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DATE: 27 February 2018

To: Members of the  
**AUDIT SUB-COMMITTEE**

Councillor Neil Reddin FCCA (Chairman)  
Councillor William Huntington-Thresher (Vice-Chairman)  
Councillors Alan Collins, Ian Dunn, Will Harmer and Tony Owen

A meeting of the Audit Sub-Committee will be held at Bromley Civic Centre on  
**WEDNESDAY 7 MARCH 2018 AT 7.00 PM**

MARK BOWEN  
Director of Corporate Services

*Copies of the documents referred to below can be obtained from*  
<http://cds.bromley.gov.uk/>

## A G E N D A

- 1 **APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**
- 2 **DECLARATIONS OF INTEREST**
- 3 **CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 8TH NOVEMBER EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 5 - 14)**
- 4 **QUESTIONS FROM COUNCILLORS OR FROM MEMBERS OF THE PUBLIC**

In accordance with the Council's Constitution, questions to this Committee must be received in writing 4 working days before the date of the meeting. Therefore please ensure questions are received by the Democratic Services Team by 5pm on 1<sup>st</sup> March 2018.

- 5 **MATTERS OUTSTANDING FROM THE PREVIOUS MEETING-EXCLUDING EXEMPT ITEMS (Pages 15 - 18)**
- 6 **QUESTIONS ON THE REDACTED REPORTS PUBLISHED ON THE WEB**

Ahead of the Audit Sub Committee meeting scheduled for Wednesday 7<sup>th</sup> March, ten redacted audit reports have been published on the Bromley Council Website.

These are:

- 1- Follow up review of Biggin Hill Airport and the Glades Audit for 2017-2018
- 2- Follow up of Street Works Permits and Defaults Audit for 2016-2017
- 3- Review of Cash and Banking for 2017-2018
- 4- Review of gifts, hospitality and declarations of interest Audit for 2017-2018
- 5- Follow up Review of Building Control Audit for 2017-2018
- 6- Review of Agency Staff Audit for 2017-2018
- 7- Review of the Contributions Policy and its Application in Practice Audit for 2017—2018
- 8- Parks and Green Spaces Audit for 2017—2018
- 9- Review of TCES for 2017—2018
- 10- Planning Audit for 2017—2018

Members have been provided with advance copies of the information briefing via email.

The web link to the reports is

<http://cde.bromley.gov.uk/ieListDocuments.aspx?CId=559&MId=6444&Ver=4>

Printed copies of the briefings are available on request by contacting Steve Wood on 0208 313 4316 or via email: [stephen.wood@bromley.gov.uk](mailto:stephen.wood@bromley.gov.uk)

- 7 **EXTERNAL AUDIT PLAN 2017-2018** (Pages 19 - 44)
- 8 **ANNUAL INTERNAL AUDIT PLAN 2018--2019** (Pages 45 - 66)
- 9 **INTERNAL AUDIT PROGRESS REPORT--PART 1** (Pages 67 - 82)
- 10 **LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000**

The Chairman to move that the Press and public be excluded during consideration of the item of business listed below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

**Items of Business**

**Schedule 12A Description**

- |   |  |
|---|--|
| <ol style="list-style-type: none"> <li>11 <b>EXEMPT MINUTES OF THE MEETING HELD ON 8TH NOVEMBER 2018</b> (Pages 83 - 88)</li> </ol> | <p>Any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.</p> |
|---|--|

- |           |  |   |
|-----------|--|---|
| <b>12</b> | <b>MATTERS ARISING FROM THE MEETING ON 8TH NOVEMBER 2017--EXEMPT INFORMATION</b> (Pages 89 - 92) | Information which is subject to any obligation of confidentiality.  |
| <b>13</b> | <b>INTERNAL AUDIT FRAUD, INVESTIGATIONS AND EXEMPT ITEMS REPORT</b> (Pages 93 - 116)             | Information relating to any individual.<br>Information which is likely to reveal the identity of an individual. |
| <b>14</b> | <b>DATE OF THE NEXT MEETING</b>  |   |

The date of the next meeting is 24<sup>th</sup> May 2018

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## AUDIT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 8 November 2017

### Present:

Councillor Neil Reddin FCCA (Chairman)  
Councillor William Huntington-Thresher (Vice-Chairman)  
Councillors Ian Dunn and Tony Owen

### Also Present:

Barrie Cull, Deepali Choudhary, Nigel Davies, Catriona Ellis, David Hogan, Dan Jones, Linda Pilkington and Steve Wood.

Adam Lickorish and Rupert Riall--Zurich.

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

Apologies were received from Councillor Will Harmer and from Councillor Alan Collins.

#### **15 DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **16 CONFIRMATION OF THE MINUTES OF THE MEETING HELD ON 21<sup>st</sup> JUNE EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

The public minutes of the meeting that was held on 21<sup>st</sup> June 2017 were agreed, and signed as a correct record.

#### **17 QUESTIONS FROM MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

No questions were received.

#### **18 QUESTIONS ON THE REDACTED REPORTS PUBLISHED ON THE WEB**

No questions were received on the redacted reports published on the web.

#### **19 MATTERS OUTSTANDING FROM THE LAST MEETING NOT INCLUDING EXEMPT ITEMS**

## **CSD17157**

The Committee noted matters arising (excluding exempt information) from previous meetings.

The Committee was notified that the matter of resource for Internal Audit had been looked at. This process would be completed in April 2018 as this would allow for training costs to benefit from Apprentice funding.

The Committee was advised that the proposed letter to Bromley MPs concerning the Single Fraud Investigation Service (SFIS) had been sent, and a response had been received. Both the letter and the response had been circulated. The Chairman stated that he would be drafting a reply to the response that he had received.

**RESOLVED that the Matters Arising report be noted.**

## **20 OVERVIEW BY ZURICH ON CORPORATE AND DEPARTMENTAL RISKS.**

An update on the Corporate and Directorate Risk Registers was given by Adam Lickorish and Rupert Riall on behalf of Zurich Risk Engineering.

The following Risk Registers were presented:

- Corporate Risk Register
- CEX Risk Register
- Finance Risk Register
- ECHS Risk Register
- ECS Risk Register
- HR Risk Register
- Commissioning Risk Register

The Risk Registers were divided into three main categories, which constituted a description of the risk, gross risk and net risk ratings.

*'Gross Risk' is the Risk before any controls are taken into account and Net (or Residual Risk) is the score when current controls are taken into consideration.* The Committee noted that four of the five net red RAG rated risks were found within ECHS, and that an additional ten amber risks across the directorates could easily move into the red category.

These areas of high risk within ECHS were:

- Failure to deliver an effective ECHS financial strategy
- Failure to deliver effective Learning Disability Services
- Failure to deliver effective Children's Services
- Failure to deliver effective Temporary Accommodation Services

Zurich had also rated the Council's ability to effectively govern and manage contracts as a net 'red risk' after controls had been put in place.

The Committee was informed that the Zurich report constituted a 'Risk Overview', as part of a 'check and challenge' process.

The Committee was referred to page 5 of the Zurich report which was a table that mapped out Corporate Risks. The table outlined eight areas of Corporate Risk and organisational issues that were risk elements across all of the LBB Directorates. The remainder of the report from Zurich assessed risk elements in more detail across the individual Directorates.

The Chairman asked what LBB could do better as a result of the Zurich analysis. Mr Lickorish responded that the reporting of Risk would have greater visibility and depth as a result of Zurich's gap analysis and the introduction of the auto populated risk matrix.

The Chairman asked if similar strategic financial risks were seen in other Local Authorities. Mr Lickorish replied that this was indeed the case, and that similar problems had been identified in other boroughs. The Chairman was keen that the analysis produced by Zurich should not just be an academic exercise, but that the data should be used to develop policy.

A Member referred to references in the report to the 'existing controls that were in place'. He asked if this was something that had been evidenced, or was something that Zurich had accepted on trust. Mr Lickorish answered that the evidence had not been seen, but had been taken on trust. To have seen the evidence base would have lengthened the audit process. The Head of Internal Audit commented that 'Risk' had to be an integral aspect of the internal audit process.

A Member suggested that the focus should shift away from directly focusing on Risk, and rather focusing on controls. He asked why Zurich had not included a column in their matrices for fall-back plans. He felt that an additional column should have been added to show that a plan was in place should the Risk be realised. Mr Lickorish responded that a risk management journey was taking place, and that the first concern was to understand what risks existed, and then to align mitigations.

The Member continued by stating that there were four net red Rag rated Corporate Risks that still existed after controls had been put in place, and so the relevant action plans needed to be ready.

The Head of Internal Audit commented that there were Business Continuity plans in place that would be activated if Risks were realised. It was necessary to focus on mitigation initially. Normally back up plans were in place if required.

A Member referenced the Grenfell fire tragedy, and cautioned that back up plans were always required. The Head of Internal Audit remarked that for such a large scale incident as Grenfell, it was unlikely that any individual authority would be able to cope, and that London wide assistance was likely to be required. Risk responses were being updated and improved.

A Member asked if LBB had insurance to cover Business Continuity. Mr Riall explained that generally speaking it was the case that LBB would be insured against physical damage/loss incidents that may have an effect on Business Continuity. The Head of Internal Audit mentioned the possibility of cyber-attack, and that the matter of insurance against the effects of such an attack would need clarifying.

A Member commented that acronyms such as 'ECHS' etc. should be avoided, as they would not be understandable to everyone reading the report. He also asked if Zurich had looked at process maps and linked these to the Business. The answer to this was no, process maps had not been looked at.

A Member asked if Zurich had linked risks to complaints and compensation claims. He noted that half a million pounds had been paid out by the Council in compensation claims for people tripping up. He also asked (with reference to the Commissioning Risk Register), what was meant by 'a lack of clear management.' Mr Riall responded that it was the responsibility of Officers to identify risks.

A Member asked what Zurich considered to be the three most significant areas of Risk. Mr Riall highlighted the following three areas:

- Contract Management and Commissioning
- Risks associated with Information Governance
- Children's Services

He added that problems associated with contract management and commissioning was a London wide issue and was related to supply chain resilience.

The Chairman wondered if a monetary value could be aligned to the Risks, and was there a plan for a valuation process. Mr Lickorish expressed the view that it would be very challenging to attribute a monetary value to the Risks, and that the current matrices were sufficient.

A Member asked for more information regarding why some risks remained ragged as net red even with controls in place. Mr Lickorish responded that attempts could only be made to mitigate risk as far as possible, and that sometimes controls took time to embed.

A Member asked what the criteria were for allocating risks in the Commissioning Risk Register. Mr Lickorish answered that a discussion would take place as to where Risk should be allocated. Consideration would be applied to who was implementing controls and who the Risk owner was. In



these cases, the Risk owner would be the Director of Commissioning. It was not advisable for a risk to appear in more than one Directorate's risk register.

A Member asked for a timeframe for net red flagged risks changing to amber. Mr Lickorish responded that controls took time to embed, and it was not possible to state a timeframe.

The Chairman stated that the Zurich report was an interesting piece of work, and that when the Risk Registers were looked at next, it would be helpful to use comparatives, especially with respect to commissioning.

It was noted that Zurich had presented their findings to the Corporate Risk Management Group, the Directorate Management Teams, and the Corporate Leadership Team.

The Chairman thanked Mr Lickorish and Mr Riall for attending, and the very interesting and informative presentation around the Risk Register.

**RESOLVED that the overview by Zurich on Corporate and Departmental Risks be noted.**

## **21 INTERNAL AUDIT PROGRESS REPORT**

### **FSD 17083**

This report was presented to the Audit Sub Committee by David Hogan, Head of Audit.

The report was presented to inform Members of recent audit activity across the Council and to provide an update on matters that had arisen from the previous meeting of the Audit Sub Committee in June.

The Head of Audit outlined to Members the 'The Three Lines of Defence Model' that was applied by many commercial and public sector organisations and the role that Internal Audit played in the model. Internal Audit was the third line of defence that would report to the Audit Sub Committee, Senior Management and the Corporate Leadership Team.

An update on Audit resourcing was provided, and it was clarified that recruitment for the post of Trainee Auditor would commence in April 2018, making use of Apprenticeship Funding.

The Chairman welcomed Catriona Ellis to the Internal Audit Team.

A Member wondered if the Audit Plan had been drafted based primarily on resources rather than on what Internal Audit would actually do if there were no resource limitations. The Head of Audit stated that an Audit Needs Assessment was required. He expressed the view that in the current climate, it was only possible to plan ahead for one year, rather than five or six years which would have been preferable. This being the case, it was important to

use the services of other departments in the Council, as outlined in the processes around the 'three lines of defence'.

The Head of Audit wanted to include a high level review of Governance in next year's plan, and to give priority to looking at the more risky issues. There was a need to prioritise and risk assess.

A Member stated that the Head of Audit should bring concerns to the Committee if needed, and that Internal Audit was a crucial part of the Council. A Member commented that in his experience, not much seemed to come to light in planned audits, but rather things came to light from self-referrals. The Head of Audit advised that not much in the way of fraud was picked up directly by Internal Audit, the emphasis was in ensuring that the correct systems and governance were in place; this in turn would reduce the scope for fraud. It was important to choose the right areas to investigate.

The Committee noted Appendix A which detailed outstanding priority one recommendations. A comprehensive update on the Waste Services Audit was detailed in the part 2 report. Other areas where priority one recommendations were outstanding were:

- Document Storage and Retention
- Temporary Accommodation
- Review of Waivers
- Review of Reablement Team
- Street Works
- Review of Contract Monitoring

Members noted that although four priority two recommendations had been raised with respect of Payroll Expenses, the assurance rating was Substantial. Similarly, although there were two priority two recommendations with respect to the Pensions Audit, the overall rating was Substantial.

The Committee was briefed that three priority two recommendations had been made with respect of the Bromley Children's Project, but that the overall assurance rating was Substantial.

The Head of Audit informed Members that the follow up audit relating to Children with Disabilities had been completed, and that of the four recommendations arising from the previous audit, two had been fully implemented and two had been partially implemented.

The Audit opinion relating to Debtors was Substantial, but five priority two recommendations had been suggested to further improve controls. Two priority two recommendations had been raised with respect of the Early Years Audit, but the overall Audit opinion was Substantial. The Head of Audit reported on the audit of internet usage. Three priority two recommendations were raised to improve controls, but the overall opinion was Substantial.

The Committee noted the follow up Audit reports for Marjorie McClure School and Poverest Primary School.

The Committee was updated concerning the follow up report on the Community Infrastructure Levy (CIL). It was noted that five of the previous recommendations including the two priority one recommendations had been implemented, and that four new recommendations had arisen out of the follow up audit.

Members were appraised regarding the Contract Monitoring Audit. Although controls were working well in the areas of locating contracts and ensuring that they were signed and sealed, the overall assurance opinion was Limited. Internal Audit had made three further recommendations, one was a Priority One, and two were Priority Two recommendations. These were related to ensuring that relevant supporting documentation was retained with the contracts, and that the value of Public Liability Insurance held was sufficient.

Members were briefed further on Priority One recommendations:

- Document Storage and Retention
- Temporary Accommodation
- Waivers
- Street Works
- CIL
- Contract Monitoring
- Learning Disabilities

Document Storage and Retention:

It was understood that 900 boxes had been identified for destruction by TNT. Even so, it was expected that for a variety of reasons new files would need storing, and that this was likely to remain as a Priority 1 issue until the right equipment and IT Infrastructure was in place. The Chairman wondered how this issue could be moved on, as the date for completion of the Civic Centre Accommodation Strategy had not been clarified. A Member suggested that LBB should not wait, and should progress with the implementation of the IT infrastructure.

Temporary Accommodation:

Members were reminded that at the previous Audit Sub Committee meeting there were issues that needed to be resolved around the collection of rent, the use of accommodation and delays in dealing with evictions. The Committee was briefed that Internal Audit had met with the Director of Housing and The Head of Allocations and Accommodation to discuss these issues. It was also the case that the Housing Team were working closely with Liberata to redraft the arrears collection procedures and processes. A new Housing IT system was being developed. The Director of Housing had asked that the Priority 1

recommendation remain in place while the new IT system and other processes were being embedded.

Review of Waivers:

Members heard that the waiver process was being enhanced, and that a new digital authorisation process was being developed. The view of Internal Audit was that the two priority one recommendations should remain in place until the digital authorisation process had been fully implemented.

Street Works:

The Committee heard that in the audit report that was finalised in June 2017, five priority one recommendations had been identified. The recommendation relating to contract monitoring minutes had evidenced progress, and so the recommendation was now closed. A further recommendation had been raised with respect to unauthorised variations to contracts. Internal Audit had evidenced that a new Change Control Notice was being implemented and so the recommendation was now closed.

Two other issues that had previously been identified were problems with complying with contract procedure rules and inadequate contract monitoring. Internal Audit was satisfied that sufficient progress had been made in both these areas, and so the recommendations were now closed. The Committee were informed that the Priority One recommendation relating to raising invoices in a timely manner would remain open.

Internet Usage:

The Head of Internal Audit explained that there was a lack of technical controls that could be applied to Blackberry phones to prevent users from accessing inappropriate sites, although there was no suggestion that users were doing so. In terms of staff accessing the internet, staff were trusted not to abuse access to the internet or spend excessive time in using the internet for non-work related use. Technical controls were in place, and managers could ask for reports if they felt it was required.

Contract Monitoring:

Members were concerned to note that problems existed with supporting documentation that either was missing or could not be found and with copies of Public Liability Insurance not being available in certain cases. As a result two Priority One recommendations had been raised.

The Committee noted that Ernst & Young had been appointed as the new External Auditors. They would commence work for LBB on 1<sup>st</sup> April 2018.

Members noted the Annual Audit Letter, and that the Auditor had issued an unqualified opinion on the authority's financial statements on 27<sup>th</sup> September 2017.

Members were advised that there had been an objector to the accounts. The objections were in two areas:

- Waste Management and Street Cleansing Services
- Trade Waste Collection Service

The external audit of the Council's accounts could not be concluded while the objections remained open. A Member asked what happened next in relation to the objections. It was explained that this was a matter that would have to be dealt with by the External Auditors—they would have to assess if the objections materially affected the accounts and were currently reviewing the issues raised. This process was likely to be expensive to the Council. The External Auditors could be challenged by the Objector in court if not satisfied.

The matter of 'Journal Posting' was discussed briefly, but no recommendation was made on the night. 'Journal Posting' was the name given to the practice of using book-keeping practices to move money between budgets internally. Internal Audit would look at the issues raised in its Main Accounting Audit scheduled for quarter 4.

The winner of the 'Auditor of the Year' was Deepali Choudhary, and she was presented with the Tickner Cup.

**RESOLVED that:**

**(1) The Committee note the results of the Zurich Risk Management exercise**

**(2) The Committee note the actions taken to improve the Risk Management Process**

**(3) The Committee note the Departmental Risk Registers**

**(4) The Committee approve the revised Corporate Risk Register**

**(5) The Committee note the Internal Audit Progress Report**

**(6) The Committee note the redacted Internal Audit reports published on the web**

**(7) The Committee note the list of waivers sought since March 2017**

**(8) The Committee note the appointment of Ernst and Young as the new external auditor**

**(9) The Committee note the letter of Representation**

**(10) The Committee note the Code of Transparency around the reporting of fraud**

**(11) The Committee note the minute extract from the GP&L Committee dated 12<sup>th</sup> September 2017**

**22 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000**

**RESOLVED** that the press and public be excluded during consideration of the items of business listed below as it was likely in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present, there would be disclosure to them of exempt information.

**23 EXEMPT MINUTES OF THE MEETING HELD ON 21ST JUNE 2017**

The exempt minutes of the meeting held on 21<sup>st</sup> June 2017 were agreed as a correct record.

**24 MATTERS ARISING INCLUDING EXEMPT INFORMATION (Part 2) FROM THE MEETING ON 21ST JUNE 2017**

The Matters Arising (including exempt information) from the meeting held on 21st June 2017 were noted.

The detailed minutes for this item are noted in the part 2 minutes.

**25 INTERNAL AUDIT FRAUD & INVESTIGATION AND EXEMPT ITEMS REPORT**

Members noted and discussed the Internal Audit Fraud & Investigation and Exempt Items Report.

The report informed Members of recent Internal Audit activity on fraud and investigations across the Council and provided updates on matters arising from previous Audit Sub Committee meetings. The report detailed updates on previously reported cases, expanded on new cases of interest, detailed cases on the fraud register and provided information on a pro-active exercise. It also provided information on reports which were exempt from publication.

**26 DATE OF THE NEXT MEETING**

The date of the next meeting was confirmed as 7<sup>th</sup> March 2018.

The meeting ended at 9.20pm

Chairman

Report No.  
CSD 18041

London Borough of Bromley

PART ONE - PUBLIC

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**Decision Maker:**      **AUDIT SUB-COMMITTEE**

**Date:**                    **7<sup>th</sup> March 2018**

**Decision Type:**        Non-Urgent                    Non-Executive                    Non-Key

**Title:**                   **MATTERS ARISING**

**Contact Officer:**     Stephen Wood, Democratic Services Officer  
Tel: 020 8313 4316   E-mail: Stephen.Wood@bromley.gov.uk

**Chief Officer:**        Mark Bowen, Director of Resources

**Ward:**                    n/a

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1.    Reason for report

To update the Sub-Committee on progress with Matters Arising (Part 1) from previous meetings.

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2.    **RECOMMENDATION(S)**

**To note and comment on progress with matters outstanding from previous meetings.**

**To recommend any action as deemed appropriate with respect to matters that have not been resolved.**

### Corporate Policy

1. Policy Status: Existing Policy:
  2. BBB Priority: Excellent Council
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### Financial

1. Cost of proposal: Not Applicable:
  2. Ongoing costs: Not Applicable:
  3. Budget head/performance centre: Democratic Services
  4. Total current budget for this head: £343,810
  5. Source of funding: 2017/18 revenue budget
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### Staff

1. Number of staff (current and additional): 8 posts 7.27fte
  2. If from existing staff resources, number of staff hours: Completion of "Matters Arising" reports for the Audit Sub Committee normally takes a few hours per meeting.
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### Legal

1. Legal Requirement: None:
  2. Call-in: Not Applicable:
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### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): This report is intended primarily for the benefit of members of the Audit Sub-Committee.
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### Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: N/A

### **3. COMMENTARY**

Attached is a schedule of matters outstanding from previous meetings of the Audit Sub Committee with a note of progress made. Most of these issues are taken up in more detail in the progress reports on this agenda (parts 1 and 2). Once an outstanding matter has been completed it will be removed from the schedule.

<b>Non-Applicable Sections:</b>	Policy/Financial/Legal/Personnel
Background Documents: (Access via Contact officer)	Previous Minutes of Audit Sub Committee.



## Appendix 1

<b>Issue &amp; Date</b>	<b>Summary</b>	<b>Action being taken</b>	<b>By</b>	<b>Estimated Completion</b>
Minute 33 4 <sup>th</sup> April 2017  Annual Internal Audit Plan 2017-2018.	It was noted that resources would be looked at to ensure that Internal Audit would not be under resourced going forward.	It has been agreed to recruit a Trainee Auditor to strengthen the Internal Audit structure in order to meet core elements of the Audit Plan. The aim was to recruit for a start date in April 2018.  The post will be funded from April, however LBB may target the recruitment process to consider school and college leavers as the Apprentice training does not now start until Sept/Oct.	David Hogan	April 2018
Minute 19 8 <sup>th</sup> November 2017  Matters Outstanding	The letter and response concerning the SFIS had been noted. The Chairman was going to draft a reply to the response that he had received.	Chairman will draft the letter by 8 <sup>th</sup> February 2018	The Chairman	8 <sup>th</sup> February 2018.
Minute 20 8 <sup>th</sup> November 2017  Zurich Overview	The Head of Audit mentioned the possibility of cyber attack, and that the matter of insurance against the effects of such an attack would need clarifying.	The Insurance Manager has stated that there is no cover for a cyber-attack at present. This matter will be considered further by the Corporate Risk Management Group.	Corporate Risk Management Group	
Minute 21 8 <sup>th</sup> November 2017  Internal Audit Progress Report	Members were advised that there had been an objector to the accounts. The objections were in relation to Waste Management and Trade Waste Colloection	An update has been requested from the external auditors KPMG.  An update on the objection is included in the Internal Audit Progress Report	Head of Audit	

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Report No.  
FSD 18021

London Borough of Bromley

PART ONE - PUBLIC

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**Decision Maker:**      **AUDIT SUB-COMMITTEE**

**Date:**                   **Wednesday 7 March 2018**

**Decision Type:**      Non-Urgent                   Non-Executive                   Non-Key

**Title:**                   **EXTERNAL AUDIT PLAN 2017-18**

**Contact Officer:**      David Hogan, Head of Audit  
Tel: 0208 313 4886      E-mail: David.Hogan@bromley.gov.uk

**Chief Officer:**        Director of Finance

**Ward:**                   (All Wards);

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1.    Reason for report

Review of the External Auditor's annual plan arrangements for 2017-18

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2.    **RECOMMENDATION(S)**

**Members are asked to note the External Auditor's arrangements for the Audit Plan 2017-18.**

**Members should note the materiality limits set out in the Annual Plan.**

**Members should note that there has been no increase in audit fee compared to last year.**

**Members should note the significant risks identified in the Audit Plan.**

### Impact on Vulnerable Adults and Children

1. Summary of Impact: The plan makes reference to Ofsted inspection and progress made since then by Children's services.
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### Corporate Policy

1. Policy Status: Not Applicable
  2. BBB Priority: Excellent Council
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### Financial

1. Cost of proposal: Not Applicable
  2. Ongoing costs: Not Applicable
  3. Budget head/performance centre: External Audit
  4. Total current budget for this head: £119,000 for the authority and £21,000 for the Pension Fund.
  5. Source of funding: General Fund
- 

### Personnel

1. Number of staff (current and additional): Not Applicable
  2. If from existing staff resources, number of staff hours: Not applicable
- 

### Legal

1. Legal Requirement: Statutory Requirement
  2. Call-in: Not Applicable
- 

### Procurement

1. Summary of Procurement Implications: Some audit work may have procurement implications
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Not applicable
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### Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not applicable

### 3. COMMENTARY

3.1 KPMG, as the Council's appointed External Auditors are required to perform their audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office and the PSAA Statement of Responsibilities. The audit includes the following key objectives, requiring them to audit / review and:

- Give an opinion on the Council's financial statements
- Conclude on whether or not the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

3.2 Members are asked to note the External Auditor's arrangements for the Audit Plan for 2017/18.

3.3 Members should note the audit fees of £119,076 for the authority and £21,000 for the Pension Fund is unchanged from last year.

3.4 Members should note the materiality limits within the plan.

3.5 Members should note the value for money arrangements set out in the plan.

3.6 Members should note the significant risks set out in the plan.

### 4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

The contents of the External Auditor's plan could have implications for both adults and children in respect of the work undertaken.

### 5. POLICY IMPLICATIONS

None.

### 6. FINANCIAL IMPLICATIONS

There is a cost in auditing the accounts for 2017/18. The total fee is expected to be £119,076 for the authority and £21,000 for the Pension Fund.

### 7. PERSONNEL IMPLICATIONS

None.

### 8. LEGAL IMPLICATIONS

There is a legal requirement to have the accounts externally audited as set out in the Local Audit and Accountability Act 2014.

### 9. PROCUREMENT IMPLICATIONS

The contents of the External Audit Plan could have implications for procurement potentially relating to contract procurement rules, financial regulations and value for money issues.

<b>Non-Applicable Sections:</b>	Policy, Personnel.
Background Documents: (Access via Contact Officer)	None

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# External Audit Plan 2017/18

London Borough of Bromley

February 2018

## Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting (“the Code”) in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. This is a significant change and needs careful management to ensure the new deadlines are met. We have recognised this as a significant risk. To meet the revised deadlines it is essential that the draft financial statements and all ‘prepared by client’ documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2017.

### Authority significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of land and buildings:** Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension liabilities:** The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation; and
- **Faster Close:** The timetable for the production of the financial statements has been advanced with draft accounts having to be prepared by 31 May 2018 (2017: 30 June) and the final accounts signed by 31 July 2018 (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and any impact on our work.

### Pension fund significant risks

- **Valuation of hard to price investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations.

## Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date:

- **Delivery of budgets:** As a result of reductions in central government funding and overspends in children’s services, the Authority is having to identify savings beyond those from prior years. We will consider how the Authority identifies, approves, and monitors savings plans and how budgets are monitored throughout the year.
- **Findings from regulatory bodies:** As a result of the Ofsted inspection in June 2016 children’s services were rated as ‘inadequate’. We will review the Council’s continuing response to this review and the progress that has been made. We will consider the results of any recent reports from Ofsted.

## Other information

### Logistics and team

Our team is led by Phil Johnstone, Director and Hannah Andrews Senior Manager.

Our work will be completed in four phases from February to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance.

### Fees

Our fee for the 2017/18 audit is £119,076 and the fee for the audit of the pension fund is £21,000. This is the same as 2016/17. This is in line with the scale fees published by PSAA.

### Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.



The contacts at KPMG in connection with this report are:

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*Senior Manager*

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## Headlines

### 1. Introduction

### 2. Financial statements audit planning

### 3. Value for money arrangements work

### 4. Other matters

## Appendices

- 1: Key elements of our financial statements audit approach
- 2: Independence and objectivity requirements
- 3: Quality framework

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This report is addressed to London Borough of Bromley (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

# 1. Introduction

## Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter 2017/18 dated 29/03/17, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit / review and report on your:

- **Authority and Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and
- **Use of resources:** Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Council.

## Financial statements audit

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

## Value for Money

Our Value for Money (VFM) arrangements work follows a five stage process:

- Risk assessment
- Links with other audit work
- Identification of significant VFM risks
- Review work (by ourselves and other bodies)
- Conclude
- Report

Pages 11 to 13 provide more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.

# 2. Financial statements audit planning

## Financial statements audit planning

Our planning work takes place February to March 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

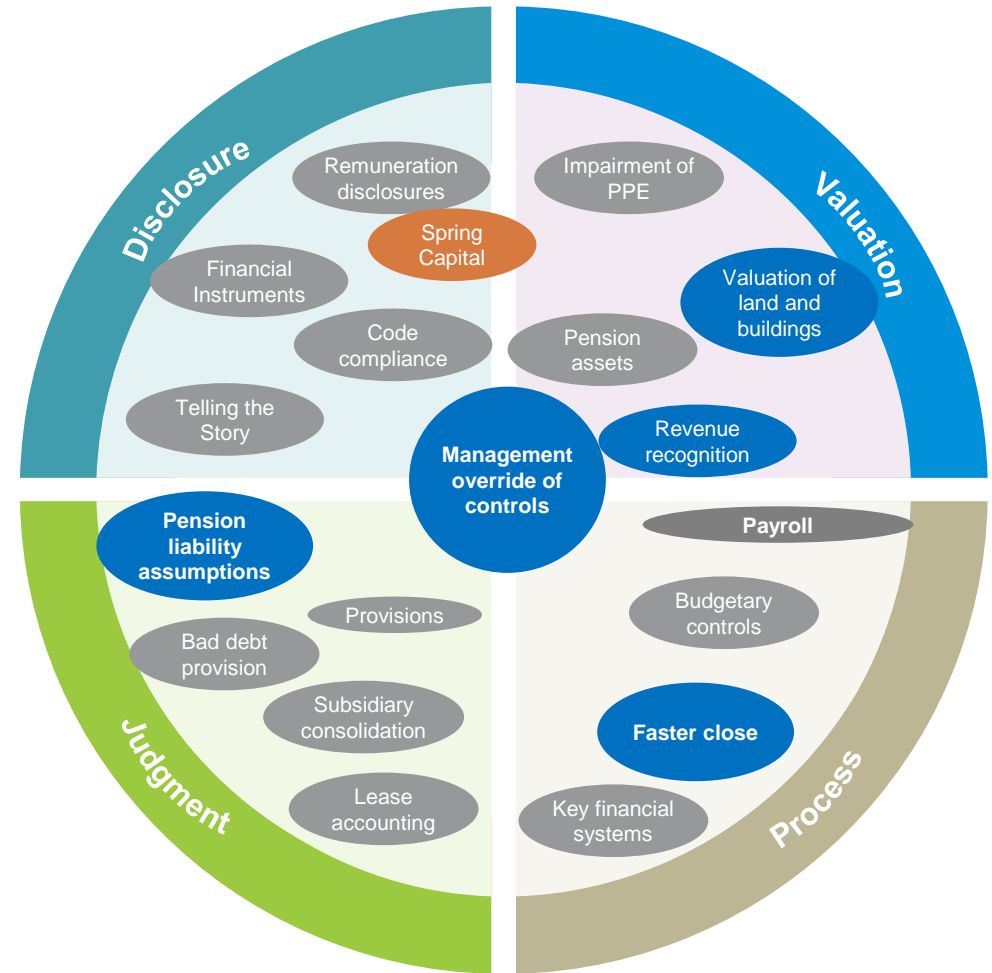
## Authority risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

— **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— **Fraudulent revenue recognition:** We will obtain an understanding of revenue controls. We will evaluate and test accounting policies for income recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We will perform detailed testing of revenue transactions, focusing on the areas we consider to be of greatest risk, for example, grant income where there are conditions attached to the grant income.

The diagram opposite identifies both significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



## 2. Financial statements audit planning

### Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

#### Valuation of land and buildings

**Risk:** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at December 2017, there is a risk that the fair value is different at year end.

**Approach:** We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

#### Pension liabilities

**Risk:** The net pension liability represents a material element of the Authority's balance sheet. The Council is the administering authority of Bromley Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

**Approach:** We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Mercer.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Mercer. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

## 2. Financial statements audit planning

### Faster close

**Risk:** In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the General Purposes and Licensing Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the General Purposes and Licensing Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

**Approach:** We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meet the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

## 2. Financial statements audit planning

### Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

#### Agreement with Spring Capital

**Risk:** The Council entered into an agreement with Spring Capital to loan Spring Capital funds to purchase a nursing home and detached house. This has been used to provide Homeless Accommodation for the Council until such time as they can be developed for private residence. The Council may also lend Spring Capital the funds to develop the site if planning permission is granted.

**Approach:** This is planned to be treated as a loan secured on assets at 6% return (rising to 7.5% return if the Loan To Value exceeds 70%).

We will:

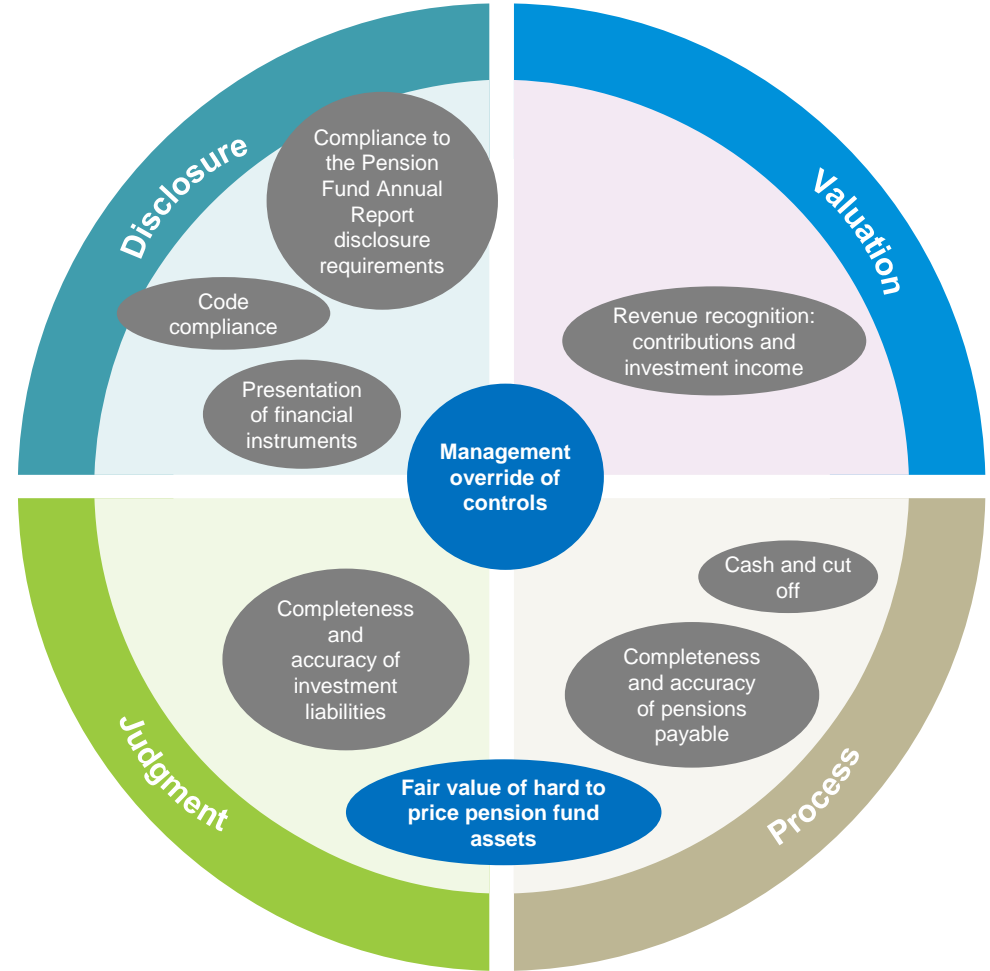
- Confirm the terms of the agreement with Spring Capital; and
- Confirm the accounting treatment of any loan funds which have changed hands by 31 March 2018

# 2. Financial statements audit planning

## Pension Fund risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition:** We do not consider this to be a significant risk for local authority Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

## 2. Financial statements audit planning

### Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

#### Valuation of hard to price investments

**Risk:** The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation.

**Approach:** We will review the investment portfolio to consider the extent of the diversified growth funds held and agree the value assigned to the diversified growth funds by the fund managers.

We will also independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of those figures.



## 2. Financial statements audit planning

### Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £9 million which equates to 1.49% of 2016/17 Authority gross expenditure. The threshold above which individual errors are reported to General Purposes and Licensing Committee is £450,000.

For the Pension Fund materiality for planning purposes has been set at £9 million which equates to 0.99% of 2016/17 net assets. The threshold above which individual errors are reported to General Purposes and Licensing Committee is £450,000.

### Reporting to the General Purposes and Licensing Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the General Purposes and Licensing Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority we propose that an individual difference could normally be considered to be clearly trivial if it is less than £450,000.

In the context of the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £450,000.

If Management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to General Purposes and Licensing Committee to assist it in fulfilling its governance responsibilities.

# 3. Value for money arrangements work

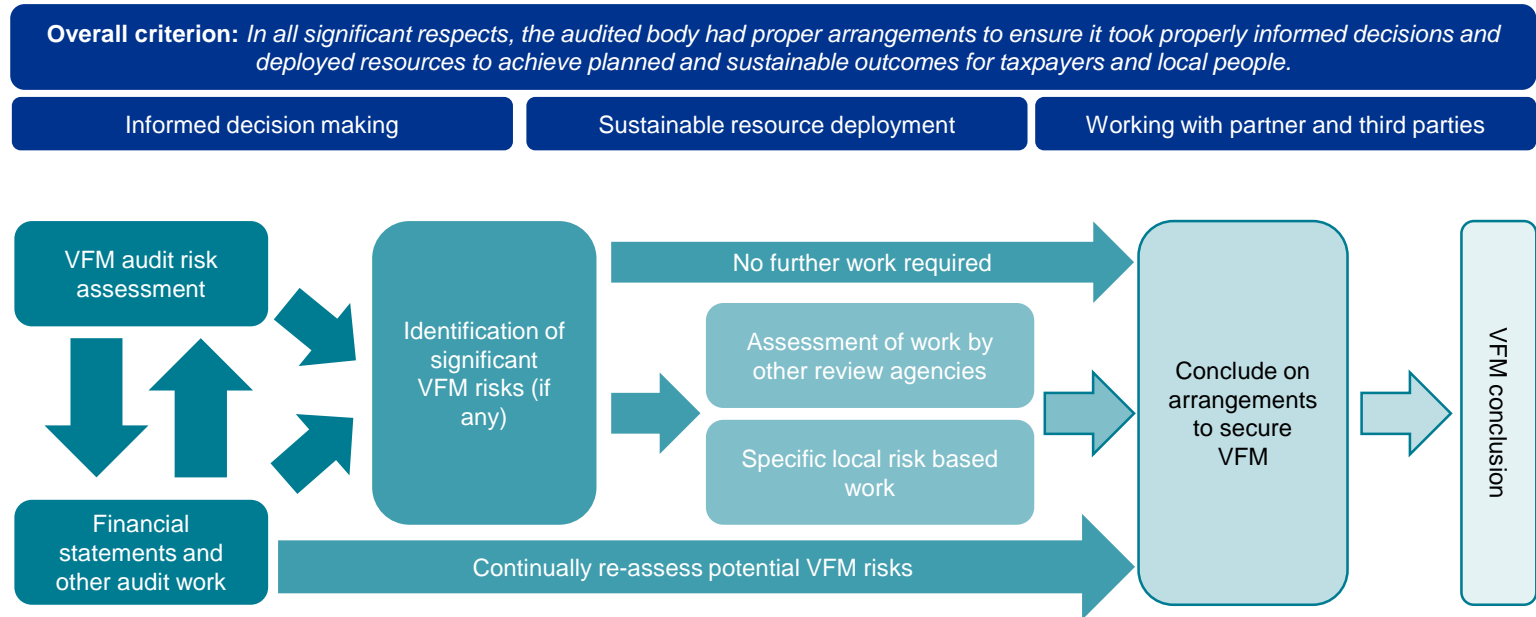
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors of NHS Bodies to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to "take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements."

The VFM process is shown in the diagram below:



We have completed our initial VFM risk assessment and have identified two significant risks for the VFM conclusion. See overleaf for our initial VFM risk assessment findings. We will keep this under review during our audit and notify General Purposes and Licensing Committee of any change.

# 3. Value for money arrangements work

## Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

### Delivery of budgets

**Risk:** Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government, whilst having to maintain a level of services to local residents. The Council is facing a number of ongoing funding pressures including increased costs on children's services.

**Approach:** We will review controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

**VFM sub-criterion:** This risk is related to the following Value For Money sub-criterion:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and third parties.

# 3. Value for money arrangements work

## Finding from Regulatory bodies

**Risk:** In June 2016 Ofsted published a report grading the Authority's children's services as 'inadequate'. Following this a commissioner was appointed who reviewed the Council's progress in addressing the concerns that were raised and assessing whether further intervention was required. In response the Authority made a number of personnel changes following the inspection. This resulted in an 'except for' qualified VFM conclusion in 2015/16 and 2016/17. Recent reports by Ofsted have shown that the Authority is making steady progress against recommendations that have been made previously by the regulator.

**Approach:** We will review the Council's continuing response to the Ofsted report including how the Council is working with the Commissioner to improve services. We will consider how the approach to improving services is being managed across the Authority, for example, whether there is an appropriate amount of Senior Manager and Councillor oversight of issues. We will also consider the results of any recent relevant reports from Ofsted or similar bodies

**VFM sub-criterion: VFM sub-criterion:** This risk is related to the following Value For Money sub-criterion:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and third parties

# 4. Other matters

## Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed

## Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are: the right to inspect the accounts; the right to ask the auditor questions about the accounts; and the right to object to the accounts. As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales.

Work on an objection to the 2016/17 accounts continues.

## Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Phil Johnstone:** your Director has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the General Purposes and Licensing Committee, the Chief Executive and Finance Director.
- **Hannah Andrews:** your Senior Manager is responsible for delivery of all our audit work. She will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

## Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the General Purposes and Licensing Committee. Our communication outputs are included in Appendix 1.

## Independence and Objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

# 4. Other matters

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## **Audit fee**

Our Audit Fee Letter 2017/2018 presented to you on 23/7/2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the S151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

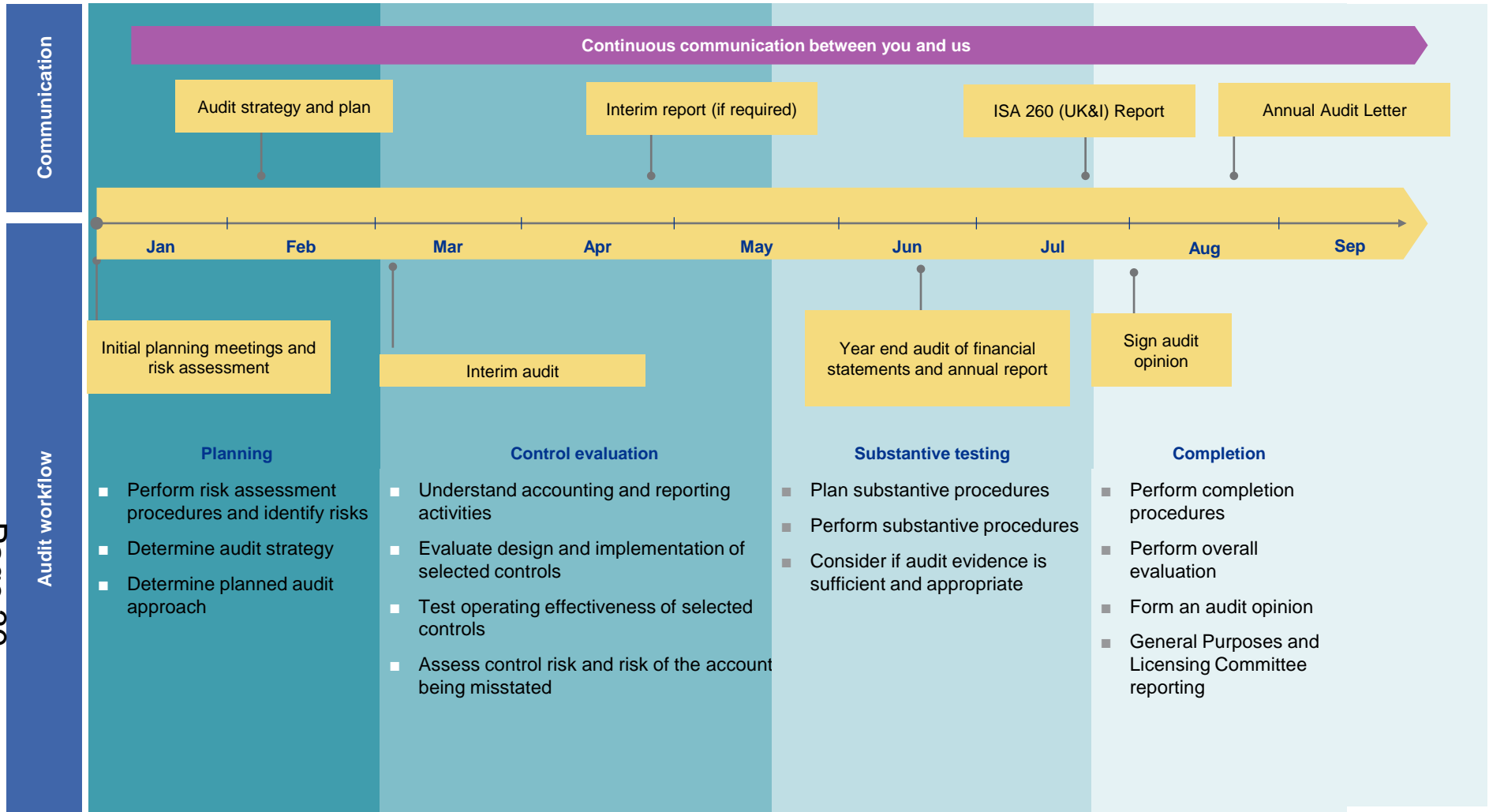
The planned audit fee for 2017/18 is £119,076 for the Authority (2016/17: £119,076). The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

## **Public interest reporting**

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

# Appendix 1: Key elements of our financial statements audit approach



# Appendix 2: Independence and objectivity requirements

## **ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF BROMLEY**

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### **Independence and objectivity considerations relating to other matters**

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the General Purposes and Licensing Committee



# Appendix 2: Independence and objectivity requirements

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## **Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the General Purposes and Licensing Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

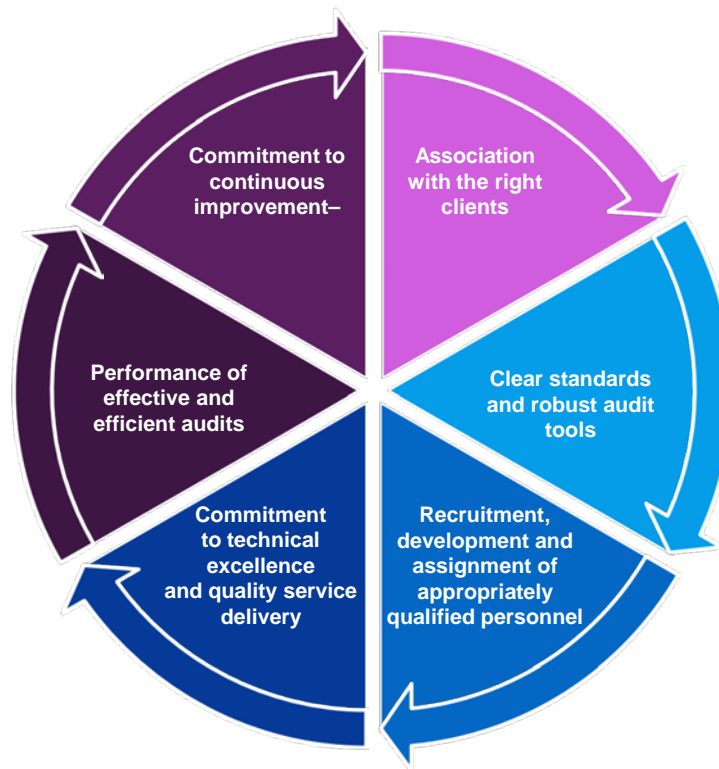
# Appendix 3: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Phil Johnstone the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Report No.  
FSD 18022

London Borough of Bromley

PART ONE - PUBLIC

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**Decision Maker:**      **AUDIT SUB-COMMITTEE**

**Date:**                   **Wednesday 7 March 2018**

**Decision Type:**      Non-Urgent                   Non-Executive                   Non-Key

**Title:**                   **ANNUAL INTERNAL AUDIT PLAN 2018/19**

**Contact Officer:**      David Hogan, Head of Audit  
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**Chief Officer:**        Director of Finance

**Ward:**                   (All Wards);

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1.    Reason for report

The Public Sector Internal Audit Standards (PSIAS) refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual audit opinion and report that can be used by the Council to inform the Annual Governance Statement. The annual audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. The report sets out the approach to producing the draft audit plan and invites comments from Members. In addition the PSIAS require the chief audit executive to review and update the Internal Audit Charter on a regular basis. The revised document is attached and requires Member approval.

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2.    **RECOMMENDATION(S)**

That the 2018/19 Audit Plan and the revised Internal Audit Charter are approved.

### Impact on Vulnerable Adults and Children

1. Summary of Impact: None
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### Corporate Policy

1. Policy Status: Not Applicable
  2. BBB Priority: Excellent Council
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### Financial

1. Cost of proposal: Not Applicable
  2. Ongoing costs: Not Applicable
  3. Budget head/performance centre: Internal Audit
  4. Total current budget for this head: £469K including £164K fraud partnership costs
  5. Source of funding: General fund, Admin penalties, Legal cost recoveries
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### Personnel

1. Number of staff (current and additional): 5.5 FTE
  2. If from existing staff resources, number of staff hours: 2018/19 – 900 audit days are proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich investigators time.
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### Legal

1. Legal Requirement: Statutory Requirement
  2. Call-in: Not Applicable: Further Details
- 

### Procurement

1. Summary of Procurement Implications: Some planned audits will have procurement implications.
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### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 100 including Chief Officers, Head Teachers and Governors
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### Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not Applicable

### 3. COMMENTARY

3.1 The Public Sector Internal Audit Standards 2017 define Internal Audit as:

‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

3.2 The UK Public Sector Internal Audit Standards (PSIAS) that apply to central government, local government and the National Health Service in the UK states: ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control’. It has therefore become common practice for heads of internal audit throughout the public sector to provide an annual report with an overall opinion to help the organisation prepare a governance statement. The move towards providing an overall annual opinion means annual Internal Audit Plans must strike a balance between breadth, taking a broad look at governance and risk management and depth, drilling down into specific areas where internal audit can provide valuable insight.

3.3 Each organisation should agree an annual Internal Audit Plan that suits its specific and unique requirements. No formula exists that can be applied to determine the minimum level of coverage. To make an impact the Internal Audit Plan needs to focus upon the most important objectives, which invariably means the most significant or highest priority risks. Where risk management is applied effectively and comprehensively by management the key risks that have been identified become the focus of attention for annual internal audit planning. The refresh of Risk Registers reported to the last meeting of the Committee has provided a useful starting point for planning. Assurance is now required that controls to mitigate those risks are being effectively employed.

3.4 It is not always necessary for Internal Audit to directly audit processes and activities in order to gain assurance about them. There may be other services or departments in the organisation who perform an assurance role, quite often referred to as the second line of defence in the three lines of defence model. By working together and being able to rely upon this assurance Internal Audit can cover more ground in the annual Internal Audit Plan. However, there are some pre-requisites to making this work. In evaluating the effectiveness of internal controls and risk management processes Internal Audit must not rely exclusively on the work of other assurance providers. Internal Audit should always examine, for itself, an appropriate sample of the activities under review.

3.5 The purpose of the Internal Audit Plan is to:

- Optimise the use of limited audit resources
- Identify the key risks facing the Council to achieving its objectives and determine the corresponding level of audit resources
- Ensure effective audit coverage of high risk areas and a mechanism to provide Members, governors, head teachers and senior managers with an overall opinion on the auditable areas and the overall control environment
- Add value and support senior management in providing effective control and identifying opportunities for improvement
- Supporting the Council’s nominated Section 151 Officer

- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015.
- Allow flexibility to take on fraud and investigation work and areas of emerging risk.

3.6 The Audit Plan coverage is largely aimed at:

- The Chief Executive and Corporate Leadership Team
- Members and in particular those of the Audit Sub Committee
- Other managers throughout the Council
- Governors and head teachers of maintained schools still under LB Bromley control

3.7 For the audit plan covering 2018/19 the methodology adopted was:

- Consultation with Chief Officers, the Director of Finance and other senior officers.
- Attendance at DMTs where requested.
- Review of the refreshed Corporate and Directorate risk registers
- Review of Horizon Scanning completed by Mazars on national challenges and opportunities facing local government.
- Review of reports and guidance from the National Cyber Security Centre, Cabinet Office and discussions with managers from ICT and Information Assurance.
- Identifying any areas that would require audit input as a result of legislation changes, government funding requirements or new areas for coverage where councils are now responsible
- Issues arising from audits and audit investigations and specific management requests.
- Recognition of the changing structure of this organisation and the drive towards commissioning services

3.8 The plan is attached in the document as Appendix A. In comparison to last year we are now proposing that the audit coverage for 2018/19 will increase from 800 days to 900 days. This followed a review of resources reported to Committee in November 2017. In the event of slippage due to the need to undertake unplanned work we have a contingency set aside to buy in services from an outside contractor under a framework agreement that is available to London Boroughs. This is also to be used where particular specialist skills might be needed.

3.9 The attached document also details Internal Audit's Strategy and Charter which has been reviewed and updated in compliance with PSIAS. This defines Internal Audit's purpose, authority and responsibility. It establishes its position and clarifies its reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities. It covers the roles of audit staff and identifies the nature of professionalism, skills and experience required. It must be regularly reviewed and considered by the Audit Sub-Committee

3.10 The plan is set out differently to those of previous years. A number of reviews that would have previously been included in a particular department/area have been promoted to a corporate area reflecting the nature of corporate risks and recognising that they require actions from across the Council to mitigate them. These risks include the failure to deliver a sustainable



financial strategy and ineffective governance and management of contracts. Information is a critical business asset that is fundamental to the continued delivery of services. Any personal data collected is subject to specific legal and regulatory requirements. Cyber incidents pose an increasing threat. Cyber security is part of the wider activity of information security which is of strategic importance and should be the subject of audit scrutiny. We have put a greater emphasis on ICT security and information governance and assurance. We are proposing that only 15 days be allocated to school audits given the diminishing number of schools still under Council control. We have also taken in to account that we are tasked with risk management following the deletion of a part time risk officer post.

**4. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

The content of this report will have implications for both adults and children in respect of audits that will be undertaken in both Children’s and Adult’s Social Care

**5. POLICY IMPLICATIONS**

None

**6. FINANCIAL IMPLICATIONS**

Some of the findings identified in the audit reports will have financial implications.

**7. PERSONNEL IMPLICATIONS**

Of the 5.5 FTE’s who are in currently in post there will be at least the equivalent of 5 FTEs who will be directly involved in carrying out the plan. An element of the Head of Audit’s time i.e. 0.5 will not be involved in direct audit planned work. In addition to this it is planned to recruit a Trainee Auditor who will undertake apprentice training via the Institute of Internal Auditors. It is not anticipated that this training will start before autumn 2018, and we consider that recruiting at the time individuals are leaving school/university may increase the number of applicants. It is good practice in any case to assume some turnover/vacancy in the plan.

**8. LEGAL IMPLICATIONS**

- 8.1 Under Section 1 of the Local Government Act 1972 the Authority is required to make proper arrangements in respect of the administration of its financial affairs.
- 8.2 The provisions of the Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective Internal Audit function.

**9. PROCUREMENT IMPLICATIONS**

The contents of this report include planned audits that will have implications for procurement relating to contract procedure rules, financial regulations and VFM issues.

<b>Non-Applicable Sections:</b>	Policy
Background Documents: (Access via Contact Officer)	None

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# Internal Audit Strategy and Plan 2018/19

## DRAFT

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# 1. Introduction

Internal Audit provides independent and objective assurance to the Council through its Audit Sub-Committee to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

Internal Audit's objectives include supporting a positive culture of internal control improvement, effective risk management and good governance. The purpose, authority and responsibility of the internal audit activity are formally defined in the Internal Audit Charter, which will be periodically reviewed and presented to senior management and the Audit Sub-Committee for approval.

Internal Audit will provide the Council, through the Audit Sub-Committee, with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the organisation's agreed objectives. This opinion forms part of the framework of assurances that the Council receives and should be used to help inform the annual governance statement. Internal Audit also has an independent and objective advisory role to help line managers improve risk management, governance and control.

Internal Audit is a key component of corporate governance within the Council.

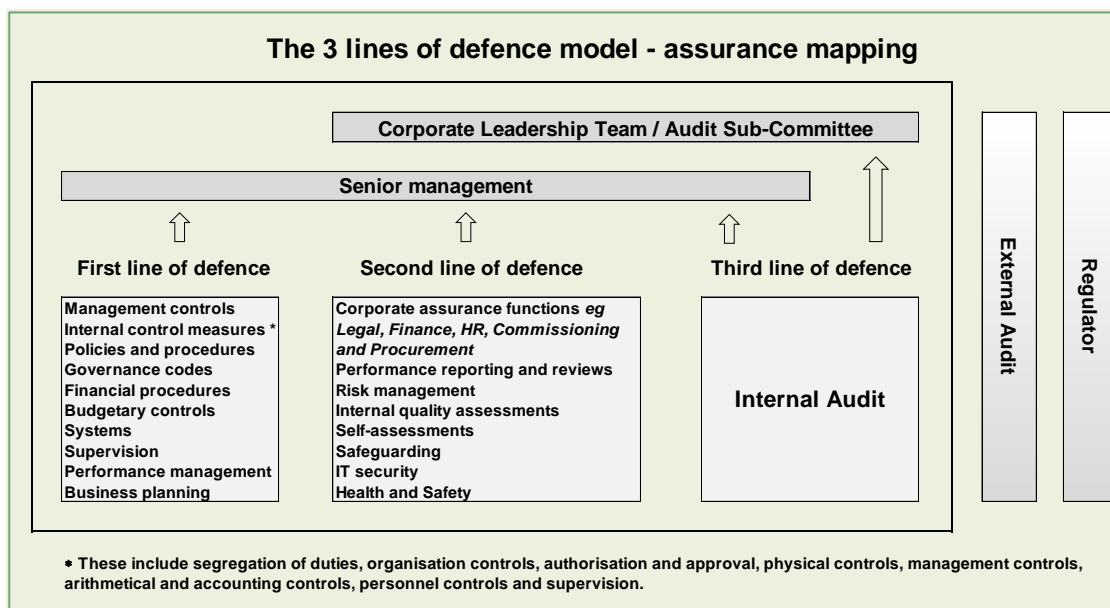
The three lines of defence model, as detailed below (Figure 1), provides a simple framework for understanding the role of Internal Audit in the overall risk management and internal control processes of an organisation:

- ▶ First line – operational management controls
- ▶ Second line – monitoring controls, e.g. the policy or system owner / sponsor
- ▶ Third line – independent assurance

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Sub-Committee on how effectively the first and second lines of defence have been operating.

An independent Internal Audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Sub-Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

**Figure 1 – 3 Lines of Defence Model**



## 2. Internal Audit Plan 2018/19

Bromley Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance process, taking into account public sector internal auditing standards or guidance'.

Organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards (the Standards).

The Standards require that the Chief Audit Executive (Head of Audit) 'establishes risk based plans to determine the priorities of the internal audit activity consistent with the organisation's goals'. When completing these plans, the Head of Audit should take account of the organisation's risk management framework. The plan should be adjusted and reviewed as necessary, in response to changes in the organisation's business, risk operations, programmes, systems and controls'. The plan must take account of the requirement to produce an internal opinion and assurance framework.

The Audit Plan is based on three principal sources of information – Risk Registers (Corporate Risks and Directorate based service risks), Internal Audit's risk analysis and management requests. In formulating the Audit Plan, the key Corporate risks and Directorate based risks have been considered.

This Audit Plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements, with a clearer focus on mapping audits to risks on the risk register and Corporate risks being given prominence reflecting their cross cutting and strategic nature.

The expectation of the public from services provided by the public sector has never been greater; yet the money available for these services continues to reduce. All public sector organisations are looking at how these services can be transformed; what worked in the last decade may not meet new challenges. The use of, and dependency on, IT for service delivery will only increase further; this brings rewards but also carries its own risk.

The Internal Audit function has a key role in helping management fully understand their risks and in designing effective and efficient controls which mitigate these risks to an acceptance level; a consistent application of a quality internal audit opinion assists the organisation to develop alternative and new delivery solutions which will deliver the service required.

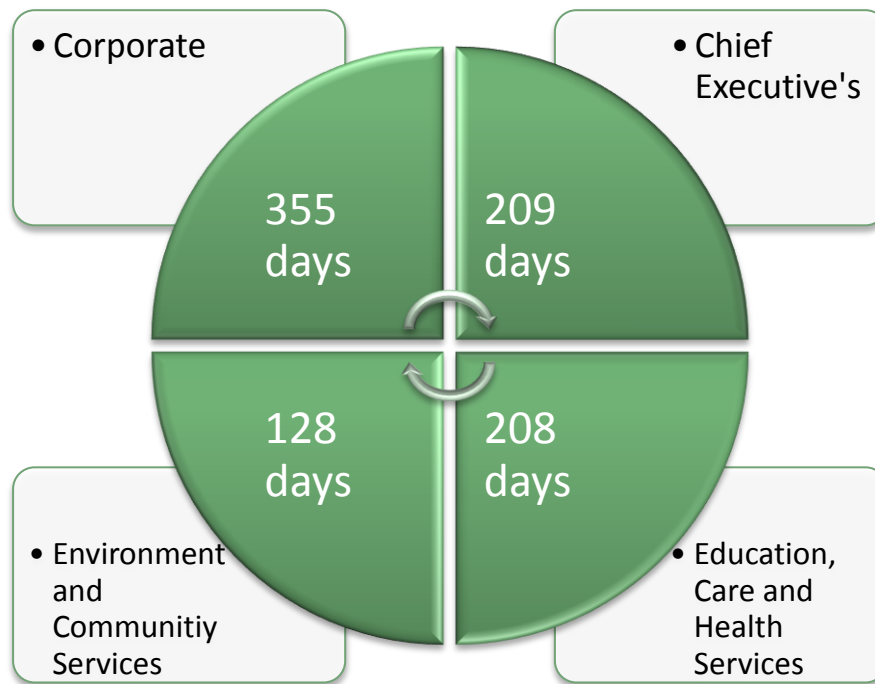
The Audit Plan has been developed to enable us to respond to changes made during the year. Whilst every effort will be made to deliver the plan, it must be recognised that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. **The plan is therefore a statement of intent** – our liaison meetings with senior management will enable us to firm up audit activity during the year.

### 2.1 Internal Audit Plan coverage for 2018/19

The Internal Audit Plan coverage for **2018/19** includes **900 direct days** compared to 800 days in 2017/18. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed and updated as necessary to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the Internal Audit Plan includes a contingency to allow for unplanned work and a prudent vacancy provision has been allowed for.

Delivery of the Internal Audit Plan underpins the Building a Better Bromley priority of an 'Excellent Council' and the allocation of days is broken down by Directorate as depicted in Figure 2 below. The full Audit Plan can be found in Section 4 'Internal Audit Plan 2018/19'.

**Figure 2 – Internal Audit Plan – Allocation of days by Directorate**



### 3. Internal Audit Charter

#### 3.1 Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value to improve the London Borough of Bromley's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit is a statutory requirement. The Accounts and Audit Regulations 2015 require the Council as a "relevant body" to maintain an "adequate and effective system of internal audit of their accounting records and control systems".

The Public Sector Internal Audit Standards (PSIAS) sets down the scope, powers and responsibilities of internal audit functions and internal auditors. Internal Audit supports the Director of Finance in undertaking statutory responsibilities for the proper administration of the Council's financial affairs and for reporting unlawful actions under the Local Government Act 1972 Section 151. The Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service.

#### 3.2 Authority

Internal Audit, with strict accountability for confidentiality and the safeguarding of records and information, is authorised full unrestricted access to any and all of the organisation's records, physical properties, assets and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. The Head of Audit will also have unrestricted access to the Chairman of the Audit Sub-Committee.

To enable the external auditors to discharge their responsibilities, Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised.

### 3.3 Responsibility

The Head of Audit provides an annual opinion in the Annual Governance Statement to the Council and to the Section 151 Officer, through the Audit Sub-Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. To achieve this, Internal Audit has the following objectives:

- ▶ Provision of an independent and objective audit service that effectively meets the Council's needs, adds value, improves controls and helps protect public resources,
- ▶ Assure management that the Council's business is being conducted in accordance with statutory requirement, internal regulations and procedures,
- ▶ To impact on the effectiveness of governance, risk management and internal control of the organisation,
- ▶ Provision of advice and support to management to enable an effective control environment to be maintained,
- ▶ To promote, in conjunction with the Royal Borough of Greenwich, an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud,
- ▶ To investigate, in conjunction with the Royal Borough of Greenwich, allegations of fraud, bribery and corruption,
- ▶ Co-ordinating the National Fraud Initiative (NFI) exercises for the Council,
- ▶ Liaising with and advising the Royal Borough of Greenwich about other proactive exercises to identify fraud,
- ▶ Advising on and carrying out, as required, the investigation of suspected irregularities and advising on the appropriate action to be taken,
- ▶ Provision of on-line training in Financial Regulations, fraud awareness, audit controls on key findings, risk management and, in conjunction with Procurement, Contract Procedure Rules.

Sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal Audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance.

### 3.4 Due professional care

In carrying out our Internal Audit work we are bound by the requirements of:

- All Council policies and procedures,
- Bromley's Code of Corporate Governance,
- All relevant legislation,
- UK Public Sector Internal Audit Standards,
- Seven Principles of Public Life (Nolan Principles),
- Institute of Internal Audit's Code of Ethics and
- Bromley's Financial Regulations and Contract Procedure Rules.



Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

### 3.5 Independence

The Head of Audit has free and unfettered access to the following:

- Chief Executive,
- Director of Finance,
- Monitoring Officer (who is the Director of Corporate Services),
- Chairman of the Audit Sub-Committee and
- Chief Officers

Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not compromised in the event of any potential conflicts of interest.

### 3.6 Reporting

The UK Public Sector Internal Audit Standards require the Head of Audit to report at the top of the organisation and this is done in the following ways:

- ▶ The Internal Audit Charter and any amendments to it are reported to the Audit Sub-Committee for formal approval annually,
- ▶ The annual Internal Audit Plan is compiled by the Head of Audit taking account of the Council's risk framework and after input from Senior Management. It is then presented to the Audit Sub-Committee for formal approval. The Internal Audit Plan includes timing as well as budget resource requirements for the financial year,
- ▶ The Internal Audit budget is reported to Members and Full Council for approval annually as part of the overall Council budget,
- ▶ The adequacy, or otherwise, of the level of Internal Audit resources (as determined by the Head of Audit) and the independence of Internal Audit will be reported annually to the Audit Sub-Committee,
- ▶ Performance against the Internal Audit Plan and any significant risk and control issues arising from audit work are reported to the Audit Sub-Committee periodically. Any significant deviation from the approved Internal Audit Plan will be communicated through this reporting process,
- ▶ Any significant unplanned activity not included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Audit Sub-Committee,
- ▶ Any significant findings from Internal Audit's Quality Assurance and Improvement Programme will be reported to the Audit Sub-Committee.

Management will receive a timely written report at the conclusion of each Internal Audit engagement which:

- will have a short management summary,
- will detail any matters of significance that have arisen with priority one issues highlighted,

- will provide an opinion of the adequacy of controls reviewed with one of four assurance opinions given i.e. full, substantial, limited or nil assurance,
- will recommend practical ways in which system weaknesses can be addressed.

The distribution of reports will be set out within the terms of reference issued prior to an audit. In the event of major findings, these are reported to Chief Officers, the Chief Executive and Audit Sub-Committee.

The annual Internal Audit Plan as agreed by the Audit Sub-Committee and any investigation work will be carried out by a team of 5.5 FTE suitably experienced and qualified Principal Auditors including the Head of Audit. An Audit Trainee will be recruited in 2018/19. Where a shortfall in delivering the plan is identified, this will be augmented by the commissioning of outside services such as Mazars under a framework contract agreed with the London Borough of Croydon. Investigative work on fraud related matters will be assigned to the Royal Borough of Greenwich under the partnership agreement that operates with that Borough. Non fraud related investigations such as breach of Financial Regulations and the Contract Procedure Rules will be undertaken by Internal Audit.

### 3.7 External Auditors

Internal Audit will closely liaise with the external auditors to ensure maximum coverage, non duplication of audit coverage, sharing of information and the placement of reliance on Internal Audit work.

## 4. Internal Audit Plan 2018/19

### 4.1 Corporate

	Division/Service	Audit Title	Days	Objective or Rationale	Link to Risk Register
Corporate (Page 1)	Cross Cutting/ Finance Lead	Council's Financial Strategy and Budget Compliance	20	Review 3 lines of defence and existing controls in place to mitigate risk in delivering the Council's financial strategy and ensure departmental budgets are met	Corporate ref 1
	Cross Cutting/ Commissioning Lead	Strategic Commissioning	20	Review 3 lines of defence and existing controls in place to mitigate risk of failure to deliver target operating model as commissioning organisation. A review will take place to draw out themes focusing on a sample of contracts across the Council	Corporate ref 2
	Commissioning	Procurement Control Framework Compliance	20	A review across directorates of compliance with contract procedure rules and financial regulations, undertaken through an analysis of orders raised and value placed with individual suppliers. Includes a review of the use of the Contract Database	Corporate ref 1 Corporate ref 2
	Cross Cutting/ ECS lead	Business Continuity & Emergency planning	10	Review existing controls to mitigate risk of failing to maintain robust Business Continuity and Emergency Planning arrangements	Corporate ref 7
	Cross Cutting/ ECS lead	Health and Safety at Work	10	To provide assurance that the Council's Health and Safety at Work policy and procedures are sound and being monitored	ECS ref 8
	Cross Cutting/ CEX lead	Information Governance and General Data Protection Regulations (GDPR)	10	Review of progress to ensure compliance with GDPR 2018	CEX ref 15
	Governance	Consultancy and advice to directorates	30	Contingency for advice/guidance contribution to corporate projects	All risks
	Governance	National Fraud Initiative 2018	30	Provision to assist Council meets its statutory obligations including dataset uploads and distribution/investigation of matches	Corporate ref 1
	Governance	External grants	10	Contingency for certification requests that may arise, including Tackling Troubled Families and Pothole Action Fund	Corporate ref 1

Corporate (Page 2)	Governance	Follow up and implementation of higher priority recommendations	40	Ensuring implementation of priority recommendations	All risks
	Governance	Provision of training	10	Training courses on control risk or corporate governance	All risks
	Governance	External liaison with other authorities and agencies	10	Effective contributions to regional or national initiatives	All risks
	Council wide	Provision for investigations into irregularities	80	Investigation into financial or governance irregularities which are reported or referred	Corporate ref 1
	Governance	Annual Report and Internal Audit Plan	10	Strategic evaluation of outcomes and trends to advise Management leading to effective planning and prioritisation of resources for current and future years	All risks
	Governance	Risk Management	30	Provision for work supporting the Council's approach to risk management including risk register maintenance	
	Governance	Annual Governance Statement	15	Co-ordinating the production of the Annual Governance Statement ensuring the Council's statutory obligations are met	
	<b>Corporate Total</b>		<b>355</b>		

## 4.2 Chief Executive's

	Division/Service	Audit Title	Days	Objective or Rationale	Link to Risk Register
Chief Executive's (Page 1)	ICT	Cyber Security Gap Analysis	25	Review approach to existing controls and compare against National Cyber Security Centre standards to ensure controls mitigate risks including unauthorised access to networks, <ul style="list-style-type: none"> <li>- secure configuration,</li> <li>- user privileges,</li> <li>- user education and awareness,</li> <li>- incident management,</li> <li>- malware protection,</li> <li>- monitoring,</li> <li>- removable media controls</li> <li>- home and mobile networking</li> </ul>	CEX ref 1
	ICT	BT Contract Management	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk	Corporate ref 5
	ICT	ICT Systems failures	10	Review of existing controls in place to mitigate risk, including backup and recovery process, disaster recovery testing and alignment to Business Continuity requirements	CEX ref 1, 2, 3, 4, 5 & 12
	Finance Key Financial System	Treasury management	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 2 Corporate ref 1
	Finance Key Financial System	Pension payments	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 4 Corporate ref 1
	Finance Key Financial System	Pension Fund	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 4 Corporate ref 1

Chief Executive's (Page 2)	Finance Key Financial System	Creditors	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 9 Corporate ref 1
	Finance Key Financial System	Debtors	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 9 Corporate ref 1
	Finance Key Financial System	Housing Benefit	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 6 & 9 Corporate ref 1
	Finance Key Financial System	NNDR	10	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues	Finance ref 6 & 9 Corporate ref 1
	Finance Key Financial System	Payroll expenses including amendments to standing data	15	Review governance and ensure controls are satisfactory to mitigate risk. Coverage and scope will be discussed with management, taking account of previous internal audit work and known issues. Include review of changes arising from implementation of Enterprise Bill 2016	Finance ref 9 HR ref 6 Corporate ref 1
	HR	New Starters and Leavers	10	The objective of this audit is to review systems and procedures for controlling new starters and leavers to provide assurance that the controls around new starters and leavers are sound and secure	Finance ref 9 HR ref 6
	HR	Workforce Planning	10	Review the extent to which the Council has assessed its current and future skills gap and addressed risks caused by the demographic make up of its workforce	Corporate ref 4
	Chief Executive's	Contingency allowance for advice, guidance and provision for assurance work on emerging risk	39	Provision for work involving risk areas which are unknown at present but are likely to emerge in 2018/19	All risks
	Chief Executive's	Work in progress from 17/18 carried forward	20	Provision for completion of work from 2017/18 which is in progress at year end	All risks
	<b>Chief Executive's Total</b>		<b>209</b>		

## 4.3 Education, Care and Health Services

	Division/Service	Audit Title	Days	Objective or Rationale	Link to Risk Register
Education, Care and Health Services (Page 1)	Education	Schools	15	Review of systems and procedures at a sample of schools including: - Expenditure - Income - Financial Management - Budget Monitoring - Payroll - Contract Monitoring - Voluntary Fund - Safeguarding Assets - Pecuniary Interests - Procurement Cards - Lettings	Corporate ref 1 ECHS ref 1 & 8
	ECHS	Health & Social Care Integration	10	Review existing controls to secure joint working across the health and social care economy, looking at the use of the Delayed Transfer of Care, Better Care Fund and Improved Better Care Fund. Ensure satisfactory progress towards statutory duties	Corporate ref 3
	ECHS	Capital schemes for ECHS	10	Review the effectiveness of systems and controls for procuring, managing and monitoring building contracts to ensure effective cost control and programme control	ECHS ref 1
	Adult Social Care	Domestic Care Contract management arrangements	15	Review governance and management of contract to ensure controls are satisfactory and mitigate risk	Corporate ref 5 ECHS ref 2
	Adult Social care	Adult Social Care Budget management	10	Review of controls in place which mitigates the risk of failure to deliver ECHS financial strategy	ECHS ref 1 Corporate ref 1
	Adult Social Care	Learning Disability Services	10	Review of controls in place to assess service users, eligibility criteria and review process.	ECHS ref 1 & 2a Corporate ref 1
	Adult Social Care	Residential care	15	Review of controls in place to assess service users, eligibility criteria and review process	ECHS ref 2 & 8

Education, Care and Health Services (Page 2)	Adult Social Care	Older People – Nursing Beds (PF and EMI)	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk	ECHS ref 2 & 8
	Adult Social Care	Extra Care Housing	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk for all schemes	ECHS ref 2 & 8 Corporate ref 5
	Children’s Service	Children’s Social Care Budget Management	10	Review of controls in place which mitigates the risk of failure to deliver ECHS financial strategy	ECHS ref 1 Corporate ref 1
	Children’s Service	SEN reforms	10	Review of controls in place to assess service users, eligibility criteria and review process	ECHS ref 12
	Children’s Service	Fostering	10	Review of controls for the assessment, placement review and payment procedures for in house and independent fostering	ECHS ref 3
	Children’s Service	No Recourse to Public funds	10	Review of controls for the assessment and monitoring of NRPF cases, to include payment procedures. Consider the effectiveness of counter fraud initiatives specifically referral to Greenwich Fraud Team and data sharing with other Boroughs	ECHS ref 3
	Housing	Temporary accommodation & homelessness prevention	10	Review of controls in place to assess service users, eligibility criteria and review process	Corporate ref 1 ECHS ref 5a & 5b
	Education, Care and Health Services	Contingency allowance for advice, guidance and provision for assurance work on emerging risk	38	Provision for work involving risk areas which are unknown at present but are likely to emerge in 2018/19	All risks
	Education, Care and Health Services	Work in progress from 17/18 carried forward	15	Provision for completion of work from 2017/18 which is in progress at year end	All risks
	<b>Education, Care and Health Services Total</b>		<b>208</b>		



#### 4.4 Environment and Community Services

	Division/Service	Audit Title	Days	Objective or Rationale	Link to Risk Register
Environment and Community Services (Page 1)	Street Scene and Green Spaces	Street Cleansing contract management (Kier Services)	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk (the contract is being tendered (LOT 3) with a start date of April 2019)	Corporate ref 5 ECS ref 3, 6, 10
	Transport & Highways	Highways Maintenance major works contract management	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk (the contract is being tendered (LOT 6) with a start date of July 2018)	Corporate ref 5, 6 ECS ref 10
	Transport & Highways	Winter maintenance	10	Review of Winter Maintenance plans and procedures (gritting / salting) and the inspection regime. The audit will also review their effectiveness in mitigating risks of higher maintenance costs and insurance claims	Corporate ref 4, 6, 8, 9 ECS ref 1, 6, 8, 11
	Transport & Highways	Traffic & Road Safety Procurement	10	Review of Procurement arrangements to ensure controls are in place and contract procedure rules are complied with	Corporate ref 4, 6, 8 ECS ref 8 & 19
	Public Protection	Mortuary and Coroners service	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk	Corporate ref 4, 6, 8 ECS ref 7 & 8
	Street Scene and Green Spaces and Transport & Highways	Environmental Services Contract Procurements	20	Review of the arrangements for procuring Environmental Services Contract Procurements (LOT1 and LOT2). Undertake pre-contract checks to ensure that adequate handover arrangements are in place (Exit strategy) and any implications of the new GDPR regulation have been considered if applicable/relevant	Corporate ref 5 ECS ref 3, 6, 10, 15
	Street Scene and Green Spaces and Transport & Highways	Arboricultural Services	10	Review governance and management of contract to ensure controls are satisfactory and mitigate risk	Corporate ref 4, 6, 8 ECS ref 7, 8

Environment and Community Services (Page 2)	Regeneration and Transformation	Car parking – Income – Multi Storey and On Street	10	Review key controls to include controls on new collection arrangements and follow-up of previous audit recommendations	Corporate ref 4, 6, 8 ECS ref 13
	Environment and Community Services	Contingency allowance for advice, guidance and provision for assurance work on emerging risk	23	Provision for work involving risk areas which are unknown at present but are likely to emerge in 2018/19	All risks
	Environment and Community Services	Work in progress from 17/18 carried forward	15	Provision for completion of work from 2017/18 which is in progress at year end	All risks
	<b>Environment and Community Services Total</b>		<b>128</b>		
<b>Annual Plan Total</b>					
			<b>900</b>		

Report No.  
FSD 18023

London Borough of Bromley

PART ONE - PUBLIC

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**Decision Maker:**      **AUDIT SUB-COMMITTEE**

**Date:**                   **Wednesday 7 March 2018**

**Decision Type:**      Non-Urgent                   Non-Executive                   Non-Key

**Title:**                   **INTERNAL AUDIT PROGRESS REPORT**

**Contact Officer:**      David Hogan, Head of Audit  
0208 313 4886   E-mail: David.Hogan@bromley.gov.uk

**Chief Officer:**        Director of Finance

**Ward:**                   (All Wards);

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1.    Reason for report

This report informs Members of recent audit activity across the Council and provides updates on matters arising from the last Audit Sub Committee.

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2.    **RECOMMENDATION(S)**

- a)    **Note the Progress Report and comment upon matters arising.**
- b)    **Note the list of Internal Audit reports published on the Council's web-site.**
- c)    **Note the current position on the objection to the accounts from the Council's External Auditors.**

### Impact on Vulnerable Adults and Children

1. Summary of Impact: Some of the audit findings could have an impact on adults and children.
- 

### Corporate Policy

1. Policy Status: Not Applicable:
  2. BBB Priority: Excellent Council
- 

### Financial

1. Cost of proposal: Not Applicable:
  2. Ongoing costs: Not Applicable:
  3. Budget head/performance centre: Internal Audit
  4. Total current budget for this head: £469K including £164K fraud partnership costs
  5. Source of funding: General fund & legal cost recoveries
- 

### Personnel

1. Number of staff (current and additional): 5.5fte
  2. If from existing staff resources, number of staff hours: 2017/18 - 800 audit days are proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich investigators time.
- 

### Legal

1. Legal Requirement: Statutory Requirement:
  2. Call-in: Not Applicable:
- 

### Procurement

1. Summary of Procurement Implications: Some audit findings will have procurement implications
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 100 including Chief Officers, Senior Managers, Head Teachers and Governors
- 

### Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not Applicable.

### **3. COMMENTARY**

3.1 This report advises Members of the Audit Sub-Committee on the work undertaken by the Internal Audit Team since the meeting held in November 2017 and the level of assurance on that work. The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

3.2 Members will be aware that since 2008 Croydon Council has held a single provider framework contract for the provision of Internal Audit services which is let to Mazars and provides services to approximately 30 other Council's including LB Bromley. The framework expires in March 2018 and a tender process has been undertaken this year and has been recently awarded to Mazars.

#### **3.3 Audit Activity**

3.3.1 The current list of Priority 1 recommendations is shown in Appendix A. There have been further additions detailed in the report, and some movements in those brought forward.

3.3.2 A summary of completed Audits to date, with new Priority 1 recommendations are summarised in paragraphs 3.4 to 3.6. Paragraphs 3.7 to 3.10 relate to other completed audits stating the audit objective, the opinion and a brief summary. Paragraphs 3.11 to 3.13 summarise follow up reports issued and paragraphs 3.14 to 3.17 report the follow up work on the outstanding Priority 1 recommendations to update Members.

#### **3.4 Transforming Community Equipment Services (TCES)**

##### **Objective**

3.4.1 System review of TCES including reconciliation of data and costs, scrap and write offs, pooled arrangements with Health, monitoring of the contract with Medequip and the management reports generated.

##### **Audit opinion – Limited**

3.4.2 Controls noted to be in place and working well included; the determination of Key Performance Indicators (KPI); access to an online catalogue; itemised list of all Council owned stock and budget monitoring.

3.4.3 There was one Priority 1 recommendation relating to a lack of clarity regarding the roles and responsibilities for contract monitoring; including performance monitoring and contract compliance. Since the retirement of the previous Contract Manager in May 2017, a replacement officer had not been directly assigned to the role.

3.4.4 Eight Priority 2 recommendations were raised with regard to:-

- The framework contract with Medequip expired on 30 June 2017; however, the new contract dated 1 April 2017 was not signed until 25 July 2017; 25 days after the previous contract expired. At the time of the audit, a signed copy of the Call-Off contract between the Council and Medequip was not available for review. Discussions established that this was in draft form;
- Internal Audit was unable to confirm the frequency and attendance of the Council Representatives at the Best Practice Forum and Consortium Board meetings as the meeting minutes were not retained by the Council and could not be provided at the time of the audit;

- Performance against the contract Key Performance Indicators (KPIs) was not recorded, monitored or reported to Senior Management;
- Examination of the Operations and Equipment Review Group meeting minutes for a sample three months noted that specific performance against the contract KPIs or the contractors overall contract performance was not discussed;
- Reports relating to call, email and telephone performance and maintenance schedules are not provided by the Service Provider to the Council as required;
- Standard format reports available on the Management Information (MI) site of the TCES System were not generated for performance monitoring;
- Examination of budget monitoring meeting minutes for three months noted that the reasons for the identified variances were not explicitly discussed and an action plan for remediation was not put in place;
- Examination of the invoice analysis spreadsheet for a sample of five months identified four instances where the exceptions were not evidenced as checked and confirmed as required.

3.4.5 There were two Priority 3 recommendations relating to formal notification to the Service Provider that the contract's Authorised Officer/ Contract Manager had retired and that from a sample of 5 months, budget monitoring had not been issued for one month and was late for another month.

3.4.6 Management accepted and agreed all eleven recommendations; remedial action to be in place by the end of the financial year. For the Priority 1 recommendation the Director of Adult Social Care confirmed that the Head of Service, Assessment and Care Management would be the contract manager but with support from the Strategic Commissioner, ECHS Programmes and the roles and responsibilities would be effective immediately.

### **3.5 Contributions Policy for ECHS**

#### **Objective**

3.5.1 Review of the system to collect income from Non-Residential charges. Verify the assessed financial contribution, service agreements, collection of income and recovery of debt. Establish procedures to monitor temporary changes that may impact on service delivery and charging. Verify that the agreed fees and charges are correctly levied.

#### **Audit opinion – Limited**

3.5.2 Controls were in place and working well in the areas of financial assessments and the corresponding contributions being levied to the service user.

3.5.3 The Priority 1 finding relates to the charging of cancellation fees. The Reablement service is intensive short term support that usually lasts between three and six weeks and is a free service. During audit testing in a separate area of Adult Social Care, the auditor was advised by the Head of Direct Care that the cancellation fees for Reablement have not been levied to date. A report to the Executive 10/1/17 details the proposal to levy a cancellation charge if Reablement appointments are not kept, 24 hours prior notice is required.

3.5.4 Data was requested in respect of the cancelled and abortive visits for the 2017/18 financial year. Data provided for the period 01/04/17 to 18/12/17 showed 534 cancelled calls and 149 aborted visits. The reasons for all the cancellations and abortive calls were not fully provided. Procedural guidance which details when a cancellation fee should or should not be levied was not available.

3.5.5 Based on this data, in total 683 cancelled and abortive visits @ £14.95 equates to = £10,109 of lost income. (The total calculations include both cancelled and aborted call in the absence of the agreed procedural guidance).

3.5.6 The Priority 2 recommendations relate to delayed investigations of debts passed back to the department when they are in dispute; data transferred to the contractor for the transport service that had not been data cleansed or checked for accuracy and four findings specific to service users to be considered by care management.

3.5.7 The Priority 3 finding relates to documenting a policy regarding a minimum threshold for contribution.

### **3.6 Agency Staff**

#### **Objective**

3.6.1 The overall objective of the audit was to review the usage of agency staff, compliance with agreed procedures and payments made.

#### **Audit opinion – Limited**

3.6.2 Controls were in place and working well in the areas of regularity of contract monitoring meetings held with Adecco and monitoring of KPIs and setting up of monthly surgeries for managers to meet and discuss relevant issues with Adecco's account manager.

3.6.3 There are three Priority 1 recommendations. We identified a lack of oversight and governance of the Council's agency staff arrangements. The procedure for approving extensions of agency staff beyond six months is not being followed and managers need to be reminded of the process of removing IT systems access and recovering the security pass and any Council equipment promptly when an agency worker leaves.

3.6.4 We also made nine Priority 2 recommendations to further improve controls. These relate to confirmation of the rates agreed with the contractor, training requirements and declaration of business interests. The accuracy and availability of information held on the contractor's system needs to be checked.

3.6.5 Information on invoices received from the contractor should be checked for reasonableness. Supporting evidence should be provided for hours claimed and the responsibility of managers authorising claims should be reinforced.

### **3.7 Cash & Bank**

#### **Objective**

3.7.1 The overall objective of the audit was to review the Council's cash collection, security and banking arrangements, including the kiosks at the Civic Centre and Penge Library. It also included a review of a sample of the Council's imprest accounts.

#### **Audit opinion – Substantial**

3.7.2 Controls were in place and working well in the areas of kiosk transaction records and income reconciliation and banking. Contract monitoring meetings take place regularly and performance is reported to Members.

3.7.3 There are three Priority 2 recommendations and two Priority 3 recommendations which we have made to further improve controls. These relate to not recovering cash imprest accounts for an outsourced service area where no cash book was being operated and a lack of separation of duties in operating and reconciling an imprest account in a specific service area. The cash and banking operating procedures in cashiers' section had not been updated to reflect changes in working practices.

### **3.8 Parks**

#### **Objective**

3.8.1 The audit covered the review of the contract for grounds maintenance, park management and other related services. It focused on the controls relating to the payment of invoices and robustness of contract monitoring arrangements.

#### **Audit opinion – Substantial**

3.8.2 A random sample of 20 invoices paid to the contractor for the period April 2016 to June 2017 was selected to ensure that payments were authorised in line with Financial Regulations and supported by evidence of service delivery. There are seven Priority 2 recommendations which we have made to further improve controls. These relate to:

- Not issuing the Change Control Notices in a timely manner;
- Lack of reconciliations of the omissions and additions to the ground maintenance contract;
- Non-retention of contract monitoring minutes and contract monitoring reports provided by the contractor;
- No independent surveys were undertaken and attendances at stakeholder led meetings by the contractor were not evidenced;
- Supporting documents provided to demonstrate achievement of KPIs could not be independently verified;
- It could not be verified that for all special schemes agreed schedule of rates where applicable were used. It was also noted that the photographic evidence, where provided, was not dated;
- Minutes of meeting with the contractor to discuss the net annual income from events held in Parks and supporting financial reports were not retained in all instances.

### **3.9 Gifts, Hospitality and Declarations of Interest**

#### **Objective**

3.9.1 The overall objective of the audit was to provide assurance that the Council has effective controls in place for the Gifts, Hospitality and Declarations of Interest procedures for both Officers and Members, and compliance with these procedures.

#### **Audit opinion – Substantial**

3.9.2 Controls were in place and working well in the areas of guidance available to Members on Gifts, Hospitality and Declarations of Interest, and implementation thereof.



3.9.3 Two Priority 2 and three Priority 3 recommendations have been made to further improve controls. These relate to reviewing and updating the guidance published to staff on the declaration of Gifts and Hospitality and giving consideration to moving the process to an on line system; ensuring that Declarations of Interest are completed by staff, including those employed on an agency basis, where required; undertaking an independent review, at Director level, of staff and Member declarations of Gifts and Hospitality and, maintaining a record of items donated to the Mayor's Charity through the Gifts and Hospitality procedure.

### **3.10 Planning**

#### **Objective**

3.10.1 The Audit covered the planning application process with particular emphasis on pre application advice and the subsequent approval process. The review also covered current planning enforcement arrangements.

#### **Audit opinion – Substantial**

3.10.2 The sample testing of 20 pre-planning applications highlighted issues with retention of documents relating to applications, acknowledgement of applications and delay in sending out decision letters. The Priority 2 recommendation was discussed with the Planning Development Control Manager who advised that a new validation process is being introduced which will require a form to be submitted with each submission and an acknowledgement letter sent. Targets are being introduced for issuing pre-application responses for Planning Officers via the appraisal system.

3.10.3 A sample of 20 referrals was also tested for the period April 2016 to July 2017 to ensure that the enforcement complaints are logged, allocated and addressed in a timely manner in compliance with the planning enforcement policy. Testing identified issues with timeliness of response and correspondence with complainants and generated a second Priority 2 recommendation. The Development Control Manager advised that previous practices have already been looked at and changes made. The changes in practices will improve officer's achievements of timescales and complainants being kept informed.

### **3.11 Biggin Hill Airport and The Glades – Follow up Audit**

#### **Objective**

3.11.1 The follow up review considered the final audit report issued on 13th September 2016 and identified progress made on implementing the recommendation.

#### **Outcome**

3.11.2 The report of 16th September 2016 contained one Priority 2 recommendation which stated that 'Independently audited accounts should be periodically requested from the Glades Management Company. Alternatively on an annual basis a sample evidence of income and expenditure incurred on the quarterly statements should be requested to confirm figures stated are accurate'.

3.11.3 At the time of undertaking the follow up audit, no progress had been made with implementing the recommendation however, since liaising with the Head of Asset and Investment Management, every effort has been made to rectify the situation.

3.11.4 Contractor A has committed to ensuring that a sample of evidence of income and expenditure incurred on the quarterly statements is provided for the quarter ending March 2018. Their

Service Charge Team will review the data supplied and provide a scrutiny report on quality and accuracy.

### **3.12 Building Control – Follow up Audit**

#### **Objective**

3.12.1 The follow up review considered the final audit report issued on 2nd August 2016 and identified progress made on implementing the recommendations.

#### **Outcome**

3.12.2 The report of 2nd August 2016 contained two Priority 2 and one Priority 3 recommendations. Of these, two have been fully implemented in respect of ensuring that all planning and building control works are notified to the Valuation Office, and that charges are reviewed to determine whether any significant changes are required to either the fee scale or the budget.

3.12.3 The Priority 2 recommendation relating to undertaking a reconciliation between the Oracle financial system and the Uniform (Building Control case management system), remains outstanding. The Uniform system does not have a direct interface with the Oracle financial system and therefore there is no automatic reconciliation of the data (income) recorded on the system with the transactions recorded on the Oracle financial system. To ensure that all income is accounted for, a periodic reconciliation of the income recorded on both systems should be undertaken with any discrepancies investigated.

3.12.4 The Head of Building Control has now instigated discussions with the Information Technology provider to combine output from the Uniform system with that from Oracle into one report for comparison purposes, and a work request has been raised.

### **3.13 Street Works permits and defaults – Follow up Audit**

#### **Objective**

3.13.1 This follow up review considered the final audit report issued on 21/06/2017 and the progress made to implement the five Priority One recommendations and two priority two recommendations.

#### **Outcome**

3.13.2 We carried out sample testing and analysis of relevant documentation to confirm the extent to which the recommendations made in our original report had been implemented. The 5 Priority 1 findings identified during the original audit related to:

- Contract Monitoring meetings
- Variation to the terms of contract without authority
- Failure to comply with Contract Procedure Rules
- Inadequate contract monitoring
- Failure to comply with Financial Regulations (FR)- raising invoices for income due

3.13.3 The controls relating to the quality of contract monitoring minutes, issuing CCN's, compliance with CPR and monitoring of KPI's could not be tested as the contract has ended however these issues will be reviewed as part of future audits in the Highways Division.

3.13.4 The priority 1 recommendation relating to raising invoices for income has been satisfactorily implemented. A procedure has been agreed with the Head of Finance to generate invoices in a timely manner. The priority 2 findings relating to recording inspections on Confirm and recovery of outstanding debt have been implemented.

### **3.14 Contract Monitoring – Priority One update**

3.14.1 In response to the Contract Monitoring audit recommendations, all services have agreed that key supporting documentation should be held with the relevant contracts: the issue now is how best to establish a single source record to locate such documentation. To this end, a number of meetings have been held relating to improving contract document management and specifically Legal Services, and Information Systems Division to consider issues such as confidentiality and retention.

3.14.2 Currently, contracts with a value greater than £200k (and any variation and supporting documents) should be held under seal in the Legal Vault. Contracts of a lower value are usually held locally by the relevant Contract Owners. The consensus is that a) documents held in the Legal Vault should be scanned, so they can be stored in an electronic environment and b) that a Document Management System (DMS) should be created to provide such a robust repository / single source for contract documentation.

3.14.3 This DMS will be a module of the Contracts Database and will both hold contract documents and allow access to locally held documents (using URLs) thus providing a single source. Authorisation Forms – which form part of the Authorisation Process – will be held in the CDB itself. In the circumstances, we consider that the two Priority 1 recommendations are ‘in progress’.

### **3.15 Document Storage and Retention – Priority 1 update**

3.15.1 The Director of Regeneration advised previously that ‘this is a corporate wide issue that can only be rectified by investment in technology and cultural change, it is therefore likely to remain a Priority 1 until such times as it is picked up through the Civic Centre Accommodation Strategy’.

3.15.2 The Director of Regeneration advised on 25/1/18 that since October 2017, ‘there is no further update at this point in time; the issue remains a corporate issue which we will pick up and deal with as part of the broader Civic Centre Accommodation strategy’.

3.15.3 Internal Audit made enquiries with the Senior Property Manager to determine whether the 900 boxes that were due to be destroyed have since been or whether this is still underway. It has been confirmed that this is still ongoing as the Information Asset Owners have not all confirmed that the records should be destroyed and therefore has not fully progressed as prior permission is required.

3.15.4 The storage levels have continued to rise to 13,295 (1/12/17-31/12/17) from 13,244 (01/10/17-31/10/17).

3.15.5 Therefore, this recommendation remains outstanding.

### **3.16 Waivers – Priority 1 update**

3.16.1 Comprehensive new documentation has been produced for all aspects of the Authorisation Process (replacing the former all-purpose ‘Waiver Form’) and these may now be found on the Commissioning & Procurement One Bromley Site and on Team Contract Management:

- Award of Contract (Form 1)

- Contract Extension (Formal) Form 2)
- Contract Extension (Beyond Term) (Form 3)
- Contract Exemption (Form 4)
- Contract Variation (Form 5)
- Variations and Modifications to Contracts (Change Control Notice)
- Corporate Contract Authorisation Guidance Document
- Gateway Report Officer Sign-Off Page
- Gateway One Report - Template Officer Version
- Gateway One Report - Template Member Version

3.16.2 These forms are now being used by Officers to manage both the award of, and variation to, Council's contracts, which will regularise and record all authorisation activity.

3.16.3 These forms are currently being turned into electronic forms and, in this way, contracts (and variations) will be authorised and stored in the Contracts Database (and its associated Document Management System).

3.16.4 The anticipated delivery date is August 2019. The delay is due to developing other aspects of the Database, a lack of computer coding capacity, and the need to design and build a Document Management Storage facility. Once complete, all authorisations, contract documents and associated 'waivers' will be permanently and securely held in one location – thereby improving the Council's corporate memory. In the circumstances, we consider that the two Priority 1 recommendations are 'in progress'.

### **3.17 Temporary Accommodation – Priority 1 update**

3.17.1 The priority 1 recommendation related to arrears arising from non-completion of Housing Benefit forms as well as a lack of clarity around the collection of rent, assurances around the use of accommodation and delays in processing evictions. At the previous meeting progress had been made for the first two elements but there was still work required to develop a procedure to monitor and process evictions and the priority 1 therefore remained open at the November meeting. This review has only considered the eviction process.

3.17.2 The previous update to Audit Sub Committee in November 2017 stated that the Housing Team were assisting Liberata to redraft the arrears collection procedure and processes. These procedures have been completed but are still in draft awaiting sign off from the Director of Housing and the Head of Exchequer Services. The Management and Acquisitions Team (M&AT) have developed process maps prior to the implementation of the new IT system to be implemented in 2018/19.

3.17.3 The M&AT evidenced a comprehensive process map for "evictions due to arrears" that is the current basis for working practices but is being reviewed as the Team have evaluated and developed their procedures. A temporary officer was engaged in November 2017 to reduce the backlog of cases and populate the spreadsheet developed by the M&AT to manage referrals from the Housing Accommodation Charges Team (HAC). The collated information identifies areas for improvement that should be related to colleagues in HAC.

- 3.17.4 Liberata HAC provided a list of clients referred for eviction in December and January and this was compared with the spreadsheet maintained by M&AT. There were some minor discrepancies that were left with the team to resolve.
- 3.17.5 Given that the eviction process represented one third of the original priority one recommendation and the significant improvement evidenced by the M&AT in this process the recommendation is considered closed.
- 3.17.6 It should be noted that the Temporary Accommodation planned audit has been allocated to Mazars and is due to be completed in quarter 4.

### **3.18 Other Internal Audit activity**

We also carried out the following:

- Planned audit work.
- Fraud and investigations - the results of which are reported in Part 2 of this agenda.
- Advice and support - Internal Auditors are available to offer advice and consultation to all officers. The input required from Internal Audit varies; ad hoc enquires will be received by e-mail, phone or in person. Requests are not always settled by one response and have generated audit review work. Internal Audit also attend working groups to advise on system controls and good practice.
- Monitoring/authorisation role for the Greenwich Fraud partnership.
- Undertaking meetings, research and drafting the Internal Audit Plan for 2018/19.
- Committee work including attendance at Education Children and Families Select Committee. One of our Principal Auditors attended the witness session on Early Intervention and Troubled Families meeting held on 23 January 2018. This was at the request of the Chair of that Committee. The role of Internal Audit in relation to Early Intervention and Troubled Families was explained. Questions about the audit process, asked by the Chair and other members of the Committee, were then answered.
- Internal Liaison with the Commissioning Board; Corporate Leadership Team/Directors' Group; Directorate Management Teams and Corporate Risk Management Group.
- External liaison with the London Audit Group.

### **3.19 Publication of Internal Audit Reports**

- 3.19.1 One exemption is sought for this cycle that is explained in part 2 of this agenda.
- 3.19.2 Since the last cycle of this Committee we have published a further 10 redacted final reports, listed overleaf. At the request of Members of this Committee we have included the audit opinion given to each audit. Follow up audits for implementation of previous recommendations are not given an opinion.

<b>Audit</b>	<b>Opinion</b>
The Community Equipment Store (TCES)	Limited
Contributions Policy	Limited
Agency Staff	Limited
Cash and Bank	Substantial
Parks	Substantial
Gifts, Hospitality and Declarations of Interest	Substantial
Planning	Substantial
Biggin Hill Airport and The Glades (Follow Up)	N/A
Building Control (Follow Up)	N/A
Street Works (Follow Up)	N/A

3.19.3 For definitions of audit opinions, see below:

- 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.
- Nil 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.

### **3.20 Objection to the Accounts**

3.20.1 Members were informed at the last meeting of the Committee that an elector in the Bromley borough has raised two objections to the 2016/17 accounts relating to the Waste Management and Street Cleansing Services and Trade Waste Collection Service. As a result of these objections the audit cannot be formally concluded and an audit certificate issued.

1) The objector requested that the auditor applies to the court for a declaration that items of account are unlawful (waste collection services and any other services which may not have been properly competitively tendered):

The auditor responded to the objector that they are 'not minded to accept' this request and considers it 'extremely unlikely' that they would make such an application on the grounds that:

- (a) the deadlines to challenge under EU procurement law are long since passed;
- (b) the accounts for years prior to 2016/17 are closed and there is therefore no action to be taken in respect of contract letting being declared unlawful;
- (c) the values relating to contract variations in 2016/17 are not considered material;
- (d) the Council is actively addressing weaknesses identified by Internal Audit in these areas;
- (e) looking for any other services which are not competitively tendered is not sufficiently precise to be considered as an objection and no issues were identified as part of the audit.

2) The objection requesting the auditor issue a public interest report with regard to the Council's waste management operations has been accepted to be taken forward for consideration in the following areas:

- (a) waste collection contract and decision making around the procurement and extensions made to it;
- (b) arrangements for the on-going management of the waste management contract.

3) The auditor is 'not minded to accept' the request to issue a public interest report in the other areas identified as he does not consider that these are sufficiently significant to require such formal action.

The objector has been asked to provide any further information they consider to be significant which may result in the auditor re-considering their proposed decision around what to accept or reject. The elements of the objection that are finally accepted will be taken forward for further consideration by the auditor. Unfortunately it is not possible to provide an estimated timescale at the present time and is initially dependant on the objector's response. Members will receive a further update at the next meeting.

### **3.21 Risk Management Update**

3.21.1 Since the last meeting of the Audit Sub Committee, each departmental risk register has been considered by a PDS/Sub Committee. These will continue to be referred on a biannual basis.

3.21.2 The Corporate Risk Management Group met on 29th January 2018 with items considered including Emergency Planning, Business Continuity and the Annual Governance Statement.

3.21.3 The Annual Governance Statement forms part of the Council's statutory accounts for each financial year. Legislative changes this year require completion of the process earlier than previously, with the Statement for 2017/18 due to be considered by Audit Sub Committee on 24th May 2018. As part of the process, Assurance Statements on Internal Control have been circulated to all members of the Corporate Leadership Team for signature, to confirm that a system of sound internal controls and risk management processes are maintained.

**4. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

The contents of this report have implications for adults and children in respect of cost and also care requirements.

**5. POLICY IMPLICATIONS**

None

**6. FINANCIAL IMPLICATIONS**

A number of the findings identified in the audit reports mentioned above will have financial implications.

**7. PERSONNEL IMPLICATIONS**

Staff in breach of financial rules and procedures or acting inappropriately against the Council's legal and financial interests may be subject to disciplinary actions or / referral to the police and or prosecution

**8. LEGAL IMPLICATIONS**

There is a statutory requirement to provide an internal audit function through the Accounts and Audit Regulations 2015

**9. PROCUREMENT IMPLICATIONS**

The contents of this report have implications for procurement relating to contract procedure rules, financial regulations and VFM issues.

<b>Non-Applicable Sections:</b>	Policy
Background Documents: (Access via Contact Officer)	None



Report Number/Date	Title	Opinion	No. of Priority One's	Details of original Recommendation	Implemented	Responsible Officer	Comments	Risk of fraud or loss
ENV/003/01/2015/2016-17  Finalised date 17/11/2016 Follow-up report finalised date 29/03/2017	Waste Services Audit	Limited	Originally 15, 4 o/s	Part 2	In progress	Executive Director, Environment and Community Service	June 2017 Part 2 - update  November 2017 See Progress Report  March 2018 Part 2 update. Information supplied by management to suggest implementation, being reviewed by Internal Audit.	High
CX/025/01/2016-17  Finalised date 3rd November 2016	Document Storage & Retention	Limited	Originally 2, 1 o/s	1. Contract monitoring and invoice checking are not robust. 2. Cumulative spend on this contract continues to rise.	In progress	Executive Director, Environment and Community Service  Director of Regeneration	November 2017 The one 1 priority one recommendation remains outstanding.  March 2018 See Progress Report	High
CX/089/16/2016  Finalised date 17th March 2017	Review of Waivers	Limited	2	Need for central register of waivers for accountability purposes. Need for a standard template that cannot be altered, can be tracked to promote consistency.	In progress	Chief Executive  Director of Commissioning and all Chief Officers	June 2017 See Progress Report to be followed up for November 2017 Audit Sub Committee.  November 2017 See Progress Report  March 2018 See Progress Report	High
ECH/036/01/2016  Finalised date 9th March 2017	Review of Reablement Team	Limited	Originally 2,1 o/s	Part 2	In progress	Deputy Chief Executive and Executive Director of Education, Care and Health Services  Director of Adult Social Care	March 2018 See Part 2 update	High
CEX/019/2017/AU  Finalised date 27/10/17	Review of Contract Monitoring	Limited	2	1) Key supporting documentation should be obtained and retained with contracts 2) Contract managers should be instructed to check and evidence on an annual basis that sufficient Public Liability Insurance is in place	In progress	All Chief Officers	March 2018 See Progress Report	High

Report Number/Date	Title	Opinion	No. of Priority One's	Details of original Recommendation	Implemented	Responsible Officer	Comments	Risk of fraud or loss
ECHS/20/2017/AU Finalised date 8/2/18	St Olaves School	Limited	1	Non compliance to EU procurement rules for the IT support contract	In Progress	Deputy Chief Executive and Executive Director of Education, Care and Health Services  Director of Education  Head Teacher St Olaves School	See Part II New addition to the P1 list	High
ECHS/07/2017/AU Finalised date 21st December 2017	Transforming Community Equipment Services (TCES)	Limited	1	Lack of clarity regarding the roles and responsibilities for contract monitoring and contract compliance	In progress	Deputy Chief Executive and Executive Director of Education, Care and Health Services  Director of Adult Social Care	See Progress Report New addition to the P1 list	High
ECHS/013/2017AU Finalised date 19 February 2018	Contributions policy and its application in practice	Limited	1	Cancellation fees for Reablement have not been levied to date and guidance on the cancellation fee procedure is not available.	In progress	Deputy Chief Executive and Executive Director of Education, Care and Health Services	See Progress Report New addition to P1 list (draft report)	High
CX/047/01/2016/17 Draft issued 9 February 2018	Agency Staff	Limited	3	1) Lack of oversight and governance of arrangements put in place for the recruitment and management of agency staff. 2) Process for extending the length of service of agency staff is not complied with. 3) Procedures are not followed when an agency worker leaves the Authority.	In Progress	Chief Executive  Director of Human Resources	See Progress Report New addition to P1 list	High
<b>The following priority one recommendations have been implemented:</b>								
Temporary Accommodation - 1 priority 1 implemented - see progress report								
Street Works - 1 outstanding priority 1 implemented - see progress report								
Green Garden Waste - implementation is outside of the Department's control - see part 2								

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of the Local Government Act 1972.

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