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DATE: 28 June 2016

AUDIT SUB-COMMITTEE INFORMATION BRIEFINGS

Subsequent to the meeting held on Wednesday 6 July 2016

AUDIT REDACTED REPORTS

The Information Briefing comprises the following redacted audit reports:

- Blenheim Primary School
- Manorfields
- PCN Internal Audit Report

- 1 FOLLOW UP REVIEW OF BLENHEIM PRIMARY SCHOOL (Pages 3 - 16)**
- 2 INVESTIGATION OF THE REFURBISHMENT OF MANORFIELDS (Pages 17 - 36)**
- 3 REVIEW OF PENALTY CHARGE NOTICES (PCNS) FOR 2015-16 (Pages 37 - 50)**

The briefings are also available on the Council website at the following link:

<http://cds.bromley.gov.uk/ieListMeetings.aspx?CId=559&Year=0>

Printed copies of the briefing are available upon request by contacting Steve Wood on 020 8313 4316 or by e-mail at stephen.wood@bromley.gov.uk.

Copies of the documents referred to above can be obtained from
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FINAL INTERNAL AUDIT REPORT
EDUCATION, CARE AND HEALTH SERVICES DEPARTMENT

FOLLOW UP REVIEW OF BLENHEIM PRIMARY SCHOOL
2015/16

Issued to: Mrs L Doel, Headteacher

Cc: Jane Siegfried, School Business Manager
Mary Cooke, Chair of Governors (final report only)
Schools Finance Team (final report only)

Prepared by: Principal Auditor

Date of Issue: 9 May 2016
Report No.: CYP/P08/01/2015

INTRODUCTION

1. This report sets out the results of our systems based follow up audit of Blenheim Primary School. The audit was carried out in quarter four as part of the programmed work specified in the 2015/16 Internal Audit Plan, agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.

AUDIT SCOPE

3. This follow up review considered the Internal Audit report issued on 22nd December 2015 and the progress made to implement 5 recommendations. The recent data loss from the IT system was also reviewed and the arrangements for IT Support Services.

MANAGEMENT SUMMARY

4. During the site visit on the 25th February and from correspondence with the school since then, the school has satisfactorily evidenced that four recommendations relating to raising orders at the time expenditure is committed, documenting Governing Body meetings, security marking assets and completion of pecuniary interest forms have been fully implemented. One recommendation relating to the contract register is partially implemented, but there is progress towards implementing this fully.
5. Internal Audit were alerted by the Schools' Finance Team to a loss of data due to a hardware failure and liaised with them prior to the follow up visit. Following the review of tendering and contractual arrangements for the provision of IT services at the school, carried out by Internal Audit in conjunction with the follow up visit, there are six new recommendations raised to ensure best practice is followed in future. Due to the business interest which has been declared by the Headteacher, the recommendations have been made to ensure transparency and propriety.
6. The site visit allowed Internal Audit to validate the action taken by the school to recover financial data. The School Business Manager (SBM) and Senior Admin Officer (SAO) confirmed that a hardware failure on 8th January 2016 had resulted in the loss of FMS data. The SBM was able to identify and recover the lost data by comparing the system data against a printout of the last cheque payment run dated 17th December and by carrying out a month end reconciliation for December 2015. Schools' Finance Team had attended the school to confirm the action taken by the SBM. The recovery of data has been completed however the cause of the data loss should be determined to ensure that there are adequate controls in place to mitigate the risk of this recurring.

FOLLOW UP REVIEW OF BLENHEIM PRIMARY SCHOOL 2015-16

7. Internal Audit was provided with a letter, from 'Company A' (curriculum IT service support contractor and IT consultant) outlining the circumstances surrounding the data loss; a hardware failure had resulted in the loss of data stored on two disks and the Windows configuration. On restoring the data from the back up onto the rebuilt server, 'Company A' found that the FMS backup had not been configured correctly to save the data. Data was then retrieved from the backup of the live database, resulting in the loss of a small amount of FMS data. It was unclear from the letter where the overall responsibility lies, given the school have split the IT contracts, admin and curriculum. The Governing Body should seek written assurance from the respective IT Support Service contractors that sufficient back up and disaster recovery controls are now in place to prevent a recurrence of the recent data loss and clarify who has overall responsibility for the backup and disaster recovery arrangements.
8. At the site visit the current IT support service arrangements were confirmed as follows :-
- 'Company A' provide the IT support service for curriculum; the three year contract expires 1st September 2017.
 - 'Company B' provide IT support for admin; this is a rolling contract renewable on 31st March each year.
 - The back-up arrangements are provided by 'Company A', using 'Company C' for the back-up facility.
 - 'Company A' are consulted by the school in relation to any new computer hardware, devices and/or software to be added to the Specified Equipment, as set out in the current curriculum IT support services agreement dated 19th September 2014.
9. Prior to the discussion and award of contract, the Headteacher declared a conflict of interests as the Director of 'Company A' is her son. This has been declared at the start of each committee meeting and when IT issues are discussed it is minuted that the Headteacher leaves the meeting, for example the award of contract at the Governing Body meeting in July 2014. However to achieve complete transparency and mitigate any risk of challenge it is suggested that the specific conflict of interest be minuted for any new Governors attending rather than "previously declared", the Headteacher is not solely party to any correspondence between the school and the contractor and any procurement decisions relating to IT issues be with the authority of another officer/Governor within the Scheme of Delegation. The expenditure process at the school is for the Headteacher to authorise all invoices. However for 'Company A' this should be actioned by another approving officer, mindful to comply with separation of duties.
10. During the audit visit Internal Audit examined the arrangements for awarding the IT support service contracts when they were tendered in September 2013 and then again in September 2014. The following points were noted :-
- September 2013 contract award
- Prior to the tendering exercise in 2013 the curriculum IT support service was provided by 'Company D' and admin IT support service was provided by 'Company B'. It was not clear why the school sought to change provider but the implication is that it was

performance driven, given the Governor Body minutes of the 25th September that recorded that 'Company D' "were not forward thinking enough" and in an e-mail sent from the SAO to two governors it was recorded that the Headteacher 'has had mixed feedback regarding curriculum support.' No further details were provided and we have not seen documented evidence of any performance issues raised by the school during the life of the contract.

- The value on the contract was below £50K and therefore three written quotes were sought. Suppliers were asked to quote for the curriculum, admin and back up aspects of the IT support service contract. 'Company D' were emailed by the Senior Admin Officer on 19th June 2013 and 'Company B' were emailed on 24th June 2013. We could not find evidence of when 'Company A' were emailed and asked to quote for the service.
- Responses were received by e-mail to the SAO; 'Company D' responded on 26th June 2013, 'Company B' on the 25th June 2013 and 'Company A' on the 11th September 2013.
- 'Company A' did not quote for the admin IT support service so only two quotations for that element were received. Internal Audit did not see evidence that a third supplier had been asked to quote. As only two quotes were received for the admin IT support element, a waiver should have been signed to comply with Financial Regulations for Schools, paragraph 5.7.1.
- For the curriculum IT support there was a lack of consistency in the information returned by the suppliers, specifically the number of hours per week and number of weeks of service. The process to evaluate bids is then complicated as the assessor is not comparing like with like. In this case the audit trail should support the rationale for awarding a contract, ensuring that the lowest quote is awarded the work. If the decision to award is not to the lowest quote a waiver should be evidenced and signed by the Chair of Governors.
- It was noted that the subsequent agreement with 'Company A' included the provision of consultancy, although this was not specified in the quotation which only referred to 'the support and maintenance of your curriculum network' and 'project installation work is to be priced separately and on a project-by-project basis.' When tendering for services in future, the school should clearly set out to all bidders what level and amount of service it requires as part of the contract specification.
- From the quotations received, the Governing Body agreed to award a one year contract term to 'Company A' for curriculum IT support and 'Company B' for admin IT support. The shorter term contract of one year was agreed by Governors as neither contractor had been used by the school before and this would allow performance to be assessed at the end of the twelve months. No length of time was specified when requests for quotations were sought. One supplier, 'Company D', stated in their quotation 'Price per annum, 3 year minimum term applies.' The school should allow all bidders the opportunity to bid for the same length of contract

September 2014 contract award

- The contracts were re-tendered in 2014; suppliers were asked to quote for the curriculum, admin and back up aspects of the IT support service contract. The SAO emailed three suppliers 'Company E', 'Company B' and 'Company A' on the 2nd July 2014, to request written quotations. 'Company E' and 'Company B' responded by e-mail to the SAO on the 3rd and 4th of July respectively; 'Company A' provided a quotation by letter dated 7th July 2014.
- 'Company A' provided the lowest quotation for the curriculum element (£3,420) and 'Company B' provided the lowest quotation for the admin element (£2,200). However Internal Audit noted that 'Company E' had provided bids for both the admin and curriculum support which, when combined, amounted to £140 per year less than those individual bids by 'Company A' and 'Company B'. It is not clear if the school explored the option to award to one supplier, which appeared to offer better value for money, or if there were other issues arising during the evaluation that eliminated 'Company E'.
- The award of the contracts was agreed at the Governing Body meeting held on 16th July 2014. A summary document, showing the quotes, service level summary and assessment of suitability had been prepared by the SAO and was provided to one Governor in advance of the meeting. Having reviewed the contract and quotations this Governor confirmed that 'Company A', the existing contractor were the cheapest and had proved themselves over the last year. The Governor recommended, and the Governing Body agreed, that 'Company A' be given the contract for curriculum IT support service for a three year fixed term. The Governor explained that the admin IT support service contract was with 'Company B' through 'Organisation A', a rolling 3 year contract and that the school was happy with the service provided.

11. The review of payments to 'Company A' indicated that the school has spent a total of approximately £38,580 with this company between 1 September 2014 and 23 February 2016. Expenditure relates to contract payments for the IT curriculum support service (£3,420 per year) and equipment purchased through them. The school should be aware of Financial Regulations for Schools and Contract Procedure Rules whereby formal tenders will be required for goods and services when the cumulative expenditure with one supplier exceeds £50,000. In this situation, the contract cost over the three year period would need to be considered separately from the total cost. All non-contract items and services which have been purchased since 1 September 2014 and any which may be purchased in future should be considered as cumulative spend.

SIGNIFICANT FINDINGS (PRIORITY 1)

12. There was one Priority 1 finding identified. Prior to the discussion and award of contract, the Headteacher declared a conflict of interests as the Director of 'Company A' is her son. This has been declared at the start of each committee meeting and when IT issues are discussed it is minuted that the Headteacher leaves the meeting, for example the award of contract at the Governing Body meeting in July 2014. However to achieve complete transparency and mitigate any risk of challenge it is suggested that this area be subject to review and the suggested controls implemented. These will cover all aspects of the IT provision specifically:-
- The conflict of interest be minuted rather than "previously declared", as evidenced in the committee minutes reviewed. This will allow any new Governors attending to be aware of the conflict of interest.
 - The Headteacher should not solely be party to any correspondence between the school and the contractor or be involved in any procurement decisions relating to IT issues. These should be made with the authority of another officer/Governor within the Scheme of Delegation.
 - The expenditure process at the school is for the Headteacher to authorise all invoices, but for 'Company A' invoices they should be authorised by another approving officer, being mindful to comply with separation of duties.

DETAILED FINDINGS/MANAGEMENT ACTION PLAN

13. Appendix A provides information on the recommendations that are being followed-up and the status following the audit review. Any new findings and re recommendations are detailed in Appendix B of this report and require management comment. Appendix B also gives definitions of the priority categories.

ACKNOWLEDGEMENT

14. We would like to thank all staff contacted during this review for their help and co-operation

No	Recommendation (Internal Audit report December 2015)	Management Comment	Target Date	Priority	Responsibility	Follow-up comments	Status
1	The list of contracts/agreements is presented to governors each year to approve the continued use of those suppliers the following year.	This will be presented to Governors in the Spring Term at the Finance & Personnel meeting and going forward, on a yearly basis.	Next Finance & Personnel meeting	3	School Business Manager	The list of contracts/agreements was being updated at the time of our visit. There were several contracts/agreements with providers which the School Business Manager was chasing. These were updated and presented to the Finance and Personnel meeting held on 8 March 2016. At that meeting Governors asked that this be discussed fully at the next Finance and Personnel meeting.	Partially implemented
2	Ensure that orders are raised before the invoice is received so that expenditure is committed on the school's financial system.	All SLT and office staff have been advised about the importance of informing the Finance Officer of any orders that need placing or purchases made so the Finance Officer can raise a purchase order in advance.	Immediately	2	All staff	We were informed by the Headteacher and School Business Manager that all staff had been reminded of the need to notify the School Business Manager of items and services due to be purchased. We obtained a copy of the bank history showing payments made since our original visit and noted that this situation appeared to have improved.	Implemented

FOLLOW UP REVIEW OF BLENHEIM PRIMARY SCHOOL 2015-16

No	Recommendation (Internal Audit report December 2015)	Management Comment	Target Date	Priority	Responsibility	Follow-up comments	Status
3	Ensure that items are security marked and review the asset register for completeness and accuracy, showing the correct details and locations of all items including four of the ipads purchased in February 2015 which were not recorded.	The Finance Officer has sourced a company who the school will be using to security mark all our assets. The asset register has been reviewed and the 4 ipads have been added.	Spring Term	2	School Business Manager	We confirmed that the four ipads purchased in February 2015 had now been recorded in the asset register. We also saw that action had been taken to security mark the items and this was in progress. During our telephone conversation with the School Business Manager on 22 March we were told that all items have now been security marked.	Implemented
4	Ensure that all Governing Body meetings are documented in future.	We now have a full time Governor's Clerk responsible for documenting and filing all minutes, a signed copy of all Governors meetings will be retained in school.	Immediately	2	Clerk to the Governors	A clerk has now been appointed and will document all Governing Body meetings in future.	Implemented
5	Ensure that all staff and governors complete a declaration of interest form.	This has now been completed for all staff, copy retained and sent to the clerk.	Completed	2	Senior Admin Officer	All staff have been required to declare any business interests and documentation confirming this was seen. All governors have been required to declare interests at the Governing Body meeting held on 23 March 2016 and their signed forms have been similarly seen.	Implemented

No	New recommendation	Priority	Management Comment	Responsibility	Target Date
1	<p>Due to the declared relationship between the Headteacher and the Director of 'Company A', the Headteacher must remove herself from all aspects of the IT provision, procurement and contract monitoring.</p> <p>This should be evidenced to demonstrate transparency eg minuting that the Headteacher leaves Committee meetings for IT agenda items.</p> <p>Specifically, the Headteacher should not be involved solely in any correspondence between the school and the contractor or procurement decision relating to IT.</p> <p>Furthermore, invoices for payments to 'Company A' should be authorised by the Deputy Headteacher, who is not currently involved in the ordering and payment process.</p>	1	<p>The HT always leaves the room during committee meetings regarding IT discussions, this will always be minuted.</p> <p>The HT has not been, and in future will not solely be involved in any correspondence or decisions relating to IT between the school and 'Company A'. The Governor (BS), DHT (JP) and SFO (JS) would all be involved in the procurement process for IT items.</p> <p>The HT is now entirely removed from the payment process, invoices will be processed by SFO and authorized and approved by the two DHT (JP & SK)</p>	<p>Head Teacher</p> <p>Head Teacher</p> <p>School Finance Officer</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

No	New recommendation	Priority	Management Comment	Responsibility	Target Date
2	<p>To ensure that value for money is obtained, prior to the start of each financial year a costed business plan of new and replacement IT equipment and services which are required should be written and presented to the Governing Body for approval.</p> <p>Items should be aggregated and where the estimated cost exceeds £5,000 three written competitive quotations should be sought and if expenditure exceeds £50,000 formal tendering arrangements should apply. The school should consider whether transparency and probity is demonstrated if 'Company A' is included as one of the three suppliers invited to bid.</p> <p>In conjunction with this, the school should consider entering into collaborative procurement arrangements with other schools for equipment and services, which may identify opportunities to achieve savings.</p>	2	<p>The Governor (BS), DHT (JP) & IT teaching lead (DT) who are all responsible for IT will meet at the beginning of the financial year to discuss and plan for IT requirements. A costed business plan of new & replacement IT equipment & services which are required will be written and presented to the Governing Body for approval.</p> <p>If the estimated cost of each project exceeds £5,000 three written quotes will be obtained. If expenditure exceeds £50,000 formal tendering recommendations will be followed.</p> <p>Our IT provider, 'Company A' would usually be asked to quote but all other quotes from other IT suppliers would be kept confidential & Governors would be informed of the tendering outcome and make their decisions accordingly.</p> <p>The SFO has recently identified collective buying power for tablets proposed by the Department of Education. At present all schools are encouraged to register their interest on the GOV.UK site, if this was to go ahead, a saving of 12% could be made on purchasing tablets. Additionally, the school is in the process of joining 8 other schools to form a Multi Academy Trust, collaborative procurement would be considered for all equipment & services, including IT where savings could be made.</p>	<p>Governor, Deputy Head Teacher, Class Teacher</p> <p>School Finance Officer</p> <p>School Finance Officer</p>	<p>June 2016</p> <p>Implemented</p> <p>Implemented</p>

No	New recommendation	Priority	Management Comment	Responsibility	Target Date
3	As part of contract monitoring, a log should be kept of all incidents during the course of the contract where performance did not meet the expected level and the supplier was informed of this. Performance should be considered when contracts are renewed or extended.	2	SAO (SL) to keep and maintain contract logs where performance did not meet the expected level and will be taken into account when contracts are renewed or extended.	Senior Admin Officer	Implemented
4	The Governing Body should (i) seek written assurance from the respective IT Support Service contractors that sufficient back up and disaster recovery controls are now in place to prevent a recurrence of the recent data loss and (ii) with a split IT provision currently in place it should be clarified which provider has overall responsibility for the back-up and disaster recovery arrangements and this is acknowledged by both providers.	2	The following refers to (i) & (ii) SAO is currently undertaking a full risk assessment of our IT (including back-up), the first stage of this is underway in the form of questions for 'Company B' and 'Company A' to respond to in writing. However, 'Company A' have confirmed that the data is being backed up on a daily basis and is continually monitored to ensure this is happening. 'Company A' physically check the server on their scheduled weekly visit.	Senior Admin Officer	June 2016
5	The school must comply with Financial Regulations for Schools and Contract Procedure Rules for procurement. In summary the following should be evidenced:-	2			

No	New recommendation	Priority	Management Comment	Responsibility	Target Date
	<p>i) a written specification clearly defining the scope, length of contract, activities, hours of support and expected performance required by the school and provided to all bidders,</p> <p>ii) At least three bidders are invited to bid. To comply with Financial regulations the Chair of Governors will need to authorise a waiver if less than three bids are received. Similarly, if the lowest bid is not accepted, the reason should be documented as a waiver and signed by the Chair of Governors.</p> <p>iii) The information required from bidders and the timescale for submitting bids is clearly set out in a standard email sent out by the school with instructions to email quotations by return,</p> <p>iv) If clarification on any aspect of the specification is sought by any bidder, the questions asked and answers given are emailed to all</p>		<p>A detailed written specification listing all our requirements is now used and sent to each bidder so 'like for like' can easily be compared.</p> <p>Three bidders are sourced (using recommendations from other schools) and invited to bid. If the lowest bid is not accepted, the reason will be documented as a waiver and signed by the Chair of Governors.</p> <p>A detailed written specification listing all our requirements, instructions and closing dates for bids is now used and sent to each bidder.</p> <p>If clarification on any aspect of the specification is sought by any bidder, the questions asked and answers given are emailed to all bidders</p>	<p>School Finance Officer/Senior Admin Officer</p> <p>School Finance Officer/Senior Admin Officer</p> <p>School Finance Officer/Senior Admin Officer</p> <p>School Finance Officer/Senior Admin Officer</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

No	New recommendation	Priority	Management Comment	Responsibility	Target Date
	bidders to ensure transparency and prevent any bidder having information which the others do not have.				
6	In addition to the declaration of interests forms completed (referred to in the table of responses to original recommendations above), a declaration of all business interests, new and existing, is made by attendees at the start of the meetings of the Governing Body and Finance and Personnel Committee.	2	Clerk to Governors to ensure and minute all business interests, new and existing, are declared by attendees at the beginning of every Finance & Personnel Committee and the Governing Body meetings. In the last FGB meeting minutes, the following narrative was written: 'The HT declared a non pecuniary interest in relation to the IT Company, 'Company A', run by her son'.	School Finance Officer/ Governor's Clerk	Implemented

Definition of priority categories.

Priority 1

Required to address major weaknesses and should be implemented as soon as possible

Priority 2

Required to address issues which do not represent good practice

Priority 3

Identification of suggested areas for improvement

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FINAL INTERNAL AUDIT REPORT
EDUCATION CARE AND HEALTH SERVICES

**INVESTIGATION OF THE REFURBISHMENT OF
MANORFIELDS
2015/16**

Issued to: Doug Patterson, Chief Executive

**Cc Sara Bowrey, Assistant Director Housing Needs
Peter Turner, Director of Finance
Mark Bowen, Director of Corporate Services
Dave Starling, Head of Procurement**

Prepared by: Principal Auditor

Date of Issue: 22nd June 2016

INTRODUCTION

Internal Audit were asked to review the Manorfields capital project following referrals from Members of the Care Services PDS, and Chairman of Audit Sub on the 10th February 2016. Concerns had been raised at the Committee relating to additional costs above the original estimate of £563,437. Additionally, a member of the public, had emailed the Authority on the 30th March 2016 with four questions relating to the refurbishment of Manorfields to a temporary accommodation establishment and contractual arrangements with the Private Sector Leasing Contractor (PSLC).

The Private Sector Leasing Contractor are a Registered Housing Provider who Bromley entered into a contract with on the 12th April 2011 for the provision of securing private sector properties on behalf of the Authority to be used as temporary accommodation and then managing the sign up and rent collection of clients. Prior to entering the contract a report went to the Executive on the 8th December 2010, seeking permission to enter into the contract with PSLC, through the Midlothian Procurement “framework” agreement. The contract was entered into for 5 years, expiring on the 11th April 2016.

Bromley then used the Private Sector Leasing Contractor to manage the refurbishment of the former Bellegrove residential home during 2013 and convert this into use as temporary accommodation; 19 one bedroom, 13 two bedroom and 2 three bedrooms accommodation. Bellegrove opened on 18th October 2013 and has been subsequently managed by PSLC since then as part of the original contract, whereby PSLC manage client occupation, rent collection and minor repairs. Tendering was carried out for the Bellegrove refurbishment by Company A (formerly the Private Sector Leasing Contractor) with tenders being opened on 2nd April 2013. Company A project managed the refurbishment, initially asking four companies to tender, of which three responded. The Works Contractor (WC) returned the lowest cost tender. Company A assessed the tenders purely on the basis of price and awarded to WC. The total cost of refurbishment for this was £488,988 which was £88,988 overspent on the initial estimated costs and was due to additional works undertaken to storage area. The overspend was funded from the Housing Revenue Budget. Bellegrove opened on 18th October 2013.

Following the completion of the Bellegrove refurbishment, Housing put forward the option of a similar scheme at the Manorfields residential home and to use it as temporary accommodation. Manorfields was a larger scheme of 9 studios, 11 one bedroom, 19 two bedrooms and 5 three bed rooms accommodation. This was approved by the Executive on 15th October 2014.

Internal Audit has previously reviewed contractual arrangements with PSLC during an audit of Temporary Accommodation carried out in May 2015. This review included performance monitoring of the contract, arrangements to collect rent from clients to pay over to Bromley and verification of the

business case for Bellegrove. The audit report generated three priority one recommendations relating to lack of contract monitoring meetings, rent collected not being paid over to Bromley and no reconciliation of income collected.

This Investigation report will seek to address the questions posed by a member of the public, the concerns held by Members regarding the overspend and will include any additional findings identified whilst undertaking the review, with regard to project management, contractual arrangements and budget monitoring.

METHODOLOGY

The investigation was conducted by carrying out interviews, gathering information and reviewing and evaluating the quality and completeness of this information as detailed below:

- To determine expenditure on the Manorfields project reports were run from the Authorities financial system (Discoverer). Processed invoices in relation to the project were reviewed to identify suppliers and goods and services paid for.
- Committee reports and minutes relating to Bellegrove, Manorfields and the Private Sector Leasing Contractor were sourced.
- The Contract document was obtained from Housing, tender returns for Bellegrove, the works specification for Manorfields and one of the requested quotes for the replacement boiler was obtained from an external organisation. The other two quotes were requested from the Project Management Contractor (PMC), but have not been provided and the company have stated that these documents are not available.
- The business case for Manorfields set out in the initial report to Committee was reviewed and subsequent supporting documentation obtained from Housing and Finance.
- Companies House searches were carried out on PSLC and other subcontractors and tenderers.
- The following staff were interviewed: Assistant Director Housing, Head of Allocations & Accommodation, Head of ECHS Finance, Head of Corporate Procurement and the Principal Finance Officer ECHS.
- Emails sent in relation to the project were reviewed.
- The project and evidence obtained above was reviewed to ensure compliance with Financial Regulations and Contract Procedure Rules.

DETAILED FINDINGS

1. Public Questions

This section will consider the four questions that were posed by a member of the public, relating to Manorfields conversion. These were received by the Council via email on the 30th March 2016 and discussed at Audit Sub-Committee on the 5th April 2016. For ease of reference the questions are

shown in bold and the audit investigation findings shown below each question.

2.Q1. Manorfields - as requested in the email dated 30 March to Committee members will the Committee undertake an investigation into the business case for establishing Manorfields as a Hostel for the Homeless

3. The business case, as set out by Housing in the report to Care Services PDS on the 2nd October 2014 and Executive Committee on 15th October 2014 on the was reviewed. The business case was reported as:

Financial summary	£
Total cost of refurbishment work	£492,515
Total cost of fees	£70,922
Full year average revenue saving against NPA net costs	(£262,959)
Full year lease income	(£59,365)

4. In real terms the opening of the site would financially benefit the Authority by £322,324 (£262,959 + £59,365) a year and would therefore pay for itself after 1.75 years ((£492,515+£70,922)/£322,324) The figures stated in the business case were examined and as far as possible seem accurate given information available. The following paragraphs explain the process of verifying that this is correct.

5. The total amount of £563,437 (cost of refurbishment work and fees) was derived on an assessment carried out by PMC). PMC estimated the costs based on works carried out on Bellegrove and amended for the size and additional requirements of Manorfields. The assessment of Mechanical and Electrical services was carried out by Electrical Consultant Company(ECC) on behalf of PMC. This was completed on 28th April 2014 and was a visual non intrusive survey, i.e. plant and equipment was not operated. The assessment assumed that the boiler would be serviceable as it had been at Bellegrove.

6. Internal Audit conducted a Company's House search of PMC and identified that the Director of PMC, Director A was formerly a Director of PSLC up until the 21st March 2013 and a Director of Company A until 31st March 2013. The Assistant Director Housing confirmed with audit that she knew of this association but was satisfied that these arrangements did not prejudice the council.

7. The expected savings(£262,959) on spend against Nightly Paid Accommodation (NPA) costs were provided by the Principal Finance Officer, ECHS as follows:

	No. of units	Weekly Cost £ (net of subsidy)	Annual cost £
Studio	9	584.19	30,378
1 Bed	11	1187.34	61,742
2 Bed	19	2397.42	124,666
3 Bed	5	887.95	46,173
	44		262,959

8. The number of units was confirmed in an email from PMC to the Assistant Director Housing. The weekly cost (net of subsidy) was calculated by the Principal Finance Officer, ECHS who maintained the costs of NPA on a spreadsheet. A copy of this spreadsheet was provided to Internal Audit and was reviewed and verified.

9. The full year lease income figure of £59,365, is based on the total expected income to be received as rent (£378,270) less costs (in total £318,905). The costs as set out in the Care Services report of 2nd October 2014 are expected to be:

Costs Management fee	£93,600
Staffing	£56,643
Arrears/bad debts	£37,496
Maintenance/utilities, etc	£131,166
Total	£318,905

10. Although the business case was accurate given the expected capital cost of refurbishment and fees, it had not been factored in that there would be revenue costs of £33,685.15 for utility payments and £48,482.81 of other payments to PSLC including the cost of beds, furnishings, security and survey fees, paid between November 2014 and April 2016.

Audit Conclusion

11. Despite the additional revenue costs that have not been included Internal Audit can give assurance that the values stated in the business case were accurate given information held at the time of the Committee report and that the business case should allow for significant savings to the Authority, even with the increased costs. Using the revised estimate of final expected cost of £798k (see paragraph 38) the revised time to pay for itself would be a minimum of 2.48 years.

12.Q2. Manorfields - as requested in the email dated 30 March to Committee members will the Committee undertake an investigation into the tendering process for the refurbishment work and the award of the contract to the Private Sector Leasing Contractor.

13. The minutes of the Executive Committee of 15th October 2014 approved the use of PSLC to oversee the Manorfields project through the planning and refurbishment works. PSLC appointed MHA to project manage the works as well as the responsibility for gaining planning approval. For this PMC will charge 10% of the total cost (or approximately £56,000). As part of this management responsibility PMC would organise the selection of main contractor who was to carry out the work and oversee the operational side of the refurbishment. The WC was selected to carry out the refurbishment work and had also been the main contractor for the Bellegrave works.

14. The decision to award the refurbishment work at Manorfields to the same contractor could not be evidenced. In interview on the 25th February 2016 the Assistant Director Housing stated that that had been a verbal decision made with a former Chief Officer. The basis was of the decision was apparently that WC had won the tender on the project at Bellegrave and Manorfields would be of similar size and scope.

15. Tendering was carried out by Company A (the previous name of PMC) for the refurbishment works on Bellegrave, to which WC submitted the lowest tender and were duly awarded the contract. The results of the tender were as follows:

Contractor 4:	No Tender Returned
Contractor 1:	£460,530
Contractor 2:	£398,620
Contractor 3 (WC):	£352,057

16. The tender evaluation report which Company A provided on the 16th April 2013 summarised the results of the tendering but makes no mention of performance, references received, assessment of financial position of any of the tenderers and bases the decision to award purely on cost. Bromley's Contract Procedure rules section 10.2 states that as well as cost other factors including 'service, quality of goods, running costs, technical merit, previous experience, delivery date, cost effectiveness, quality, relevant environmental considerations, aesthetic and functional characteristics (including security and control features), safety, after-sales services, technical assistance and any other relevant matters' should be considered when deciding which tender is the most economically advantageous. However without a contract with PSLC to deliver this competitive tendering element and no specific mention in the committee report it is not possible to evidence if the rigours of Bromley's Contract Procedure Rules were passed on to PSLC in this instance.

17. The tender returns for Bellegrave were reviewed by Internal Audit and it was confirmed that they were accurate and that all contractors were asked to tender for the same contract specification.

18. In a letter dated 15th January 2015 from PMC to Bromley, it was confirmed that WC would undertake the work at Manorfields using “rates that are representative of the Bellegrove rates”. A copy of the revised schedule of rates was requested by Internal Audit from PMC/ WC to confirm that the quoted costs for Manorfields were “representative” of the rates charges for the Bellegrove works. This revised schedule has shown that a large number of rates have changed above the rate of inflation. An example being the cost of new showers tray cubicles, the unit cost increased from £800 per cubicle to £1,020 for Manorfields, an increase of 27.5%. It is apparent that no officer from Bromley has identified that the unit costs between the two sites have increased despite assurances from PMC to the contrary. An email received from PMC on 31st May 2016, stated that the rates for material and labour had in fact been increased between the two sites.

19. Managing the refurbishment of work does not form part of the terms of the original contract entered into with PSLC. Separate leases were drawn up for both Bellegrove and Manorfields, as well as separate SLAs for the management of both units. As stated above a separate contract or variation to the original contract, have not been drawn up, to encompass the refurbishment work and the management of the project. This is further expanded on in paragraph 54. In discussion with Housing Management it was acknowledged that additional costs would have been incurred if tendering had been undertaken. PSLC and PMC would have charged additional fees to undertake the tendering work, additional security costs of around £2k per week and additional refurbishment costs resulting from further deterioration of the premises whilst vacant would have been incurred.

Audit Conclusion

20. Internal Audit cannot give assurance that best value was obtained when the decision was taken to award the contract for the refurbishment of the work to WC. Evidence provided to Internal Audit indicates that there is a difference between rates quoted for Bellegrove and those proposed for Manorfields. Internal Audit are still awaiting documentation which could be material to this conclusion. No assurance can be gained that WC would be the best contractor in terms of price, performance, quality of work or other non-financial factors. With no tendering for Manorfields VFM cannot be verified and this is a breach of Bromley’s CPR section 8.1.1.

21.Q3. Manorfields - as requested in the email dated 30 March to Committee members will the Committee undertake an investigation into the tendering process and the cost of replacing the boilers at the Manorfields site

22. In an email from the Assistant Director, Housing on the 5th April 2016 it was confirmed that tenders were sought by PMC for the purchase of a boiler and additional works to install it at Manorfields.

23. Internal Audit requested sight of all of the tenders received by PMC, initially from Housing and then direct from PMC, but to date only one has been provided by Housing; the most expensive quote from ECC. The AD Housing confirmed in an email resent from PSLC that the tenders received were as follows:

Boiler contractor 1 ECC – £100,936
 Boiler Contractor 2 £94,940 (This was revised to £91,420)
 Boiler Contractor 3 £75,685

24. This information was not available as an independent source document from PMC neither were the original tender documents submitted by Boiler Contractor 2 or Boiler Contractor 3 evidenced. This would be contrary to contract procedures rules where tendering documents need to be retained for a minimum of 6 years.

25. Copies of the invoices received for the boiler from the winning contractor, Boiler Contractor 3, confirm that the final cost of the boiler works were £65,800 and thus it was £9,885 less the tendered cost of £75,685 and £29,200 under the initial expected cost of £95,000 (see paragraph 29). Without copies of the winning tender it is questioned how effective monitoring of project costs could have been achieved.

26. Due to the tenders not having been received from each of the suppliers it is not possible to give assurance that each contractor was requested to quote on the same scheme of works and boiler.

27. In an email dated the 9th of February 2016 the Chair of Audit Sub Committee was requested to look at the projected overspend on the Manorfields project by the Ward Councillor. This was referred to Internal Audit on the 10th February and was therefore included in this review.

28. It was reported to the Executive on the 2nd December 2015 that additional works would be required to replace the boiler and meet other environmental standards. Members of the Executive were requested to approve the use of £450k additional funding available from the Greater Local Authority (GLA) for tackling homelessness, specifically towards the refurbishment costs of Manorfields. This approval was minuted.

29. The Assistant Director Housing provided the breakdown of the expected costs of the replacement boiler and additional works, as shown in the table below. This information had been sourced from PMC schedule of costs dated 16/9/15. A breakdown of the expected £95,000 was provided and shows that this is not just for the cost of the boiler (£41k), but also to install it and the purchase of additional equipment to support the installation.

Boiler and flue work	
Provide and install new boiler and overhaul/service existing boiler	41
Overhaul, rectify leaking flue to allow recommissioning	15

Provide automatic control panel to boiler room	18
Supply and install new thermometers and gauges	6
Remove calorifiers manholes clean inside, replace manholes and chlorinate complete building	5
New automatic gas shut off valve to boiler room and running of new main to laundry incl. shut off valve.	10
Building work in connection with mechanical installation	0
Total	95

Audit Conclusion

30. Although source documentation has not been provided to Internal Audit, it appears that tendering was carried out by PMC and that the contract was awarded to the lowest tenderer. Internal Audit is still trying to obtain documentation.

31.Q4. Manorfields - as requested in the email dated 30 March to Committee members will the Committee undertake an investigation into the appointment of the Private Sector Leasing Contractor to manage the Manorfields facility

32. The original contract with PSLC was entered into via a "framework" agreement set up by Midlothian Council which went through a full competitive tendering process in 2007. Bromley entered into a contract on 12th April 2011 and this ran for 5 years. The contract requires PSLC to seek a minimum of 150 properties for Bromley and to manage them including collecting rent. There is not a maximum number of properties to manage. The nature of the framework was reviewed by Internal Audit and discussed with the Head of Procurement (HoP). The HoP advised that the Authority had been correct to use this agreement in 2011 but would not be able to use this agreement in 2016 when the contract expired which the Council has not. This was because when Midlothian Council retendered in 2013, only they and one other Authority, East Lothian, were named on the OJEU notice.

33. Current contractual arrangements allows for the management of both Bellegrove and Manorfields. Both properties are supported by negotiated lease agreements between the authority and PSLC.

34. The Gateway report CS16007 'Exec' 13th January 2016 recommended that a new contract be set up with PSLC for 3 years plus potentially another 2. Members resolved to support the recommendation and the new contract came into effect on the 1st April 2016.

Audit Conclusion

35. Internal Audit considers that Bromley complied with its Contract Procedure Rules and Financial Regulations in entering into a contract with the Private Sector Leasing Contractor in 2011, which later allowed for the use of PSLC to manage the Manorfields site. The renewal of this contract is dealt with in paragraph 57.

36. Additional findings.

During the investigation work undertaken by Internal Audit to satisfy Members concerns and the member of the public's questions, other issues were identified as discussed in the paragraphs below.

37. Overspend above feasibility study expected cost

The Manorfields project, as reported to Care Services PDS on the 2nd October 2014, was initially expected to cost £563,437 as set out in the business case, with £492,515 for the contract price and £70,922 for the cost of fees.

38. Having identified that there would be additional costs for replacing the boiler and replacing the doors, the Executive were requested to give approval to use the £450k tackling homelessness grant available from the GLA. However as part of this grant application higher standards not identified at the start of the project and additional security would be required to meet the criteria set by the GLA. The total of these additional costs over the initial value detailed in the feasibility study is £235k, the breakdown is shown in the table below.

Initial Contract Price submitted	608
Savings negotiated against initial contract price	
Reduced bathroom specification	33
Reduced storage facilities	12
Revised contract price/LBB contribution	563
Amendment additions	
Secure by design (detailed costing attached)	49
Upgrade from overhaul to new boiler and flue (detailed costing below)	95
Planning/Environmental services requirements (detailed costing below)	55
New fire doors	36
Amendments/variation	235
Total revised cost	798
GLA grant funding	450
Revised cost to LBB	348

39. From the initial feasibility study, reported to Bromley in January 2015 by PMC and initial inspections, it was assumed by ECC, the mechanical and electrical surveyors, that the boiler at Manorfields could be repaired and made operational rather than be replaced. However once occupation of the site and commencement of works it became apparent that the boiler would need replacing at an additional cost of £95k. The doors would also need

replacing to meet fire standards at a cost of £36k. Neither of these cost elements were foreseen at the initial assessment.

40. The revised contract price of £563,437 was derived from a feasibility study carried out by PMC. This study estimated the costs based on works carried out at Bellegrove and amended for the size and additional requirements of Manorfields. This was confirmed in a letter from PMC to Bromley dated 11th January 2015, in which PMC states that :-

41. "We have reviewed the rates in detail and would comment that we consider that the rates are fair and reasonable, WC have been very open with their pricing methods and we are confident that the rates are representative of the Bellegrove rates and the increase in cost over the budget price is largely down to the size of the property compared to Bellegrove, and the amount of works required to undertake the conversion."

42. The assessment of Mechanical and Electrical services was carried out by ECC on behalf of PMC. This was carried out on 28th April 2014 and included a sight visit but could not test the boiler and plant equipment as the sight was occupied. The assessment assumed that the boiler would be serviceable as it had been at Bellegrove. Subsequently this was found not to be the case and the replacement of the boiler and associated works would cost an additional £95k.

43. PMC failed to identify that the doors did not meet the fire standards as they assumed given Manorfields previous use, that the doors would be up to standard and would not need replacing. This resulted in an additional cost of £36k.

44. Internal Audit therefore concludes that the feasibility study was not effective. Unforeseen costs of potentially £131k (£36k + £95k) have arisen, impacting on the financial management of this project.

45. Final Cost of work

A discover report was run on the 25th May 2016 for the expenditure coded to the Manorfields capital cost centre. From this report the total spend to date was £705,490.24. A separate report of all payments made to PSLC for revenue expenditure found a payment of £173,813.40 which was for the refurbishment of Manorfields. It was apparent that this payment had been coded to the wrong cost centre and should have been coded to the capital cost centre. With this payment included the total cost of Manorfields expenditure is £879,303.64.

46. It was discussed with the AD Housing and Head of ECHS Finance that £33,685.15 of utility payments and £48,482.81 of payments to PSLC for the cost of beds, furnishings, security and survey fees should actually have been coded to a revenue rather than capital budget. If these payments are excluded the revised capital costs would therefore be £797,135.68 (£879,303.64 less £33,685.15 and £48,482.81) against an expected spend

of £798,000. The expected spend was provided the Head of ECHS Finance by e-mail on 11th February 2016.

47. It is anticipated that there will still be costs in respect of this project. A retention payment of £36,250 is still due to the contractor, WC, which will be settled six months post completion and there are no issues once the site has been opened. In an email from the Head of ECHS Finance on the 27th May 2016, it was stated that the AD Housing believes the retention payment has been made to PSLC. Internal Audit cannot confirm this from reviewing invoices paid. The final settlement of accounts for Manorfields has not yet taken place.

48. Due to the limited detail on the invoices received from PSLC and backing documentation attached, it has not been possible to identify the full breakdown of costs for the Manorfields refurbishment. As discussed in paragraph 50 this has been requested from PSLC and PMC, but not yet provided.

49. Internal Audit cannot conclude yet on the final cost of work due to the final account with PSLC not having been settled. A final account will have to be settled with PSLC which will include savings made on the boiler works and final retention payments to be made.

50. Retention of Documentation

Key information was not available to the Internal Audit investigation. At the start of the review Housing were asked to provide copies of source documents to support the refurbishment work at both Manorfields and Bellegrave. This information was not held by Housing and Internal Audit had to approach PSLC and PMC to request submission of key documents for review. The following information was received from the contractors :-

- tenders received for the refurbishment of Bellegrave,
- scheme of rates charged by WC for Manorfields

The following information was requested but was not provided:

- Two of the three tenders received for the replacement boiler at Manorfields
- A detailed breakdown of all the costs incurred. (This will be provided with the final account)

51. Internal Audit can conclude that CPRs and Financial Regulations have been breached with respect to retention of documentation.

52. Contractual arrangements

Although a contract with the Private Sector Leasing Contractor is in place as signed in April 2011, this does not cover refurbishment works to be carried out for either project or the project management of these schemes. There has been no variation to contract to support the change in service delivery from temporary accommodation management to project

management of a capital large. It was discussed with Housing and evidenced on the paid invoices that PSLC would receive 5% of the refurbishment costs submitted by WC. Similarly PMC have received 9.75% of the cost of refurbishment. However neither rates have been evidenced in writing in a contract agreement for Internal Audit to verify.

53. Building Control

The Building Control approval for Manorfields was signed off by Salus Approved Inspectors on the 15/03/16. This company was engaged by PMC. It is unclear from invoices submitted but it is estimated that the cost of this service was £1,500. It is unclear why Bromley's internal Building Control section were not requested to conduct the necessary inspections and sign off.

54. Project Sign Off

Throughout the project PMC has signed off all stage payments that have been submitted in their role as project managers. Originally PMC would have signed off the completed works, but at a meeting on the 23rd March 2016 Bromley Chief Officers agreed that an independent sign off of the work would be obtained from Bromley's Property Services. This is currently being undertaken, as at the 09/06/16.

55. Renewal of the Contract

The contract with PSLC to seek properties for TA Provision and manage the tenancies has been awarded for three years effective from 1st April 2016. The award of contract was not competitively tendered; a report to Care Services PDS on 12 January 2016 and subsequently the Executive on the 13th January 2016 approved the award of contract and superseded the waiver process.

56. The report to Care Services on 12th January 2016 advises Members that private sector leasing (of which PSLC is one such scheme) is a net nil cost to the Council. This is because the contract is agreed such that, for all clients, Bromley will pay a management fee for that client to PSLC. Additionally a rental cost will be passed to the landlord via PSLC for each client in the private sector leasing scheme. This arrangement is slightly different for Bellegrove and Manorfields, a rental charge is not paid, but additional management fees, staffing costs and maintenance charges will be paid to PSLC directly by Bromley. Bromley will then recover these costs from the client via Housing benefit and a rental charge. The collection of the rental charge is part of the service provided by PSLC. The cost of the service to Bromley should be cost neutral, however this is dependent on collection rates and recovery of rent. As Bromley are incurring expenditure in the first instance, the financial risk lies with Bromley.

57. Bromley is paying PSLC a management charge of £397k per year, as paid in 2015-16, for private sector leasing (PSL) and Bellegrove. This figure will increase in 2016-17 by an estimated £150k per year as Manorfields is now open.

58. Examination of the payments and income for 2015-16 found that Bromley paid PSLC £2,050,404.10 for management of clients and lease rent, (only £397K is PSLC Management fee, the rest is passed on by them to the landlord) whilst we received £1,935,347.30 in Housing Benefit and payments from clients. £76,213.27 of charges is to be written off (relating to debts from 2011 to 2016) and reconciliation is due to take place of clients who will have left during this time whereby PSLC will make a final payment to Bromley of income due once the quarterly reconciliation has taken place.

59. Internal Audit would conclude that the Contract was satisfactorily approved by the Executive Committee based on the information provided to them.

CONCLUSION

60. This has been a difficult investigation to undertake for several reasons; requested documents have not been available which has placed reliance on the recall of one officer; it has been necessary to engage with external organisations (PSLC and PMC) to source information all resulting in an inadequate audit trail to support the project, key decisions and variances.

61. Internal Audit has found that the Manorfields project was not robustly managed in terms of financial management and contract monitoring. The audit review has identified several areas of weakness that management will need to consider and implement the recommendations raised in Appendix A.

62. Internal Audit have investigated the questions raised by the member of the public and can conclude in the paragraphs 63 to 66 below.

63. Although the additional costs, shown in para 38 were not included in the business case, Internal Audit can give assurance that the values stated in that document were accurate given the information held at the time of the committee report. The business case should allow for significant savings to the Authority, despite any overspends on refurbishment works. The revised costs could still deliver a return in 2.48 years compared to the 1.75 originally estimated.

64. It cannot be confirmed that best value has been obtained by using WC for the works at Manorfields. Whilst evidence was provided that tendering was undertaken for Bellegrove and the lowest tenderer selected, the variation in rates between Bellegrove and Manorfields does not give assurance that WC would again be the lowest quote if subject to competitive tendering. Furthermore, due to the value of the work, £798K, if the contract was tendered by Bromley the Authority would have had to have sort three tenders for the work to comply with CPR's,. As there was no tendering Internal Audit cannot state that value for money was achieved.

65. Internal Audit have been informed that that there were three quotes for the replacement of the boiler and the lowest was accepted. Although only details of one of the quotes has been provided it has been established that the winning bid was some £29k below the budgeted sum of £95K. In the absence of all the tender documents it has not been possible to confirm that value for money has been achieved on the additional costs incurred for replacing the boiler, although as stated it is known that the lowest bid was accepted on cost.

66. The initial contract agreement for the leasing and management of tenancies with the Private Sector Leasing Contractor via the Midlothian “framework” was satisfactorily carried out in 2011. This contract will allow PSLC to manage the Manorfields site.

67. The Authority will need to compose a suitable response to the member of the public in respect of the four questions raised in his e-mail dated 30 March 2016 and in person at the Audit Sub Committee meeting on the 1st April 2016.

68. The initial estimate that the project would cost £563,437 to carry out the refurbishment was underestimated by £235,000, with the final expected cost reported to be £798,000. The reason for this was in part due to an additional cost of replacing the boiler (£95k) and new fire doors (£36k), both of which were not identified within the initial estimate. It is unclear what type of feasibility inspection Bromley was expecting to receive and indeed paid for, but the inspection delivered was not sufficiently detailed to identify the unforeseen costs.

69. Numerous documents were requested from Housing in relation to tendering, the feasibility study and contract documents. The availability of documents held by the Department was limited and Internal Audit had to approach PSLC and PMC directly to supply supporting documentation. The unavailability of documents hindered the investigation and represents noncompliance to Financial Regulations, did not evidence an adequate audit trail to support key decisions and has resulted in the Authority at risk if procurement arrangements were challenged.

70. Internal Audit could not evidence a formal contract with PSLC that covered the management of the refurbishment work. Internal Audit could not evidence any documentation where the agreed 5% administration charge for PSLC was written down, nor where Bromley has agreed to pay 9.75% to PMC to manage the works although the feasibility study by PMC indicated a fee of 14.4%.

71. It has not been possible to determine the final cost of the refurbishment works for Manorfields. A final reconciliation of payments made needs to be undertaken which will include the reported £29K saving on boiler replacement and settlement of the retention payment. A weakness has been identified whereby there is limited information shown on the invoices

received and there has been inadequate checking of these invoices before payment. .

72. The five year contract with PSLC expired at the end of March 2016. Given the value of the contract, renewal would normally have been subject to competitive tendering. However, the Executive gave approval to renew the contract with PSLC for another 3 years with an option to extend on a +1+1 basis from April 2016, due to a continuing need to use the PSLC PSL properties, which if the contract were to end, Bromley would struggle to find. Bromley is paying PSLC a management charge of £397k per year to for PSL and Bellegrove, but this will increase with the opening of Manorfields.

ACKNOWLEDGEMENT

73. We would like to thank all staff contacted during this Internal Audit review for their help and co-operation.

No.	Recommendation	Management Comment	Responsibility	Agreed Timescale
1.	<p>All documents received in relation to tendering of capital works and contracts must be retained for six years.</p> <p>All documents must be kept in a format that will allow access for inspection and allow an adequate audit trail.</p> <p>The Department must ensure that every capital project has a contract file, storing all appropriate information. A check list of key documents will ensure completeness of the contract file.</p> <p>The contract documents, including correspondence and e-mails must be kept in a secure shared area to ensure continuity. [Priority 1]</p>	<p>Whilst a hard copy file is already held, historically the tender documents were held by the contractors who undertook the tender on behalf of the Council with the Council holding summary documents. Copies have been provided to the Council and all documents relating the project are to be scanned and placed into a folder in the shared drive. This will be held in line with the existing retention policy for such scheme of 6 years.</p> <p>Guidelines on requirements will be reissued to all staff.</p>	Compliance and Development Manager	Immediate
2	<p>Full reconciliation of the payments made for Manorfields</p>	<p>In all instances updated costings have been provided for sign off approval throughout the project. All invoices have</p>	Head of Allocations & Accommodation	TBA dependent upon sign off

No.	Recommendation	Management Comment	Responsibility	Agreed Timescale
	<p>must be undertaken to ensure Bromley can account for all expenditure, including predicted savings on the boiler and retention payments.</p> <p>This reconciliation must include correct allocation of costs to revenue and capital codes and adjustments made if needed. Any overspend on the revised budget must be accounted for. [Priority 2]</p>	<p>been authorised against the most up to date costing schedule. The project requires a final reconciliation setting out all expenditure as per recommendation however this cannot be completed until PSLC have signed off all works as completed with the building contractor. This work is still ongoing with minor snagging still being negotiated between PSLC and the building contractor. Progress is being monitored through the contractor monitoring meetings.</p>		from O&S
3	<p>Financial and contract management must comply with Financial Regulations and CPRs. Specific examples being competitive tendering for contracts, achieving value for money, budget monitoring and contract monitoring.</p> <p>[Priority 1]</p>	<p>For all projects procedures set out the requirements to ensure that all financial and contract management complies with financial regulations and CPRs. A project board approach is adopted including expertise from commissioning, finance and legal as required to ensure full compliance. The housing development function has now been brought into the wider operational housings service; Recruitment is underway to fill this role and will in future oversee such projects to ensure compliance.</p>	Assistant Director Housing	Immediate for all future projects.
4	<p>Formal contracts must be agreed, signed by both parties</p>	<p>Contracts are in place for all current projects and will be in place for any</p>	Assistant Director Housing	Immediate for all future

No.	Recommendation	Management Comment	Responsibility	Agreed Timescale
	<p>for all capital works. The contract must include all management responsibilities, terms of contract and financial considerations.</p> <p>The contract must specify the service to be delivered. A variation to contract must be sought and authorised by both parties to reflect any change.</p> <p>[Priority 2]</p>	<p>future capital projects as per arrangements set out in recommendation number 3.</p>		<p>projects.</p>
5	<p>The Department should consider utilising the in house Building Control team for capital works.</p> <p>[Priority 2]</p>	<p>Where sign off is required for planning, secure by design or building control, the Department will always consider utilising the in house team where appropriate. In the case of Manorfields, whilst PSLC have used a private contractor for building control for their own sign off, the Department has requested final sign off at project end by Building Control.</p>	<p>Head of Allocations & Accommodation</p>	<p>Immediate subject to final project work conclusion.</p>

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FINAL INTERNAL AUDIT REPORT ENVIRONMENT AND COMMUNITY SERVICES DEPARTMENT

REVIEW OF PENALTY CHARGE NOTICES (PCNs) FOR 2015-16

Issued to: Ben Stephens, Head of Shared Parking Services

Cc: Colin Brand, Assistant Director Culture
Claire Martin, Head of Finance ECS and Corporate

Prepared by: Senior Auditor (Wandsworth Council of behalf of LBB)

Date of Issue: 21st June 2016

Report No.: ENV/004/02/2015

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
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INTRODUCTION

1. This report sets out the results of our systems based audit of PCNs for 2015-16. The audit was carried out as part of the programmed work specified in the 2015-16 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations.
3. The original scope of the audit was outlined in the Terms of Reference issued on 20th of January 2016. The period covered by this report is from 1st January 2015 to 31st December 2015.
4. Parking Services is part of a shared service agreement with the London Borough of Bexley. The scope of the audit was restricted to PCNs issued within Bromley.
5. The independent review, finalised in February 2015, identified control weaknesses for the contractual arrangements with the contractor. This audit has reviewed the progress to implement the recommendations raised in the independent report.

AUDIT SCOPE

6. The scope of the audit is detailed in the Terms of Reference.

Project Code: ENV/004/02/2015

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Priority 1
 Required to address major weaknesses and should be implemented as soon as possible

Priority 2
 Required to address issues which do not represent good practice

Priority 3
 Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
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AUDIT OPINION

- For the operational elements of PCNs substantial assurance would be given, however, due to the priority 1 recommendation relating to the UK checks on new starters, the conclusion of this audit was that limited assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix C.

MANAGEMENT SUMMARY

- The audit reviewed controls in the following areas: Policies and Procedures, Write Offs, Waivers & Cancellation of PCNs, Debt Recovery & Enforcement Agents, Contract Monitoring and Management Information. There were issues arising in the following areas:-

PCN

- A sample of 25 write off cases, 20 cancellations and 20 waivers was tested to ensure controls were satisfactory and in compliance with the procedures. Of these cases, two write offs should have been classified as cancellations and one cancellation did not have sufficient documentation retained on the system to support why it was cancelled.
- For a sample of ten PCNs where payment was not received within 28 days, checks were carried out to ensure that adequate recovery action had been taken. Of these ten cases, one was for a foreign vehicle and the PCN had been cancelled with no action being taken. Further examination of the parking system identified that between April 2015 and January 2016, 620

Priority 1
 Required to address major weaknesses and should be implemented as soon as possible

Priority 2
 Required to address issues which do not represent good practice

Priority 3
 Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
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PCNs for foreign vehicles had been cancelled meaning a loss of income of approximately £62k (based on average payment of £100 per PCN).

11. Sample checking of Enforcement Agency cases to ensure that appropriate action is taken and the correct fees are charged is targeted to identify the more high risk cases. However, there was a four month backlog at the time of the audit due to long term sickness and preparation for another officer's pending maternity leave. Although, it is acknowledged that arrangements are in place to clear this backlog, no testing could be carried out on the past four months.
12. Both the Head of Parking and the Parking Appeals and Processing Manager confirmed in interview that the PCNs are reconciled monthly from reports generated from the system. A three month period of reports was requested during the audit, for audit testing but this information was not supplied by the department in a timely manner and will need to be included in the follow up audit review.

Independent Review Recommendations

13. Information on all staff and updates on starters and leavers are regularly received. However, there is no formal procedure in place, confirming the identity of Civil Enforcement Officers (CEOs), as recommended by the independent review. The contractor supplies Parking Services with details of new CEOs such as their name, address and NI number. The details also include what documentation has been seen and copied by the contractor to provide confirmation of their ID together with a copy of their photograph. On examining these records from February 2015, it was identified that full details are not always included. For the 15 new starters since February 2015, two had no photographs, four had the boxes ticked to say copies of ID taken but no details were recorded, two had the box for ID and the box for Work Permit ticked but no details or dates for the

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Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
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work permit, whereas the other seven had the passport/birth certificate numbers recorded and work permit dates where applicable.

- 14. The independent review identified that the performance payment for 2014/15 should be checked and verified. This audit review confirmed that the contractor was due £91K but given the investigation and the costs incurred by the Authority, the bonus was reduced to £70K. The 2015/16 performance payment was satisfactorily checked and verified.

SIGNIFICANT FINDINGS (PRIORITY 1)

- 15. There was one significant finding in this review relating to the formal procedure for the contractor to check and verify new starters to ensure that all CEO's have legal status to work. Audit testing identified incomplete information returned to Bromley for the 15 new starters checked, as detailed in paragraph 13 above.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

- 16. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

- 17. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p>Write-Offs, Cancellations and Waivers A sample of 25 write offs, 20 cancellations and 20 waivers were reviewed to ensure that sufficient documentation is retained on the system to support write offs, cancellations and waivers. The results of the testing were two write offs should have been cancellations (BY05219212 and BY02000015) and one cancellation where it could not be identified why it had been cancelled (BY0174129A).</p>	<p>There will be a loss of income to the council if PCNs are incorrectly cancelled, waived or written off. Also, analysis of cancellations, waivers and write offs will not be accurate based on information available.</p>	<p>Parking officers authorised to waive PCNs should be reminded to ensure that the correct codes are used for writing off, cancelling and waiving PCNs and that detailed notes are entered explaining the reasons for the action taken. [Priority 3]</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
2	<p>Foreign Vehicles Examining the sample for adequate recovery action, identified that one had been cancelled because the vehicle had a foreign registration and it was not possible to identify who the owner was as the DVLA do not hold details of foreign vehicles (BY05967126). Further analysis of the parking system identified that between April 2015 and January 2016, 620 PCNs had been cancelled as they were foreign registered vehicles resulting in an estimated loss of £61,770. From a report on foreign vehicles, it was evident that vehicles regularly visited Bromley and parked in the same road. It is acknowledged that the new contract being awarded in April 2017 will be asking contractors to address the issue of recovery from foreign vehicle owners, but this will only be put into action after the contract has been awarded.</p>	<p>Drivers are avoiding paying correctly issued PCNs resulting in a loss of income to the authority.</p>	<p>Consideration should be given to introducing a policy on issuing PCNs to foreign vehicles that includes using additional data from other sources to identify owners of foreign vehicles so that more robust recovery action can be taken. [Priority 3]</p>

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Priority 3
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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
3	<p>Enforcement Agency Fees At the time of the audit, there was a four month backlog in checking a sample of Enforcement Agency cases to ensure that appropriate action was taken and that fees charged were correct. This was due to long term sickness and preparation for another officer's pending maternity leave and is now being cleared.</p>	<p>Delays in identifying inappropriate action / charging of wrong fees could lead to bad publicity for the Council.</p>	<p>Where long term absence of a member of staff leads to routine tasks not being performed, alternative arrangements should be put in place promptly. [Priority 3]</p>
4	<p>Formal Process for CEO Identity Checks Following an independent review, the contractor agreed to adopt a formal process for confirming the identity of Civil Enforcement Officers and to provide details to Parking Services. No such process has been formally provided to Parking Services as evidenced by the minutes of the 3 February 2016 Parking Operations and Enforcement Contract meeting. The minutes record Parking Services requesting the contractor to confirm what checks are made on immigration status for new starters and that a procedure was required.</p>	<p>Where a formal process is not in place and documented, proper identity checks may not be performed which could allow illegal staff to be employed resulting in bad publicity for the Council, as well as potential penalties by HMRC.</p>	<p>The contractor should be requested to provide a formal procedure for confirming the identity of CEOs and all future contracts should ensure that this forms part of the specification.</p>

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Priority 3
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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>Examination of the records provided to Parking Services for 15 new starters from February 2015 found that four had the boxes ticked to say copies of ID had been taken but no details of what they were or the documents' reference numbers were recorded (Employee Numbers 8303719, 8303718, 8303720 and 8303728), two had the box for ID and the box for Work Permit ticked but again no details and no expiry dates for the work permits (Employee Numbers 8303713 and 8303650) and two had no photographs (Employee Numbers 8303393 and 8303510).</p>	<p>Where full details are not provided, there is little evidence to confirm that adequate checks have been carried out by the contractor which could lead to illegal staff being employed.</p>	<p>The contractor should provide copies of the documents they have seen to confirm the identity of the CEOs for the six where no details were provided and copies of the photograph for the other two CEOs. In future, where full details are not provided, Parking Services should request copies from the contractors. [Priority 1]</p>
5	<p>Accounting for PCNs The Parking Appeals and Processing Manager confirmed that monthly reports are generated from the system to allow a reconciliation of PCNs. The auditor requested a three month sample of these reports for testing but this information has not</p>	<p>Where information is not provided during audits, tests cannot be performed to ensure that appropriate checks and balances are in</p>	<p>For all future internal and external audits/inspections ensure that all documents are made readily available.</p>

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DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	been made available and given the elapsed time will not be included in this audit.	place and operating effectively.	[Priority 2]

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OPINION DEFINITIONS

APPENDIX C

1	Parking officers authorised to waive PCNs should be reminded to ensure that the correct codes are used for writing off, cancelling and waiving PCNs and that detailed notes are entered explaining the reasons for the action taken.	3	Agreed	Parking appeals and Processing Manager	Immediate
2	Consideration should be given to introducing a policy on issuing PCNs to foreign vehicles that includes using additional data from other sources to identify owners of foreign vehicles so that more robust recovery action can be taken.	3	Unfortunately the DVLA does not keep records of foreign vehicles on their database. There is no other data source to obtain the information. Parking Services will investigate other ways to enforce foreign vehicles – specifically within the new contract which becomes operative in April 2017.	Contract & Operations Manager.	April 2017
3	Where long term absence of a member of staff leads to routine tasks not being performed, alternative arrangements should be put in place promptly.	3	Agreed	Parking appeals and Processing Manager	Immediate
4	The contractor should be requested to provide a formal procedure for confirming the identity of CEOs and all future contracts should ensure that this forms part of the specification.	1	A system has been in place where the contractor provides to Parking Services a completed pro former with relevant dates and information and confirmation that documents have checked. It is accepted some field were incomplete and were not	Head of Parking Services	Immediate

OPINION DEFINITIONS

APPENDIX C

	<p>The contractor should provide copies of the documents they have seen to confirm the identity of the CEOs for the six where no details were provided and copies of the photograph for the other two CEOs.</p> <p>In future, where full details are not provided, Parking Services should request copies from the contractors.</p> <p>[Priority 1]</p>		<p>questioned. Omissions have now been verified and agreed as complete.</p> <p>An enhanced procedure check was introduced in June 2016 (which Audit as verified as satisfactory) – this ensured documents are inspected by the HoS, within agreed time scales and formally recorded in Monthly Contract Meetings.</p>		
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OPINION DEFINITIONS

APPENDIX C

5	For all future internal and external audits/inspections ensure that all documents are made readily available.	2	Agreed	Head of Parking	Immediate
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As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level

Definition

Full Assurance

There is a sound system of control designed to achieve all the objectives tested.

Substantial Assurance

While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.

Limited Assurance

Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.

No Assurance

Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.

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