

It was agreed by the Committee that the recommendations concerning *invoices* could now be regarded as implemented.

The Committee then proceeded to look at the issues concerning *stock reconciliation and stock charges*. It was clarified that “non stock” items were simply items that were non-standard, and were not in stock. The Committee were informed that management had acted upon recommendations, and had visited the depot to initiate a reclassification of non stock items to stock items. This process had resulted in a credit to LBB by the contractor of almost £2,000. Other administrative checks had been put in place to increase efficiency and accuracy, and as a result, the Committee regarded the previous recommendations as implemented.

The Head of Internal Audit updated the Committee with respect to the previous problems that had been noted with *contract monitoring*. In view of the recommendations that had been actioned, Members agreed that the recommendations be regarded as implemented.

## II. Looked after Children

The Committee went on to discuss the two priority one recommendations that had previously been highlighted regarding payment authorisation and the timely completion of assessments, reviews, and Care Plans. It had been revealed in the most recent audit, two out of the last five cases audited did not have a current care plan, and it was therefore considered that more work was required from management to rectify these issues. It was agreed that this would be tested and reported to the next meeting of the Audit Sub Committee.

## III. Main Accounting System

It was highlighted at the previous meeting of the Audit Sub Committee that the percentage of budget holders actively participating in the full budget monitoring process was statistically low, around 26% to 64%. It had been decided that if future monitoring revealed participation levels below 85%, then this could result in Chief Officers being called before the Audit Sub Committee to explain why this was the case. It was noted at the Committee that this figure now stood at 92% compliance and the recommendation was considered to have been implemented.

IV. Learning Disabilities Follow Up

Members were reminded that previously, sixteen recommendations had been made in this area, and twelve of these were priority one; the previous audit had resulted in a nil assurance. Members were happy that satisfactory progress was being made towards full implementation of the audit recommendations except in one area. The Committee were notified that the issue of the timely authorisation of cases and issues identified as a result of budget monitoring had not been resolved. An update regarding these matters would be provided in June 2015.

V. Leaving Care (Payments to Clients)

Kay Weiss (Assistant Director--Safeguarding and Social Care--Children and Young People) and Mr Ian Leadbetter (Head of Social Care—Care and Resources), attended the Committee to provide an update on the current position, and to answer any questions that the Committee would like to ask.

The Committee were reminded that the audit was conducted by the LB Wandsworth; eight priority one recommendations were given, resulting in nil assurance. Wandsworth's audit had focussed on cash based financial support including meeting accommodation and maintenance needs. The audit revealed that there were limited policies and procedures in place, and that *documents* to support *cash* payments were sometimes missing or inaccurate. The Committee heard that there were also poor management and controls with respect to managing and authorising Request for Finance Forms. There was also inadequate documentation to reconcile cash payments to bank accounts.

The Committee were informed that there were further problems with the monitoring of payments, and that part of the reason for this was that there was no centralised log of payments being maintained to ensure that grant payments to clients were not resulting in over payments. The Committee also heard that there was a payment spreadsheet that was used, but that this was only referred to by one person, and that was the Monitoring Officer; this person had now left the service.

The Head of Internal Audit commented that it was clear that the previous system was open to fraud, although no evidence of fraud was found, and that tighter controls were required. It was also the case that wherever possible, BACS payments should be used.

The Committee looked at Pathway Plans, and were informed that in this regard the problems that existed were that Pathway Plans in some cases did not exist, and in other cases the plans were late in being implemented. The Head of Internal Audit also informed the Committee that the audit had discovered that there was no adequate policy in place to deal with the storage of client belongings, and that there were no adequate petty cash controls in

place. The Head of Audit stressed that these recommendations were easy to implement.

Kay Weiss assured the Committee that the relevant lessons had been learned and highlighted by the audit, and that the audit had been helpful. Ms Weiss stated that it was now clear what needed to be done to ensure that the financial regulations were adhered to. Ms Weiss acknowledged the wrong practices that had taken place in the past, but also felt that multiple team changes had not helped the situation. The Committee were informed that around 25% of the clients that the Leaving Care team dealt with did not have access to bank accounts. In many of these cases this was because the clients had no recourse to public funds, and this included bank accounts.

Councillor Dunn enquired how the Leaving Care Grant was administered and this was explained. Councillor William Huntingdon Thresher enquired if any financial advice was provided to the Care Leavers; it was explained that this was provided by the social workers.

The Chairman asked for an explanation of what was involved in “Pathway Plans”, and what were the consequences if none were available. Mr Leadbetter explained that these plans constituted a care plan from youth to adulthood; there was a risk of Ofsted non-compliance if none existed.

In conclusion, Ms Weiss stated that she would digest the report, and that it would be used in the future as an aid to performance management. The Committee felt that the problems were easily rectified.

## VI. Review of Family Placements

It was explained to the Committee by the Head of Internal Audit that the review of family placements was carried out subsequent to a request by the Assistant Director for Safeguarding and Social Care. This had resulted in eight priority one recommendations and nil assurance. The Committee Members were concerned about issues of *overpayments* to foster carers.

The Committee were concerned to learn that between the summers of 2010-2014, the value of overpayments was just under £91,000, and that just over £77,000 of this debt was still outstanding. It was apparent that there were significant weaknesses in the financial controls. It was observed that there were four primary reasons that had been identified to cause the overpayments, and these were:

- Service Agreements not being closed in a timely manner
- Lack of understanding of roles and responsibilities
- Lack of understanding of how Carefirst was operating now that it was a financial system
- Insufficient monitoring to identify early alerts.

The Committee were made conversant with the situation pertaining to *Retainers* for foster carers, and that overpayments approximating £2,000 had

been identified. There was a need for a diarised system to be set in place to notify management when retainer payment expiry dates had been reached.

The Committee were surprised to learn that no guidance existed concerning *Savings* for young people in foster care, and that no policy existed surrounding the transfer of savings for a child when the placement ended or changed. The Chairman was of the opinion that the savings should be Junior ISA's. Mr Leadbetter advised that these could be difficult to administer.

The Committee proceeded to look at the matter of *Legal Orders* (Special Guardianship Orders and Residence Orders). The Committee were concerned that in most of the cases audited, the legal orders were not available for scrutiny, and it appeared that key documentation was not being retained. It had been clarified during the audit process that there was currently no officer monitoring residence orders. Resultantly, it had been requested that the Carefirst Support Team set up a virtual team for these cases to be allocated to.

The Committee were advised that the rate of payments in respect of *adoption allowances* was not being reviewed annually in line with the adoption regulations, and the audit had discovered that some carers had been overpaid, whereas others had been underpaid. The internal audit had also revealed that there were inconsistencies with the rates of payment regarding *Special Guardianship Orders* and that fifty nine cases had been mis-classified on Care First.

The Committee were informed that the internal audit had raised two priority one recommendations with respect to *training* on Carefirst and on Financial Regulations and Contract Procedure Rules. Management had accepted these findings and recommendations for implementation. The Committee were informed that management had introduced a movement sheet document that was designed to eliminate future cases of overpayments.

The Chairman raised the matter of appropriate training for CareFirst users, and asked if there were any financial constraints concerning this. Mr Leadbetter answered that the matter of Carefirst training was being looked at by Mr David Bradshaw (Head of Finance for Children and Young People). Mr Leadbetter explained that it was not clear if Carefirst was the most appropriate system for the Family Placements Team to use; the possibility of Carefirst "add ons" was being investigated.

Councillor Fawthrop commented that the adoption figures had reduced. Mr Leadbetter responded that this was the result of legislative changes that made courts more wary of issuing adoption orders; it was now the case that adoption orders were issued as a last resort, and that the courts were issuing more Special Guardianship Orders instead. These provided a degree of security but there was a cost to the council. The Committee were informed that last year was not a good one for adoption placements, but that the rates were better this year. However, it was expected that the number of adopters would decrease. The Assistant Director of Safeguarding and Social Care

informed the Committee that new data indicated that nationally adoption rates had fallen by 50% over the last year.

Councillor Fawthrop was of the opinion that LBB should make representations to Government in an attempt to rein the courts back in. He also suggested that the report be referred to the Care Services PDS Committee. Members felt that this was not necessary, and that a report should come back to the Audit Committee.

#### VII. Review of Purchasing Cards

The Committee heard that the internal audit had resulted in three priority one recommendations, non claiming back of VAT; non retention of receipts, and the splitting of expenditure. It was estimated that £1121.11 had been lost when VAT had not been claimed back. Managers had since been instructed to conduct an exercise to recheck expenditure to try and claim back unclaimed VAT, and this exercise is ongoing, and that over £6,000 had been identified as being recoverable from HMRC.

#### VIII. Review of Essential Car Users

The Committee were informed that the review had taken place as part of the 2013/14 Internal Audit Plan, when three priority one findings were identified and a limited assurance was given. The audit identified that the Essential Car User criteria may not have been robustly applied to ensure that the Essential Car User Allowance was only awarded to those for whom driving a car/vehicle was an integral and regular feature of the job. The audit noted that there was insufficient monitoring of driving licence and insurance documents. The Essential Car User Scheme would be reviewed by management in 2015. The Director of Human Resources (DHR) appeared before the Committee to provide an update on the current situation, and to answer any questions that arose on the night. The DHR informed the Committee that analysis had been undertaken in conjunction with payroll—in this case just mileage had been looked at. It was noted that drivers had to be insured for business use, which was not the case in many instances. It had also come to light that a driver had been receiving the allowance when not driving, and that this money was being clawed back by the council. One manager had not responded to a request for data. Human Resources were currently undertaking a review of processes and criteria. The DHR informed the Committee that processes were now in place to ensure that managers were pro-actively checking relevant documents like driving licences and business insurance documents. Going forward, the plan of the council was to reduce the number of drivers claiming the Essential Car User Allowance, and thus save money. The DHR postulated that many jobs could in fact be undertaken without the use of a car, and this was a matter that HR would be looking into.

The DHR stated that HR were looking at a new scheme whereby a single lump payment would be made, and this would save the council money. It was clear however, that there remained certain areas of work where a car would



be deemed to be essential regardless of mileage, and the example cited at the meeting was the use of cars by child social workers. There would be situations where a car was required because of the nature of the work, and would not be dependent on mileage.

The Chairman commented that the problem was trying to attain the correct balance, and that other opportunity cost factors (like time wasted on public transport) would also need to be factored in.

Councillor Onslow raised the matter of Insurance, and stated that it needed to be made clear to drivers that they required business insurance. The Council possessed a Contingency Motor Policy, but it was still the case that individuals required business insurance to avoid possible prosecution. Another matter that may need looking into was the age and roadworthiness of vehicles. Councillor Onslow stated that he had previously worked at drafting a Fleet Management Handbook, and offered to assist HR in drafting one for LBB. The Director of HR expressed an interest in meeting with Councillor Onslow to develop this further. The Committee were informed that an allowance did exist for bicycle use, but as the sums involved were small, not many people bothered to claim.

Councillor Fawthrop suggested that LBB look into a Hire Car Account rather than hold a pool of fleet cars, and analyse if this would be a cheaper option for the council. It was agreed that this was a matter that the DHR would investigate with Fleet Management. Councillor Onslow commented that there was a danger with using hire cars with respect to the cars being used for non council business, however there would be no insurance risks with this option.

The Head of Internal Audit informed the Committee that an audit of pool cars was currently taking place. Councillor William Huntingdon Thresher suggested that LBB consider the idea of "Car Clubs".

The discussion around pool cars and the essential car user allowance concluded with the DHR stating that he would be investigating matters further with Fleet Management and with the Executive Director of Environment and Community Services.

IX. Primary School

The Committee were informed by the Head of Internal Audit that the audit was undertaken as part of the planned scheme of school audits for 2014/15, and that a priority one finding relating to bank reconciliation had been recommended. There were also nine priority two findings relating to various matters. The school had agreed all recommendations for implementation.

X. Review of IT Licenses and Asset Register

The Committee discussed IT Licenses and the Asset Register and were informed that LBB had been paying for fobs that were no longer in use. This was mainly because the IT department were not being informed when

employees left. The Committee were reassured to learn that Management had given an undertaking to carry out an exercise to ascertain the number of key fobs required before the next invoice was due for 2015/16. Councillor Simon Fawthrop stated that in any future audit concerning fobs, ex councillors should be included. It was noted that there did not appear to be a formal protocol in place concerning IT issues when councillors left LBB.

XI. Audit Activity

The Head of Internal Audit debriefed the Committee on miscellaneous areas of audit activity, and Members were glad to hear that feedback from auditees was positive, and that LBB were now actively seeking to fill the vacant position on the audit team, subject to budgetary constraints. It was noted that “sold services to Academies” was not going to continue, and Councillor Fawthrop praised the Audit Team for the savings that their audits had made.

XII. Request for VfM Study

It was noted that Members had previously requested that the Director of Finance carry out a VfM study offered by Cipfa. Accordingly a report had been drafted by LG Futures and was currently with Chief Officers. This report would be submitted to the next meeting of the Executive and Resources, Policy Development and Scrutiny Committee. Any anomalies would be looked at by the Director of Finance.

XIII. Waivers

The Committee were informed of the controls in place with respect to Waivers, these controls increasing in rigor as the value of the waiver increased. The Committee were provided with a list of waivers under Contract Procedure Rules 3 and 13.1 for their scrutiny.

XIV. Publication of Internal Audit Reports

The Head of Internal Audit explained to Members that since the last cycle of the Committee, twenty five redacted final reports had been published, with exemptions sought for two reports.

XV. Value for Money Arrangements

The Committee were updated with respect to the audit position regarding value for money arrangements as this was an area that had not been audited recently. The Committee heard that there had been an audit of *Family Placements* that had received a score of 2 out of a possible 4. Management were looking at ways that this score could be improved. The Committee were informed that in terms of VFM, *Temporary Accommodation* was currently being audited, and that an audit of *Planning* was to be completed in the near future.

XVI. Housing Benefit Update

The Committee were updated with respect to the proposed move by the DWP to introduce a Single Fraud Integrated Service (SFIS) which will come into force on the 1<sup>st</sup> July 2015. The current contract with RB Greenwich would be required to end in its current form, but there may be a possibility of some manner of partnership working in the future.

XVII. Web Based Training

The Committee were pleased to hear about the positive uptake of training with respect to Contract Procedure Rules and Financial Regulations. It was reported that 90% of eligible candidates had completed the training and that a revised programme was planned for 2015. Consideration was being given to running a short web based course highlighting the main short comings in audit controls that were identified.

XVIII. Local Audit and Accountability Bill and Post Audit Commission Details

The Head of Internal Audit reminded Members that the Audit Commission was due to close on the 31<sup>st</sup> March 2015. A transitional body would be set up by the Local Government Association to oversee contracts in the meantime. The Committee were also informed that the National Fraud Initiative was going to move to the Cabinet Office, and that the Audit Commission's counter fraud function would transfer to a "Counter Fraud Centre" set up by CIPFA (Chartered Institute of Public Finance and Accountancy). It was also noted that LBB's auditors were going to change from PWC to KPMG.

XIX. Risk Management

Risk management is the identification, assessment, and prioritization of risks, followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events, or to maximise the realisation of opportunities.

The Committee were interested to learn of the formation of the new Corporate Risk Management Group (CRMG) chaired by the Chief Executive that met on 3 November 2014, and agreed new terms of reference. The Group brought together the Risk Management Group, Corporate Health and Safety Committee, Emergency Planning, and Corporate Business Continuity Group. The new CRMG would continue to report to Audit Sub Committee. The Committee were informed that LBB were looking to develop an e learning training package on Risk Management with the help of the E Learning Team, and Zurich Municipal. Councillor Onslow offered to assist in moving this forward. Councillor Onslow reminded the Committee that it was imperative to have a sound Risk Management system in place to guard against not just physical or financial problems, but also reputational damage.

## **RESOLVED**

- (1) that the internal audit progress report be noted**
- (2) that the Committee note the Waivers requested since March 2014**
- (3) that the Committee note the internal audit reports published on the web**
- (4) that the Committee agree to exempt two of the audit reports from publication.**
- (5) that an updated report concerning Looked after Children be presented to the next meeting of the Committee**
- (6) that an updated report concerning outstanding issues identified in the Learning Disabilities follow up audit be reported back to the Committee in due course.**

## **20 QUESTIONS ON THE AUDIT SUB COMMITTEE BRIEFINGS**

The following question was raised by Councillor Ian Dunn prior to the meeting:

A number of the reports mention lack of processes and procedures and untrained staff. How does the Council ensure that it does have proper processes in place and that staff are properly trained? Is there some sort of project methodology whereby any business change project has standard deliverables of approved processes and trained staff? Also, how do we obtain this assurance when the process is being carried out by a contractor?

The answer to this question was provided by the Head of Audit:

Any audit recommendations--whether it is to do with processes, procedures, client monitoring, document retention and quality/lack of reporting made by Internal Audit, are followed up by us to ascertain progress on implementation. This would include evidence of action by management, testing on our part and interview of key staff. Therefore in the query you raised on processes being implemented by a contractor, we would look for evidence such as contractor/client meeting minutes that the client side had raised this, and it had been implemented by the contractor. If this was not readily available we would test the process ourselves as we would have rights of access to information.

The follow up process is that if it is a priority one issue reported to Audit Sub Committee we test within six months if possible. Priority two and three recommendations are followed up within a year span or at the next audit if it is

an annual audit which most major systems such as creditors, debtors, council tax are.

- 21 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000**
- 22 EXEMPT MINUTES OF THE MEETING HELD ON THE 25TH JUNE 2014**

The exempt minutes of the previous meeting of the Audit Sub Committee held on the 25<sup>th</sup> June 2014 were agreed.

**23 INTERNAL AUDIT , FRAUD & INVESTIGATION REPORT**

This report was written to inform Members of recent internal audit activity on fraud and various other investigations across the council. The report provided updates on previously reported cases, expanded on cases of interest, detailed cases on the fraud register, provided information on the forthcoming 2014 National Fraud Initiative exercise, and detailed the reasons given for exemptions sought for not publicising two investigation reports.

These minutes are not published here as they are Part 2 (Private) reports.

**RESOLVED:**

- (1) that the Internal Audit Fraud and Investigation Report be noted**
- (2) that the Committee agree the two exemptions from publication being sought**

The Meeting ended at 10.30pm